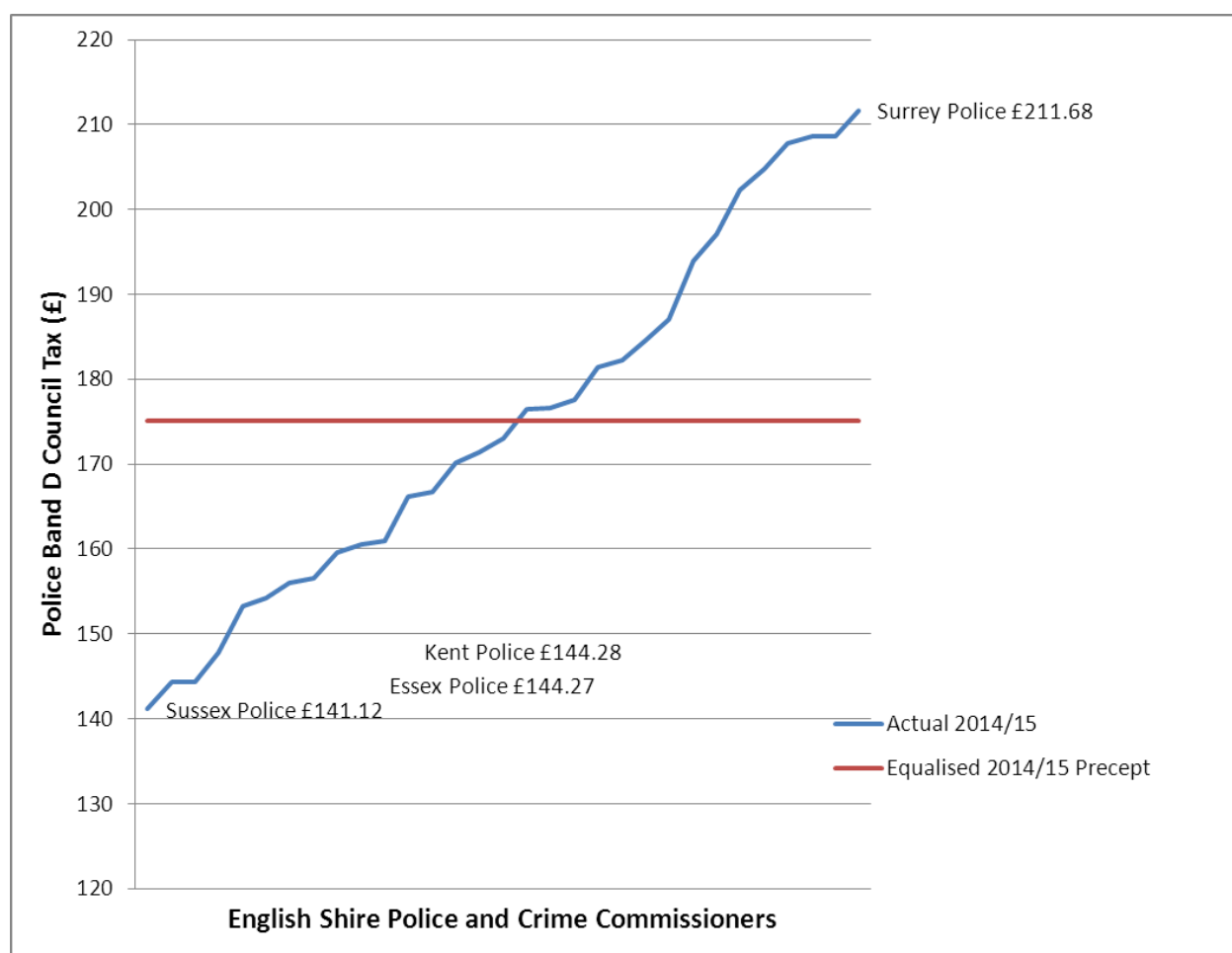


1. 2015/16 Council Tax

Comparative Data

1.1 When compared with the other 32 English shire forces in England and Wales, for 2014/15 Essex has, per head of population, the:

- ❖ 2nd lowest net expenditure
- ❖ Lowest non staff expenditure
- ❖ Below average number of police officers
- ❖ Below average number of PCSOs
- ❖ 7th lowest number of police staff
- ❖ Above average proportion of resources spent on police officers
- ❖ 2nd lowest precept as shown below:



- 1.2 An average precept in Essex would as an indicative figure fund 300 more police constables in Essex Police.
- 1.3 Essex is the 8th most populous area of the country (including the major city conurbations). Its make-up and proximity to London add to the complexity of its policing. Despite low spending and low council tax Essex has devoted a greater proportion of its total spending to police officers than most other shire forces.

2015/16 Council Tax Proposal

- 1.4 For 2015/16, the Government has offered PCCs who set a 0% increase in their precept (the element of council tax that contributes to police funding), an additional council tax freeze grant equal to a council tax rise of 1% (£0.86m for Essex) for 2015/16.
- 1.5 At last year's settlement the Minister for Local Government Brandon Lewis announced that funding for the 2015-16 council tax freeze grant will be built into spending review baselines. However, funding for 2016-17 onwards will be subject to decisions at the next spending review following the General Election. There is therefore no guarantee that the council tax freeze grant awarded for 2016-17 will be available for future years. Unfortunately, a one-off grant cannot sustain continuing employment of police officers.
- 1.6 On 18 December Kris Hopkins, the Communities and Local Government Minister announced details of the referendum principles for English local government alongside the provisional settlement. He confirmed that as in 2014-15 the threshold for triggering a council tax referendum will be 2% and above for all local authorities, except parishes.
- 1.7 Table 1 shows the values of various potential increases and resulting tax levels.

Table 1 - Potential 2015/16 Band D Police Council Tax

| 2014/15 Police Council Tax | 2015/16 Increase | 2015/16 Increase | 2015/16 Police Council Tax | Additional Cash |
|---------------------------------------|-----------------------------|-----------------------------|---------------------------------------|----------------------------|
| £/pa | % | £/pa | £/pa | £m/pa |
| £144.27 | nil | nil | £144.47 | £0.86 |
| £144.27 | 1.0 | £1.44 | £145.71 | £0.86 |
| £144.27 | 1.996 | £2.88 | £147.15 | £1.72 recurring |

- 1.8 Given the current low precept level along with its impact on the level of savings required, the Commissioner's proposal is for a 2015/16 precept increase of £2.88/pa (a 1.996% increase equivalent to less than £0.06 per week). Even after this proposed increase, the Essex police precept will remain the second lowest of the 32 English Shire Forces in England and Wales.
- 1.9 Therefore the PCC proposes to increase the precept by 1.996%. The additional cash available would amount to £1.72m which indicatively equates to 33 police officers.

2. Central Government Financial Support

- 2.1 The Provisional Police Finance Settlement was announced by the Minister for Policing, Criminal Justice and Victims Mike Penning on Wednesday 17th December. As expected, this provisional settlement covers just one year. It is widely anticipated that there will be a spending review shortly after the general election on 7 May 2015.
- 2.2 This publication of the Draft 2015-16 Police Grant Report marked the start of the consultation with the deadline for submissions of 23 January.
- 2.3 In the 2013 Budget the Chancellor announced a further 1.1% cut to the Home Office Departmental Expenditure Limit (DEL) in 2015-16. The Home Office were considering whether they would be able to absorb that cut within the department rather than pass the cut on to the police service. Because of this, the police service did not receive a provisional 2015-16 settlement last year.
- 2.4 At the time of the 2013 Spending Round the police were expecting Police Grant cuts of 3.2% in 2015-16 in cash terms; which at the time equated to 4.9% in real terms. The Home Office have updated the deflators used so; whilst the real-terms cut is the same at 4.9%, the cash cut is now 3.5%. This means that the Home Office have passed on some of the 1.1% DEL cut but not all of it.
- 2.5 In addition, however, the settlement shows provisional top-slices at a national level in 2015-16 totalling £176.8m. In 2014-15 the figure was just £90m. Top-slicing increases the cash cut to individual forces.
- 2.6 The resultant cash cut to police funding, when combining Police Grant, the Department of Communities & Local Government (DCLG) formula grant and the additional top-slices, is 5.1%. This equates to 7% in real terms.
- 2.7 The 2015/16 settlement for Essex published on 17th December 2014 confirmed the level of overall Government support as a **total cash reduction in Government funding of 4.7%. This amounts to £8.5m which is equivalent to 165 police officers.**

Table 2 Government Grants – Difference between 2014/15 and 2015/16

| Grant | 2014/15 £m | 2015/16 £m | Difference £m | % Change |
|--------------------------------|---------------|---------------|------------------|-------------|
| Home Office 'Core' | 110.1 | 103.4 | -6.7 | -6.0 |
| Home Office 'Formula' Grant | 58.1 | 56.3 | -1.8 | -3.0 |
| Sub Total | 168.2 | 159.7 | -8.5 | -5.0 |
| Council Tax Support Grant | 11.0 | 11.0 | Nil | Nil |
| 2011/12 CT Freeze Grant | 2.1 | 2.1 | Nil | Nil |
| Total | 181.3 | 172.8 | -8.5 | -4.7 |

- 2.8 The settlement includes the removal of the top-slice for the National Police Coordination Centre (NPoCC) and the proposed National ICT top-slice; worth £2.3m and £69m respectively. The Home Office will instead be charging police forces to recover this funding, as the Home Secretary feels it is more transparent than top-slicing.

2.9 There are three new top-slices in 2015-16:

- **Police Knowledge Fund (£5m)** - Further details will be provided in due course, however it is linked to driving improvements in the same way as the Innovation Fund.
- **Major Projects Fund (£40m)** - The top-slice will support development of the National Police Data Programme, Home Office Biometrics and the Emergency Services Mobile Communications Programme.
- **Police Special Grant (£15m)** - A contingency fund which will support forces facing unplanned or unexpected additional pressures which place them at financial risk.

2.10 There has been a significant increase in the IPCC top-slice – up 67% from £18m to £30m in 2015-16. The Home Office states this is to enable the IPCC to deliver significantly more independent investigations as investigations staff are recruited.

2.11 The Innovation Fund is confirmed as being worth £70m in 2015-16. £20m has already been allocated under previous multi-year bids, leaving the remaining £50m available. Bidding closed on 2 January 2015 with announcements of successful bids in mid-March. The PCC has submitted 8 bids amounting to over £8.6m.

2.12 The provisional settlement confirmed that at the current level of funding, £564m has been allocated to Counter Terrorism in 2014/15. For security reasons these allocations are not publically available.

2.13 Parliament is scheduled to debate the provisional settlement on 10th February, after which the final figures will be announced.

3. **2014/15 Budget Proposals**

Revenue Budget Planning

3.1 The proposed 2015/16 budget is detailed in Appendix A and summarised in Table 3 below:

Table 3 - 2015/16 Revenue Budget (summary of Spending and Funding)

| | 2015/16 £m | % |
|----------------------------------|----------------|------------|
| Total Planned Expenditure | 287.412 | 100 |
| Funded by: | | |
| Council Tax receipts | 89.761 | 31 |
| General Government Grants | 172.750 | 60 |
| Sub Total core funding | 262.511 | |
| Specific Government grants | 10.558 | 4 |
| Fees, charges & sales | 14.343 | 5 |
| Total funding | 287.412 | 100 |

- 3.2 The latest forecast outturn, based on figures at 31st December 2014 (month 9) is that forecast net revenue expenditure is forecast to be over budget by £2m. This is mainly due to additional costs arising from two murder investigations.
- 3.3 The officer and PCSO budgets are based on strength and police staff on establishment. The budgeted position for officers, PCSO's and staff is shown in Table 4 below:

Table 4: Officer and Staff Numbers included in the 2015/16 Budget

| | Police Officers | PCSOs | Staff |
|-----------------------------|------------------------|--------------|--------------|
| 1 st April 2015 | 3,067 | 263 | 1,920 |
| Net reduction | -108 | -13 | -45 |
| 31 st March 2016 | 2,959 | 250 | 1,875 |

- 3.4 The profile of officers and staff during the financial year will change and will be subject to monthly scrutiny by the OPCC and EVOLVE programme team.
- 3.5 The PCC includes an annual budget for the PCC's office of £1.2m. This is the same budget as 2014/15 with an inflationary adjustment. This represents just 0.4% of the total policing budget, which will leave the PCC's office with one of the lowest costs per head of population in the eastern region.
- 3.6 A revenue budget summary showing the 2015/16 budget analysed on a subjective basis is shown in Appendix B.

Community Safety Grants

- 3.7 During 2014/15 the PCC has provided community safety grants to a wide range of organisations, including community safety partnerships and youth offending teams to reduce crime and disorder in Essex. During 2014/15 the total budgeted amount of grants available was £3.74m, which includes an allocation of £1.2 from the Ministry of Justice (MoJ) to prepare for, and commission, local victims services.
- 3.8 Progress on the allocation of 2014/15 community safety funding is well advanced with less than £601k remaining uncommitted from the budget of £3.74m. The New Initiatives Fund continues, with new applications being received regularly.
- 3.9 Since October 2014 the PCC has been responsible for commissioning local victims services. The Ministry of Justice allocated a grant of £601k to Essex PCC for the commissioning of victims services in 2014/15. For 2015/16 the value of this grant will increase to £1.871m in 2015/16.

Table 5 – Community Safety Grants

| Community safety funds | 2014/15 Budget £k | 2015/16 Budget £k |
|--|------------------------------|------------------------------|
| Community Safety Fund – For 2015/16 to include funds previously allocated to 'Public Sector Reform Unit' and 'Former Force Grants' | 1,246 | 1,246 + 290 + 663 |
| Public Sector Reform Unit | 290 | Nil |

| | | |
|---|---------------|---------------|
| Former 'Force' Grants | 663 | Nil |
| New Initiative Funds/Community Safety Development Fund (wef 1 April 2015) | 300 | 300 |
| Victims Capacity Building | 640 | Nil |
| Victims/restorative commissioning | 601 | 1,871 |
| Total | 3,740 | 4,370 |
| Specific Government Grant | -1,241 | -1,871 |
| Net PCC Grant Budget | 2,499 | 2,499 |

- 3.10 In 2014/15 the PCC committed to reviewing the allocation criteria for the funding of Community Safety Partnerships. A new funding formula was devised by a task and finish group which included a selection of CSP managers. The new formula uses an area's population, the overall crime rate and deprivation level to calculate the value of their community safety grant. The overall total grant provided to CSP remained the same as previous years but the value of individual allocations has been changed to reflect the new funding formula.
- 3.11 The PCC has also agreed to create a new Fund; the Community Safety Development Fund (CSDF), which will supersede the New Initiatives Fund. The CSDF will be made available to local voluntary and community sector and statutory organisations such as CSPs to apply for funding that will impact upon the areas of focus within the PCC's Police & Crime Plan. The value of this fund will be £300k in 2015/16.
- 3.12 The PCC has amalgamated the Public Sector Reform Unit (formerly Whole Essex Community Budget) funding and the Former Force Grants into the Community Safety Fund from 2015/16. This rationalises and simplifies the PCC's budget.

EVOLVE Programme

- 3.13 Significant progress has been made on the early identification and development of plans to meet the savings requirement for 2015/16. The plans in hand are essentially the culmination of the 2014/15 re-organisation and will see the further bedding in of changes to the operational policing model alongside some changes to operational and business support functions (custody and HQ department). Work is also ongoing to review demand and identify the most appropriate shift pattern for local policing team resources (although this unlikely to be finalised in the early part of the year). As with previous years, a significant proportion of the savings requirement for 2015/16 is to be found from non-pay sources.
- 3.14 Early work has focused on establishing the future mission and priorities for the force and has identified change in workforce composition (warranted/non-warranted mix), collaboration and internal resource re-alignment to match changing demands as core components of the long term plan.
- 3.15 Significant progress has been made on the early identification and development of plans to meet the savings requirement for 2015/16. The table below details the value of the plans targeted to date.

Table 5: 2015/16 Savings Target

| Proposals | £'000 |
|-----------------------------------|---------------|
| Non-Pay | 1,552 |
| PCSO Reductions | 800 |
| Custody Review | 1,100 |
| Essex Police College Review | 500 |
| Operational Policing Model Review | |
| HQ Review | 5,050 |
| Serious Crime Directorate Review | 1,000 |
| IMU Civilianisation | 750 |
| Total | 10,774 |

- 3.16 Significant Planning is at an advanced stage to deliver the outstanding savings requirement to meet the above £10.774m target. Any additional savings required or in-year shortfall will be met by bringing forward some elements of the 2016/17 savings plan into the 2015/16 financial year and reviewing the recruitment profile.
- 3.17 This early identification of the bulk of the 2015/16 savings requirement has allowed the Strategic Change Team (an amalgamation of the former Evolve Team and Business and Change Development Team) to focus on the development of a longer term vision for Essex Police.
- 3.18 The longer term plan will cover the period up to (at least) the 2020/21 financial year and will ultimately set out the future shape and composition of Essex Police as well as identify key areas for collaboration and partnership working with other forces, agencies and partners. The future organisation will be affordable (based on the best information and estimates to hand) and there will be an established transition plan for the next five years.
- 3.19 Early work has focused on establishing the future mission and priorities for the force and has identified change in workforce composition (warranted/non-warranted mix), collaboration and internal resource re-alignment to match changing demands as core components of the long term plan.

Capital Programme Proposals

- 3.20 The three main categories for capital investment are the estate, IT and fleet.
- 3.21 The Estates Strategy Review commissioned by the PCC in early 2014 has reached its conclusion and identified the following significant features of the current estate:
- a) There is a footprint of 1.25 million square feet with HQ having 25% of the total space with 80 properties and a total asset value of around £70m
 - b) Accommodation exceeds future policing requirements by approximately One-third
 - c) The estate is fragmented, inefficient with many police stations in the wrong place
 - d) Many buildings are old with a backlog of maintenance estimated at £30m and £1.75m per year is needed to maintain the estate in its current condition

- e) The estate is not suited to modern policing operations
- 3.22 The analysis of the existing estate included a strategic view of future operational requirements in the context of further reductions in police budgets, collaboration opportunities and strategic acquisitions and disposals.
- 3.23 The high level outcomes of the strategic review were recommendations to:
 - a) Rationalise and/or move Force HQ
 - b) Rationalise into 6 major policing hubs
 - c) Create/improve 1 local policing centre per local district authority
- 3.24 Much work is now being undertaken to progress the business cases required to improve the estate starting with Force HQ. Consultants are currently engaged in reviewing several options with a view to a decision being made on the preferred solution early in 2015/16.
- 3.25 During 2014 there was also a strategic review of IT and specialist consultants were commissioned to advice on the most appropriate strategic direction and development of the joint Essex/Kent IT services directorate. The review advised on the convergence of IT operations by the two forces, still currently operating on two platforms, and an investment profile that would not only enhance service performance but would generate future benefits/savings.
- 3.26 Due to significant new information from both the Estates and IT reviews emerging in the last few months the **2015/16 five year capital programme** as outlined below is subject to change, particularly from 2016/17 onwards. Nevertheless, this is shown in summary in Table 5 below and each project detailed at **Appendix C** based on the latest available information.

Table 5 – Draft Capital Programme and Financing 2015/16 to 2019/20

| | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Opening balance | 11,763 | 2,879 | (32,478) | (60,453) | (50,684) |
| <i>Estimated resources to be generated in year</i> | | | | | |
| Home Office - capital settlement | 2,200 | 2,200 | 2,200 | 2,200 | 2,200 |
| Other capital contributions | - | - | - | - | - |
| Capital receipts from existing plan and Estates Strategy | 5,790 | 3,328 | 2,500 | 12,500 | 14,500 |
| <i>Less, estimated capital payments in year</i> | | | | | |
| 2014/15 and earlier years projects | (4,740) | (5,746) | (133) | - | - |
| Capital bids | | | | | |
| 2015/16 | (12,134) | (2,455) | (11) | - | - |
| 2016/17 | - | (32,684) | (27,975) | - | - |
| 2017/18 | - | - | (4,555) | (480) | - |
| 2018/19 | - | - | - | (4,451) | (2,240) |
| 2019/20 | - | - | - | - | (4,549) |
| Closing balance | 2,879 | (32,478) | (60,453) | (50,684) | (40,773) |

- 3.27 Currently there are two sources of capital funds; an annual capital grant from the Home Office and capital receipts from the sale of fixed assets. The annual capital grant for 2015/16 is subject to confirmation in early February.
- 3.28 Table 5 shows that that there are sufficient capital reserves to fund the capital programme for 2015/16 but an estimated shortfall of £32m in 2016/17 rising to £60m in 2017/18 before reducing thereafter as capital receipts are generated.
- 3.29 Following use of all capital reserves during 2016/17 there will be a need to borrow monies in order to finance capital investment. The net borrowing requirement is after capital receipts have been taken into account along with any alternative credit arrangements, such as leasing, that are proven to be cost effective.
- 3.30 The revenue consequences arising from the 2015/16 and future years programme will be fully recognised in the PCC's Treasury Management Policy and Strategy which will be publicised before 1 April 2015. The forecast revenue costs will then be included in the Medium Term Financial Strategy.
- 3.31 There is a need to commission further specialist advice for both the estates and IT programme to progress robust business cases for investment. Advantage has therefore been taken of the substantial collection fund surplus of £1.68m. The 2015/16 revenue budget includes £1.18m for supporting investment in the estate and IT through a mixture of revenue funded capital investment and essential specialist support to progress the work required.

4. **Medium Term Financial Strategy (MTFS)**

- 4.1 The forecast revenue deficit increases year on year over the next five years to reach £79m by 2019/20. This arises due to a combination of the reduction in government grants and new unavoidable costs for pay & price increases resulting from national pay awards and other contractual or inescapable costs. The forecast deficit is the estimated gap between annual revenue spending and annual income from government grants and council tax receipts over the 5-year period. The planned profile for the £79m savings are shown in Table 9.

Table 9 - Planned MTFS savings required over the next 5 years

| | 2015/16 £m | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m |
|---------------------------|---------------|---------------|---------------|---------------|---------------|
| Annual Savings Target | 12.2 | 20.5 | 16.3 | 15.4 | 14.9 |
| Cumulative Savings Target | 12.2 | 32.7 | 49.0 | 64.4 | 79.3 |

- 4.2 The need to generate savings each year is substantially driven by the continuing reduction in Government grant, with no indication yet that this trend will abate. The plan to achieve savings of £79m over 5 years is to be addressed by the EVOLVE team over the next few months.

5. **Use of Reserves**

- 5.1 Earmarked or Specific Reserves are set aside for specific policy purposes, whilst the balance on the General Reserve is set aside for unforeseen contingencies and cash flow management. A full analysis of reserves is shown in Appendix D.
- 5.2 The general reserve balance is forecast to be £16.4m at 31 March 2015 and £14.3m at 31 March 2016. Working capital requirements, the amount needed to ensure that short term borrowing is avoided is estimated at £8m. Furthermore, a minimum contingency for unplanned police operations is now estimated at £2m. Reserves therefore need to be managed to maintain a minimum level of £10m.
- 5.3 It is estimated that specific capital reserves will be fully applied during 2016/17 in order to finance the capital investment highlighted above. The only earmarked reserves anticipated over the medium term are those to meet future dilapidation costs on a leased property.
- 5.4 An analysis of reserves held by other PCC's of Essex's most similar forces was presented to the Panel at their last meeting which showed that the level of reserves held by the PCC for Essex overall was at the lower end of the scale. The full use of earmarked capital reserves anticipated in Essex during 2016/17 reinforces the position that there are no reserves held beyond those required to maintain a balanced budget over the medium term.
- 5.5 The minimum level on reserves is to be maintained at **£10m** throughout the period of the medium term plan.

6. Robustness of Estimates

- 6.1 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.
- 6.2 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
- 6.3 These matters are more critical each year as the scale of budget reductions and the significant reduction or elimination of leeway in budgetary provision increases the risk of overspending.
- 6.4 The timely, accurate and regular monitoring of the budget and balance sheet items throughout the year is a mitigating factor and it is important that the Finance Department maintains the capacity and capability to support this work alongside other essential tasks such as the successful completion of the statutory accounts and advisory role to the EVOLVE work stream.
- 6.5 All project developments, particularly those in support of EVOLVE; will require financial advice and guidance at various levels. There are arrangements in place to ensure consistency of financial reporting whereby all financial content of reports presented to the PCC are reviewed by the Treasurer.
- 6.6 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
- 6.7 The level of general reserve as at 31 March 2016 will represent 5.4% of net revenue expenditure. However, this level may not prove to be sufficient to provide certainty over the medium term and this is being addressed.