

4. **Background**

Government Spending Plans

- 4.1. The Chancellor's Spending Review in October 2010 reduced national police service spending by 20% for the 4 years from 2011/12 to 2014/15 in "real terms" (after allowing for expected pay and price inflation). This was mitigated by Government assumptions at the time of annual increases of 3.4% in Council Tax precept, providing a headline "real terms" reduction in national police spending of 14%.
- 4.2. Within this total, Government grant funding (2/3rds of total Essex Police funding) was forecast to fall in "cash terms" by an average of 12.5% across the police service.
- 4.3. The Chancellor's 2012 Autumn Statement confirmed 2013/14 funding, but gave little information either for 2014/15 (the fourth year of the current 4-year SR period) or for future years, other than to signal a continuing downward trend in public spending, which for Essex Police would mean further reductions in headcount, including police officer numbers.
- 4.4. The provisional Police Grant funding settlement for 2013/14 was published in December 2012 and confirmed the level of overall support to the police service with a total cash reduction in Government funding of 1.6%. Parliament is scheduled to debate this provisional settlement on 13th February, after which the final figures will be announced. Any variation in final grant funding, as with any variation in the final Council Tax base, will result in a compensating adjustment to the planned use of the general reserve.
- 4.5. Later this spring, the Government will announce spending plans as part of its next Spending Review (SR2). At this stage, the timing of the announcement is unclear. Likely options are the national budget on 20th March or just after the local elections in May 2013. One indication from the Home Office is that the Government may extend SR2 by one year only to 2015/16, a decision influenced by the Treasury's economic assessment.

Medium Term Financial Strategy (MTFS)

- 4.6. The former Essex Police Authority (EPA) and Chief Constable implemented a Reform Programme to drive the cash savings required of Essex Police by this grant-funding reduction. The continuing programme is managed by the Force's Strategic Change Board, which receives monthly reports on savings and service impact.
- 4.7. In February 2012, the former EPA approved an MTFS containing a forecast of a **£42.2m** annual revenue deficit by 2014/15. This arises due to a combination of the reduction in government grants and new unavoidable costs for pay and 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

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receipts over the 4-year period. Assumptions within the MTFS are consistent with Office for Budget Responsibility (OBR) guidance and have been subject to audit review and HMIC inspections. The planned profile for the £42.2m savings is shown in Table 1.

Table 1 - Planned MTFS Savings over the 4-year SR period

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	Total £m
Annual Savings Target	17.0	15.1	6.1	4.0	42.2
Cumulative Savings Target	17.0	32.1	38.2	42.2	42.2

- 4.8. Plans to achieve target savings of £42.2m assumed that the council tax increase would be **2.5%** for both 2013/14 and 2014/15 in line with further OBR guidance. At January 2013, £35.0m of annual revenue savings have been found and there are firm plans to reach £41.0m, so the Force is well-placed to achieve £42.2m/pa by 2014/15. This has been achieved through reducing the establishment by 353 Police Officer; 410 Police Staff and 112 PCSO posts (a total of **875** posts and **£33.2m** of savings). Budget reductions of **£9.0m** have also been achieved for non-pay budgets, including IT, Premises, Transport and contract costs for other supplies and services.
- 4.9. Essex Police had a low cost-base at the start of the current SR period, which had been reached over many years through a history of reducing costs and providing VFM policing services to the Essex public. This made the SR particularly challenging for Essex Police. For 2013/14 the current MTFS plan remains, but the Chancellor has signalled that there are likely to be further spending reductions in 2014/15 and some years subsequently. These will require revisions to the plan should they occur.
- 4.10. On-going collaborative work with Kent Police is improving Policing services as well as being a savings initiative that pre-dates the current SR period. Savings to date are approaching £8m/pa. The main sources of savings have been the combined Directorates for IT (£3.2m) with savings on hardware purchase and software licences; Support Services (£2.3m) and Serious Crime (£1.2m) and a wide range of other contract savings (£0.8m). The PCC will continue to promote collaboration where it achieves better value for money for Essex taxpayers.

5. 2013/14 Council Tax

Comparative Data

- 5.1. When compared with the other 35 shire forces in England and Wales, Essex has the lowest council tax precept and very low spending, as shown in Table 2.

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Table 2 - Essex Council Tax, Spending & Police Numbers (compared to other Forces)

	Essex	Average of the 35 Shire Forces
2012/13 <u>Council tax – Band D</u>	<u>£136.71</u> (lowest)	<u>£172.69</u> <i>Range from £136.71 to £214.56</i>
2012/13 <u>total Spending</u> per 1,000 population	<u>£155.27</u> (2nd lowest)	<u>£172.58</u> <i>Range from £154.09 to £224.75</i>
2012/13 <u>Non-Pay Expenditure</u> per 1,000 population	<u>£28</u> (lowest)	<u>£42</u> <i>Range £28 to £85</i>
2012/13 <u>Police Officer numbers</u> per 100,000 population	<u>177</u> (14th lowest)	<u>188</u> <i>Range 97 to 264</i>

- 5.2. These are significant differences - if council tax in Essex had been at the shire average of £172.69 in 2012/13, Essex would have received an extra **£23m/pa** of council tax receipts – the value of some **470** Police Constables.
- 5.3. Essex is the 8th most populous area of the country (including the major city conurbations), whilst its make-up and proximity to London add to the complexity of its policing. Despite low spending and low council tax, Table 2 also shows that Essex has devoted a greater proportion of its total spending to police officers. Essex has **177** officers for every 100,000 people in the County. This is below the shire average of 188 and is the 14th lowest in the country. This is also demonstrated by a current ratio of 178 officers to 100 staff, the 7th highest ratio of the 35 shire forces.

2013/14 Council Tax Proposal

- 5.4. For 2013/14, 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 one-off grant equal to a council tax rise of 1% (£0.9m for Essex).
- 5.5. However, as the MTFS assumes a council tax increase of 2.5% for 2013/14 (which would provide almost £2.0m) accepting the council tax freeze grant for one year only would generate a further revenue budget shortfall of £1.1m and require further reductions in officer numbers.
- 5.6. The Government determined that council tax increases in 2013/14 would trigger a referendum if they exceed 2%. However, following a recent statement by the Home Secretary those forces with a precept in the bottom quartile would not trigger a referendum if the cash increase is less than £5.00/pa. As Essex Police has the lowest council tax precept of all 35 shire forces, it would clearly be eligible. A 3.62% increase in council tax would be the maximum and cost Band D taxpayers £4.95/pa.
- 5.7. A 2.5% precept rise is the minimum required to stay within current planned savings of £42.2m by 2014/15. It would provide no funding for new crime reduction initiatives.

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- 5.8. The PCC proposes to reverse £0.15m of a recent reduction made by the former EPA in the annual budget for the PCC's office, which was cut over recent years by £0.5m (from £1.5m to £1.0m). This would result in a £1.15m annual budget, which is a 23% reduction from the previous £1.5m (greater than the Force's overall % reduction). This represents just 0.4% of the total policing budget, which will leave the PCC's office with one of the lowest costs in the country, against a benchmark of 0.5% of the budget.
- 5.9. The Community Safety grant of £1.246m (referred to in section 7) is £0.130m less than the current level of grant amounting to £1.374m, as shown in **Appendix G**. It is proposed that this shortfall is made good by a 0.2% increase in the proposed precept. This is essential in order to meet crime reduction initiatives in 2013/14.
- 5.10. A 2.5% precept increase would not provide the PCC with any funding to commission new partnership or crime reduction initiatives from Essex Police or partners. Therefore, it is also proposed that a sum of £0.5m (a 0.6% precept increase) be established to enable the PCC to engage with partners on a wide range of community and partner initiatives designed to improve community safety and reduce crime and disorder. These will be explained fully in the 2013/14 Police and Crime Plan, but the key points are reported in Annex II.
- 5.11. Table 3 shows the values of various potential increases and resulting tax levels. With the assumed 2.5% increase incorporated in the MTFs plus the need to fund an effective office for the PCC and crime reduction initiatives, the PCC is proposing an additional budget requirement of £0.8m, equivalent to a precept increase of **3.49%**.

Table 3 - Potential 2013/14 Band D Police Council Tax (below referendum level)

2012/13 Police Council Tax	2013/14 Increase	2013/14 Increase	2013/14 Police Council Tax	Additional Cash
£/pa	%	£/pa	£/pa	£m/pa
£136.71	1.00	£1.35	£138.06	£0.80
£136.71	2.00	£2.70	£139.41	£1.60
£136.71	2.50	£3.42	£140.13	£1.95
£136.71	3.29	£4.50	£141.21	£2.60
£136.71	3.49	£4.77	£141.48	£2.75
£136.71	3.62	£4.95	£141.66	£2.85

- 5.12. Therefore, the Commissioner's proposal is for a 2013/14 precept increase of **£4.77/pa** (equivalent to **40p** per month or a **3.49%** increase). Even after this proposed increase, the Essex police precept will rise no higher than 3rd lowest of the 35 Shire Forces in England and Wales.

6. 2013/14 Budget Proposals

Revenue Budget Planning

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- 6.1. In summary, the approach taken in building the 2013/14 budget and MTFS is to:-
- i. Review the latest forecast 2012/13 outturn, establish the position on reserves and identify on-going unavoidable cost pressures or savings to be included
 - ii. Update the 2013/14 base budget for known inflationary pressures
 - iii. Deduct all efficiency savings and service reductions and add service development costs, if any
 - iv. Forecast the medium-term impact for 2014/15 and subsequent years
 - v. Estimate all central government funding and other income sources
 - vi. Identify a responsible use of reserves
 - vii. Identify council tax options
- 6.2. The proposed 2013/14 budget is summarised in Table 4 and detailed in Appendix A

Table 4 - 2013/14 Revenue Budget (summary of Spending and Funding)

	£m	%
	2013/14	
Total planned expenditure (excluding one-off items)	295.634	100
Funded by:		
Council Tax receipts	81.943	28
general Government grants	189.734	64
Sub-total core funding	271.677	
fees, charges, sales & specific Government grants	23.957	8
Total funding	295.634	100

- 6.3. Gross annual expenditure rises for inflationary cost pressures and falls with budget savings from reduced posts. Overall, gross expenditure has fallen from £311m in 2010/11 to a proposed £295.634m in 2013/14. An explanation of how the Force spends its budget is provided at Appendices B and C highlighting current and emerging budget pressures.
- 6.4. The 2013/14 budget also contains £0.927m of recurring cost pressures and £2.529m of one-off spending (to be funded from reserves) as shown in Appendices A and D.
- 6.5. Planned savings of £6.3m (part of the £42.2m total) are included in the proposed 2013/14 budget and account for a reduction of 34 officers, 12 PCSO and 51 staff.
- 6.6. The Government's general grant will be reduced by £2.8m (1.6%) from £171.0m to £168.2m, but £7.2m previously paid as a specific Neighbourhood Policing grant will be moved into general grant.
- 6.7. In 2013/14, the PCC will receive a Community Safety grant of £1.246m, which has been reduced from the £1.374m previously received by the Essex County Council. This will not be sufficient to meet the range of community and partner initiatives that the PCC requires to improve community safety and reduce crime and disorder.

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- 6.8. As a result of all these changes, the proportion of Essex Police funding from general government grants has increased to 64% whilst the proportion from fees, charges and specific grants has fallen to 8% and council tax receipts has fallen to 28%.

2013/14 Revenue Budget Investment / Invest to Save initiatives

- 6.9. Despite the funding deficit and consequent need to find significant savings to achieve the £42.2m target, there always will be a need for some investment in policing services based on changing priorities and unforeseen events, but this has to be paid for through further reductions elsewhere or from an increased precept.
- 6.10. The 2013/14 budget includes **£0.29m** for one-off pump-priming investment into the Whole Essex Community Budget initiative. Essex is one of 4 national trial areas for this Government-sponsored project, on which ECC is leading across the whole County.
- 6.11. The PCC's own base budget in 2013/14 is £1m, which is insufficient to ensure a viable office and takes no account of new demands on the office. The proposed budget includes an increase of **£0.15m** to £1.15m (0.4% of the total policing budget).
- 6.12. It is also proposed that a sum of **£0.63m** (a 0.8% precept increase) be established to enable the PCC to engage with partners on continuing the current wide range of community and partner initiatives and also to fund new initiatives which will be designed to improve community safety and reduce crime and disorder.
- 6.13. The 2013/14 budget includes **£1.2m** for 25 public protection officers' posts (working especially on serious sexual offences). These were established in 2011/12, but will impact the budget for the first time in 2013/14. Officers' posts elsewhere have been reduced in order to pay for these essential posts.

2012/13 Expected Outturn

- 6.14. The latest forecast outturn, based on figures at 31st December 2012 (month 9) is that forecast net revenue expenditure is forecast to be on budget.

Capital Programme Proposals

- 6.15. An important feature of the Capital Programme is that it contains schemes that have a long term benefit to the force. The inherited Capital Programme for 2013/14 includes essential schemes needed to maintain the PCC's capital assets and ensure the operational effectiveness of the force. There are increasing demands on the force within the context of reducing Government capital grant support, but there is a continuing need to ensure that investment in IT, the Estate and Fleet is fit for purpose in the long term. The PCC will undertake an immediate review of the capital strategies underpinning the proposed Capital Programme with a view to reshaping the programme during 2013/14.

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- 6.16. For 2013/14, new capital spending proposals have only been included in the draft Capital Programme where essential and the following criteria have been met:-
- i. The business need for capital investment is justified and the most appropriate solution is being proposed.
 - ii. There is certainty over the project's capital costs and consequential revenue costs and savings on completion.
 - iii. There is certainty regarding how all costs will be funded.
 - iv. Resources to manage and implement projects are already or are planned to be in place. (Recent reductions in staff numbers have increased project risks).
 - v. The project can be started in the financial year and there is some clarity over project start and finish dates.
- 6.17. The draft 2013/14 programme is outlined at **Appendix E** and includes a continuation of replacement programmes, where there is a responsibility to maintain assets. New projects are proposed within the force's current IT, Property and Fleet strategies. Table 5 summarises forecast capital resources and payments over the next 2 years, arising from the new 2013/14 and from earlier programmes. Proposals for 2014/15 and subsequent years are not yet presented, being dependent on the results of the PCC's review. Until the programmes for future years are clarified, the level of available capital resources shown currently is overstated.

Table 5 - Forecast Capital Resources and Capital Payments

	2013/14	2014/15
	£'000	£'000
Opening balance of available capital resources	15,150	12,386
Less, estimated capital payments in year		
2012/13 and earlier years' projects	-3,485	-2,457
draft 2013/14 Capital Programme	-4,899	-1,274
Estimated resources to be generated in year -		
Home Office - Capital settlement	2,160	2,200
Capital contributions from ACPO (TAM)	260	-
Capital receipts	3,200	3,365
Revenue contribution / Borrowing	-	-
Closing balance of available capital resources	12,386	14,221

Revenue implications of the proposed Capital Programme

- 6.18. The additional revenue budget consequences expected to arise from the 2013/14 programme will be absorbed within the current base budget, to avoid including them as a further cost pressure in the 2013/14 revenue budget proposals.

Use of Reserves

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6.19. 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.

6.20. The general reserve balance (after planned withdrawals of £5.8m during 2012/13) is forecast to be £18.0m at 31 March 2013. This balance includes £3.5m of higher than expected underspends that occurred in 2011/12 as a result of accelerated Reform Programme savings work and assumes no under or over spending in 2012/13.

6.21. Planned withdrawals from the General Reserve for 2013/14 are shown in Table 6.

Table 6 - Planned Withdrawals from the General Reserve in 2013/14

	£m
Actual Balance at 31st March 2012	23.0
Approved withdrawals during 2012/13	- 5.8
Add back balance on Olympics specific reserve	0.8
Add underspends / less overspends in 2012/13	0.0
Forecast Balance at 31st March 2013	18.0
One-off approved budget items	- 1.6
Community Budget project investment	- 0.3
Redundancies	- 0.2
Costs of restructuring (excess travel payments)	- 0.4
Balancing 2013/14 budget	- 0.2
Forecast Balance at 31st March 2014	15.3

6.22. The forecast balance on the general reserve is currently estimated at **£15.3m** at 31st March 2014. Given the uncertainties of 2014/15 additional savings may be needed during 2014/15 to enable a minimum level on reserves to be maintained at £12.0m. A list of forecast levels for all reserves is shown in **Appendix F**.

6.23. The total value of revenue reserves has fallen in recent years, indeed by 50% since 2010 as shown in Table 7. They have been used to meet a variety of one-off costs, including major operational needs and staff redundancy costs.

Table 7 – Value of Revenue Reserves over recent years

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m	£m	£m	£m
Specific Revenue Reserves	29.4	20.8	16.8	3.7	2.4	0.5	0.5
General Revenue Reserve	13.0	15.4	15.6	27.4	23.0	18.0	15.3
Total Revenue Reserves	42.4	36.2	32.4	31.1	25.4	18.5	15.8

7. Central Government Financial Support

Core Grants

- 7.1. Provisional Police Funding for 2013/14 has confirmed central Government support as a total cash reduction of 1.6% to the police service nationally. The Essex Police settlement for 2013/14 is provisionally set at £114.441m. Government reductions in grant to Essex Police over the 4-year period are shown in Table 8.
- 7.2. For 2013/14 the Home Office did not pass their additional funding reduction into reduced Police grants, but it is unlikely that they can do so again in 2014/15.

Table 8 - Central Government Support 2011/12 to 2014/15

Source of Central Government Support	Actual 2010/11	Actual 2011/12	Actual 2012/13	Provisional 2013/14	Estimate 2014/15	Totals
	£m	£m	£m	£m	£m	£m
DCLG Grants	71.5	65.7	61.5	61.0	59.1	
Home Office Police Grant	111.6	117.6	109.5	114.4	111.0	
Specific Police Grants *	17.4	7.2	7.2	0.0	0.0	
Total	200.5	190.5	178.2	175.4	170.1	
£m Change		- 10.0	- 12.3	- 2.8	- 5.3	- 30.4
% Change on Base Year		- 5.0%	- 6.1%	- 1.4%	- 2.6%	- 15.1%

**Note – this excludes Council Tax Freeze Grant and Council Tax Support Grant as these new grants replace reduced council tax*

- 7.3. Final Government support figures will be issued by the Home Office and DCLG by early February 2013. Any changes will be reported in the final budget report to the PCC on 21 February.
- 7.4. Table 8 shows that the major reductions in grant occurred in the first two years with losses of £22.3m. For 2014/15, the level and distribution of grant is subject to the Government's intention to review grant formulae. Essex currently suffers a £5.7m annual scaling back (loss) of grant through 'grant damping' arrangements when compared to the formula-determined allocation. The full formula ought to be applied over time, but the current MTFS does not anticipate any improvement in this position.

Council Tax Support Grant

- 7.5. In 2013/14 the PCC will receive a new £10.98m government grant to replace a reducing Council Tax base. This is due to changes in funding arrangements for Council Tax Benefits from 1st April 2013, which will lead to the PCC receiving grant that was previously paid to Councils for residents who were partly or wholly exempt from paying Council Tax. The Council Tax base is estimated to fall by £10m, but final details are required for local Councils' revised council tax bases and forecast collection rates before a final value can be confirmed.

Counter Terrorism Grant

- 7.6. The government has confirmed that specific grant funding for Counter Terrorism Policing will continue throughout the current CSR period and allocations will be announced by the end of January. Nationally, £563m will be allocated in 2013/14 compared to £564m in 2012/13, which suggests that Essex should continue to receive funding next year at a similar level to current funding.

Community Safety Grants

- 7.7. From November 2012, the PCC has been responsible for Community Safety funding, which was managed previously by Local Authorities. This new responsibility will include awarding community safety grants to other organisations and providing even greater support for victims of crime. The provisional value of the 2013/14 Community Safety Grant has been set at **£1.246m**. Funding allocations for the current year (2012/13) total £1.374m as shown in **Appendix G**. An approach to funding initiatives during 2013/14 is currently being developed by the PCC Office and this will develop into a revised commissioning approach.
- 7.8. In addition to the £1.374m previously allocated by local authorities, the force has made specific allocations during 2012/13 to Youth Offending Teams through Essex County Council, Thurrock Council and Southend Borough Council amounting to **£0.321m**, whilst **£0.041m** has been allocated to Community Safety Partnerships. These sums are included in the 2013/14 budget and will be considered by the PCC when allocating funds.
- 7.9. Therefore, the PCC will have a total of **£2.263m** (£1.246m + £0.362m + £0.655m) available for crime reduction initiatives in 2013/14. Priority will be given to ensure there is no disruption to current worthwhile projects and a full commissioning approach will be developed during 2013/14 to ensure that remaining resources are put to good use.

Neighbourhood Policing Grant

- 7.10. The provisional Police grant settlement confirmed that the Neighbourhood Policing grant for 2013/14 will be incorporated into the main Police Grant from 2013/14 and will be available for any type of expenditure. In 2012/13, the Essex allocation was £7.22m. This grant was previously ring fenced for Police and Community Support Officers (PCSO's), contributing up to 75% of their salary costs. The remaining 25% needed to be match-funded by the former EPA (£4.28m), local Councils, businesses and other organisations (£0.81m). The match-funding was subject to the budget decisions of partner organisations, which have to give 4 months prior notice of any reduction in funding. Where priorities have changed for partners and they have withdrawn funding then the establishment for PCSO's has reduced accordingly.
- 7.11. The Police and Crime Plan will include reference to the relative priority of neighbourhood policing. Essex funds 362 PCSO posts, of which 50 are currently match-funded by partners. The 2013/14 base budget assumes a continuation of

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all posts and details of all spending (£12.3m) and funding sources are shown in **Appendix H**.

- 7.12. Should match-funding partners withdraw their financial support, the policy is also to withdraw the Essex Police contribution.

8. Risks arising from additional MTFP savings required in 2013/14 and 2014/15

- 8.1 Firm information is not yet available from Government regarding grant and Council Tax funding for 2014/15. Forecasts for subsequent years are even more uncertain, but it can be anticipated that there will be further reductions in police funding as part of further reductions in national public spending. There are inherent risks of financial forecasting particularly with the volatile nature of policing when certain types of operations will be are needed.
- 8.2 There is a risk that further significant funding reductions would require review of capacity and capability and may jeopardise the full range of policing services that are currently provided.
- 8.3 Within Essex there are a number of property initiatives across the local government sector and wider public sector. Indeed the Force has a number of good examples in this sphere with the Fire Service. Although these have a beneficial impact in terms of acquiring capital receipts, wider property sharing may place greater strain on the revenue budget as more modern buildings can be more costly to run than some of the older buildings in the police estate.
- 8.4 There are employee relations risks related to staff motivation and movement arising from the Winsor Review of terms and conditions changes and potential further redundancy and other-one costs, which would fall on reserves.