

**THE OFFICE OF THE POLICE AND CRIME COMMISSIONER FOR DEVON AND
CORNWALL AND THE ISLES OF SCILLY**

Police and Crime Panel Meeting
Friday 6th February 2016
Report of the Police and Crime Commissioner to the PCP

**Proposed Precept, Budget and Medium Term Financial Strategy
2016/17 - 2019/20**

This report considers the future four year financial position for the PCC and Chief Constable and presents the following council tax recommendation for consideration by the Police and Crime Panel:

My proposal is for a 1.99% increase in the police element of the council tax for the 2016/17 financial year.

This report has been produced in full consultation with the Chief Constable.

1. Overview of this Medium Term Financial Plan by Tony Hogg

This has been a remarkable year for policing. On every front we received clear and unequivocal messages from Government that we needed to plan for extreme budget reductions.

In June, the Chancellor asked the Home Office in line with every other Government department to plan on two scenarios a 25% and a 40% annual budget reduction. Policing accounts for almost three quarters of the total budget for the Home Office so it appeared clear that policing would be facing this same level of reduction.

At the same time the Policing Minister, Mike Penning launched a consultation on the Home Office police funding formula. Despite all of the rational arguments to the contrary, not least from my office, the revised formula would have resulted in £15m being removed from the Devon and Cornwall police grant.

The months of October and November saw a remarkable turnaround in these two positions. Following months of campaigning and the detailed submission of arguments my office discovered a fatal error in the Home Office calculations used to justify the Home Office revised position following consultation. This mistake, on top

of the many other problems that were obvious in the funding formula process, caused the Minister to announce the withdrawal of the formula review process and thus, for now, the threat of a £15m funding reduction.

At the end of November the Chancellor made the surprise announcement that following the increased security threat created by the Paris terrorist attacks the Government had decided to protect the police grant in cash terms if PCCs maximise precept income.

These two changes meant that instead of needing to plan for a £54m savings requirement, our new savings requirement was much smaller. We had a range of reviews in progress where the major purpose was budget and cost reduction, today whilst both of those functions are still important our focus on service can receive a much higher priority. The government change of heart was very welcome and meant that the planning my office and the police force had already undertaken required significant revision. The proximity of this policy turnaround to our annual budget process has meant that my budget presentation for this year is less developed than I would have normally planned. This position is exacerbated because although the national policing settlement is for a four year period the Home Office, as a result of its pause on the funding formula, has only provided individual police forces with a one year settlement. Considerable uncertainty remains regarding the other three years because of the unresolved funding formula review, future central Government re-allocation (toplicing) of police funding and the strategic environment of changing threats.

While I completely welcome the Government's changed position on police funding it remains a fact that central government funding to Devon and Cornwall Police in 2020 is estimated to be 19% less in cash terms (real terms 32%) than it was when I commenced office in November 2012. At the same time demand has remained steady or increasing; this has meant that the need to find efficiencies to maintain service has been essential.

In May the new Police and Crime Commissioner will be elected to serve Devon and Cornwall. Whilst it is my intention to continue fulfilling my full range of duties right up to the date of the election, it is clear that any new PCC will wish to review policy, planning and the budget. I have therefore focused the detail of this four year budget presentation on the first year, 2016-17 while still setting out my expectations of the necessary savings and other actions in broad terms for the whole four year period. I will ensure that the new PCC inherits, through this plan, a strong and healthy organisation with a financially sustainable police force backed by adequate reserves and local council tax funding.

Furthermore I want to ensure, as far as I can, in line with central government direction that a balanced revenue budget, i.e. one that does not rely on contributions from past reserves, is achieved by 2019/20 if not before. It is a reality that the funding position will remain tight for the next four years, therefore it is essential to plan that our expenditure does not exceed our income.

My priorities are as set out in The Police and Crime Plan 2015/2017 and this budget is based upon continuing to deliver that plan. Unlike previous years I will only be

updating this plan by means of a covering statement as the new PCC elected in May will be required to produce a new plan in their early weeks and months in post.

Crime continues to fall in some of the more traditional areas but the nature and complexity of crime is changing. At the same time “non crime” demand continues to rise. Increasing amounts of police time is taken up with dealing with incidents that are not crime related but cover important areas such as mental health, safeguarding and protecting the vulnerable. Our focus must be to ensure that the most vulnerable in our society are protected from those that might otherwise do them harm but equally, we need to strive to address all elements of policing. We therefore need to reallocate resources to match the shift in crime and total demand.

The recent acts of terrorism in Paris have caused the government to ensure there is adequate cover for similar terrorist attacks for which central financial support is promised but a local increased contribution will also be required. While the Chief Constable has already taken a number of steps to address the new safety concerns created by recent terrorist actions, we expect that Government will require Devon and Cornwall to further increase the number of firearms officers. As well as having more officers, we expect that we will need to increase their training and capability to deal with new types of threat that we saw in Paris.

The areas of demand that are increasing are usually complex and often time consuming. Monitoring the on line activities of dangerous people, paedophiles or terrorists requires skilled people, excellent technology and significant resources. Keeping the victims of domestic abuse safe requires a whole range of activities not simply limited to the apprehension of the offender. As the threats to our society change then so must the police change to address those threats. This will be an enormous challenge but one that we can now meet over the coming years.

This budget reflects the work that is underway to identify new ways in which the police will deliver on these priorities and the significant savings in existing operations that will have to be made to accommodate them. Regional collaboration including the strategic alliance programme with Dorset is critical to achieving these savings. In a time of reducing budgets if we are to fund new priority areas then we must make additional savings that will allow provision for essential improvements in call handling and custody capacity.

Devon and Cornwall have a strong track record of achieving savings with £58m saved since austerity began in 2009 and with £13m of that sum achieved over my office term. In year planned reductions of £6m savings in 2015/16 are currently on track to be delivered.

Improvements in efficiency also provide critical headroom for the delivery of change and considerable time has been invested in understanding and managing the demands on officer time, signposting those with mental health issues to the correct provider and desk top resolution of frequent callers and missing persons.

I have explained to the panel why I had developed an increased level of reserves. We intended to use £24m of our reserves to better manage the large staffing reductions that we expected over the next four years. We hold reserves in order to

smooth the effects of making staff reductions and also to provide a buffer against the many uncertainties we face such as the probability of a reduced funding formula allocation. The new funding settlement has provided an opportunity to review these funds and my budget proposals are based upon holding reserves to cover the uncertainties of future formula funding reductions and anticipated liabilities whilst ensuring that the maximum level of funding is released from reserve to finance capital investments. We are making plans to use these released one-off funds against essential investment much of which we have delayed over the past two years in expectation of enormous budget cuts. The effective use and reduction in our reserves over the next four years will enable us to create a fit for purpose infrastructure making policing services efficient and effective therefore maximising people's efforts. This strategy not only enables new capital investment to be made but also saves debt financing charges.

Changing priorities require not only changes in the day to day running costs but also require investment in future capital infrastructure such as new custody facilities and regional command and control centres. Investment in capital items such as buildings and IT are needed in order to unlock future savings. These elements can easily be forgotten when the focus is constantly set on saving annual running costs.

As outlined above, the start of a new four year spending review period gives us a year of certainty for next year and leaves an uncertain future in relation to funding formula reductions and a funding allocation that is sensitive to national reductions for central government priorities (top-slices). Whilst central government funding has delivered a flat line budget over the next four years additional and unavoidable costs still mean that savings have to be made to balance the budget. My plans therefore are also based upon the delivery of Strategic Alliance savings which so early in its existence cannot be risk-free in the planned timescale. Risks are counterbalanced by the holding of adequate reserves to smooth the transition to reduced spending levels and to cushion the impact of funding formula changes and one off liabilities should they materialise.

It is important to remember that for many years Devon and Cornwall has been waiting for a fairer funding formula that acknowledges in funding terms the unique demands of the primary holiday and rural counties of Devon and Cornwall such as the huge tourism influx and the difficulties of access to the rural areas. Having argued strongly for a fairer share of national funding, a loss of many millions as seen in the proposals of 2015 was in effect a double hit on funding expectations. Uncertainty remains around the future mechanisms but a top priority for my office will be to re-engage with government on this issue. A negative or neutral result for Devon and Cornwall would be a failure.

The government announcement on police funding for next year was predicated upon the statement that no force will face a cash reduction if they utilise precept income. The assumption of council tax increases was further reinforced by the exclusion of funding to deliver a freeze on council tax rises for 2016/17. In view of the fact that the funding future through the grant formula is so uncertain and that even under this more favourable settlement, officer and civilian staff numbers will continue to reduce, I am recommending that the government's assumption in raising the police element of the council tax is followed and that a council tax rise of 1.99% is set for 2016/17.

I recognise that some will be surprised that I am seeking an increase in the precept following the settlement announcements. In the following paragraphs I will seek to summarise my rationale for calling for this council tax increase.

- 1. Throughout my time in office I have argued to provide the necessary resources to allow the police to do their job efficiently and effectively.** In the past this has been against the backdrop of reducing budgets and thus we were looking to protect vital services. Now we have an opportunity to develop a truly fit for purpose policing service in Devon and Cornwall.
- 2. Government believes that to meet the range of threats in today's society, budgets must have real term protection through an increase to the precept.** The Home Secretary built this assumption into her settlement announcement quoting the additional demands that the increased terrorist threat will create as well as a wide range of more mainstream policing priorities. In her letter to all PCCs and Chief Constables on the day of the Chancellor's statement in November she wrote:

"The Chancellor and I have agreed a fair deal for the police. This settlement gives you immediate certainty that police spending will be protected in real terms over the Spending Review period, when local income is taken into account. This is an increase of up to £900 million cash by 2019-20. Total central Government resource funding to policing, including funding for counter terrorism, will be reduced by 1.3% in real terms over four years. Taking into account the scope that you have to raise local council tax, this means a flat real settlement for policing as a whole."

It is clear that the Government's wish to protect policing budgets is predicated on a council tax increase over the next four years. I understand that the vast majority of my PCC colleagues are planning on this basis.

- 3. The Government has still not made its intentions clear on the revisions to the funding formula.** We should not forget that Government was on the verge of removing £15m for the budget of Devon and Cornwall police. The excellent work of my office forced the withdrawal of these plans but we are still no clearer on how Government intends to proceed. There seems little discernible activity in the Home Office to look again at the formula and it is highly possible that previous direction on policy revision could be revived. I am confident that we have developed the best arguments anywhere in the country for why we should receive a larger, not smaller, slice of the policing cake. However, if our grant were to be cut in the coming years through a formula revision we would regret not taking the opportunity to increase our local base this year to minimise the range of additional cuts that such an action would require. If Devon and Cornwall end up being beneficiaries of the next funding formula process, a future PCC could chose to ease the taxation pressure on the people of Devon and Cornwall. However, whilst the precept capping regime remains in place it would be too late to recover any essential funding because of the annual limits set by Government.

- 4. Demand continues to outstrip supply and we still need to improve in our priority areas.** Whilst we did not agree with much of the recent HMIC report that rated Devon and Cornwall safeguarding as requiring improvement, both the Chief Constable and I agree that we need to improve service in this area and many others. Additional precept funding would allow for the recruitment of an additional 75 police officers that can be devoted to our priority areas. From my discussions throughout the year I believe the vast majority of the public would want to pay an additional £3.37 a year to protect hundreds more children from sexual abuse, men and women from domestic and other physical abuse and protect us better from those terrorists that mean to do harm to our communities.

- 5. Investment is a necessary element to achieve effective policing.** Much of police technology remains in the dark ages compared to industrial partners. I am frustrated that I will be leaving office with the technology that supports police operations still not fully “fit for purpose”. Too much has been done on the cheap without the certainty of budget support to allow more intelligent strategic decisions to be made. The additional precept funding, will provide resources for essential infrastructure investments.

My careful financial management over the past three and half years coupled with the Government’s change in policy regarding police funding provides us with a fantastic opportunity. We had previously been planning for survival, working out how we could cut costs and reduce demand without impacting too much on the public of Devon and Cornwall. Our improved financial position means that we can now respond to the complex environment we face and start to invest in creating a policing service that is truly “fit for purpose” for 2020.

This budget will ensure that:

- Our police remain well trained for the new and challenging environment they will work in,
- Our estate is not only cheaper to run but properly supports operational requirements,
- Our technology supports and enhances police work,
- We can pursue further civilianisation to release valuable warranted officers to address the new threats,
- We can buy in police officer specialist transferees where capacity in specific skills need enhancing,
- We can trial a new neighbourhood policing architecture,
- Recruiting can resume at a healthy level, lowering average age and continuing to refresh links with the local public,
- We can transform volunteering and the place of Citizens in policing. Policing is far too important to be left to the police alone,
- We can be more effective in regional collaboration.

I believe that I have laid the foundations for the future and I trust my successor will carry this through.

I set out in the remainder of this report, the financial assumptions and professional judgements that have been used to support my recommendation of a 1.99% increase in the police element of the council tax.

2. Background to the detailed Medium Term Financial Strategy 2016/17 to 2019/20 (MTFS)

This report sets out the main revenue and capital budgets that the Police and Crime Commissioner (PCC) proposes in considering the medium term financial strategy for the next four years in order to fulfil his statutory duty to set the council tax for the 2016/17 financial year.

This report represents the culmination of the budgetary review process and is based upon the objectives set out in the Police and Crime Plan of which the MTFS is part.

The PCC reaches the end of his term of office in May 2016 and therefore there are no major alterations to the existing Police and Crime Plan and any new plan will be developed by the next PCC. This change coupled with the vagaries around a one year settlement and the introduction of a revised funding formula mean that it is not possible at this point to provide the usual level of budgeted certainty over four years. Detail is therefore provided for the next financial year with summary figures and narrative included for future years.

The Police and Crime Plan is a requirement of the Police Reform and Social Responsibility Act 2011 (PRSR) and it sets out for a four year period the objectives for the PCC. The strategy used by the PCC and Chief Constable to produce this refreshed MTFS is based upon the delivery of the following key objectives:

- *To make our area a safer place to live, work and visit – reducing the likelihood that people will become victims of crime.*
- *To reduce alcohol related crime and the harm it causes.*
- *To promote an effective criminal justice system that delivers high quality services for victims, witnesses and society.*
- *To champion the rights and interests of victims and to support them with accessible and high quality services.*
- *To make every penny count in protecting policing for the long term. To drive for further efficiency, work to secure more central funding and actively explore all avenues to deliver the significant savings we require to sustain our services.*

- *To encourage and enable citizens and communities to play their part in tackling crime and making their communities safer.*

In order to limit the amount of detail within this report a separate booklet is attached as an appendix which contains more information on the budget requirement, the proposed savings to be made and detailed council tax bandings.

3. The National Economic Background

On 25 November 2015 the Chancellor of the Exchequer announced the outcome of the Spending Review 2015 (SR15) detailing spending settlements for each government department over the next four years (2016/17 to 2019/20). In his speech the

Chancellor said 'now is not the time for further police cuts, now is the time to back our police and give them the tools to do the job'.

The Chancellor announced that fiscal forecasts had improved and that two new sources of taxation were to be introduced through the apprenticeship levy and the increase in stamp duty for second home ownership. A further source of income was the ability for local authorities to increase council tax to fund spending for social care. The Chancellor chose to apply this increase towards increased spending through reversing the cuts to tax credits and easing cuts to 'unprotected' spending areas.

This Autumn Statement marked the change from spending cuts to tax increases with taxation levels rising from 13% of national income to 17% of national income.

Government departmental spending levels are still based upon an austerity policy of cuts with some department faring worse than others e.g. local government and transport. The profile of this extra spending at departmental level is based upon a smoothed approach which sees a maximum contribution from these extra funds made in 2017/18 which become negligible in 2019/20 and negative in the following year - indicating that austerity will return in election year.

The Home Office over the five year period from 2015/16 to 2019/20 will receive real reductions of 4% which is just above the overall level of 3% for all departmental spending. This had translated into a 1.4% reduction in real terms for policing nationally. Included within this settlement is funding for a number of national initiatives which will be "top-sliced" before funding is allocated to Forces.

It is important to note that in a letter to PCCs and Chief Constables the Home Secretary stated that "taking into account the scope that you have to raise local council tax, this announcement means a flat real settlement for policing as a whole."

This makes clear that to maintain support for policing at current levels an increase in council tax of up to 1.99% will be required.

In summary although the 2016/17 settlement is significantly more favourable than was expected it is only a one year settlement and a number of risks remain, these are:

- Changing circumstances and especially the dual risks of slower growth (already witnessed) and lower than expected tax receipts.
- Higher than forecast top-slicing for national initiatives.
- Local authorities due to their poor settlement will be looking to shift the funding of services to other partners such as police.

4. Financial Progress to Date (based upon the Financial Healthcheck report to Joint Management Board)

The following paragraphs set out the current background to the budget for 2016/17.

The Financial Context and Savings to Date

The CSR 2010 imposed a 20% reduction in central government funding and a 14% reduction in expenditure in cash terms after allowing for increases in council tax.

The timescale for these reductions was the four year period 2011/12 to 2014/15; and over the four year period £43.3m of savings were achieved. The austerity programme continued in 2015/16 and a further £6.1m of savings were included in the 2015/16 budget.

Since the Medium Term Financial Strategy for the CSR 2010 was established in February 2011 some factors have varied from the original assumptions. For example, some reductions have been achieved in advance of the original plan and the savings arising from this have been set aside in the Revenue Support Fund. These changes have meant that it was possible to halt the reduction in police officer numbers and officer numbers have been retained at just under 3000.

The actual savings for the seven year period from April 2009 to the end of March 2015 are expected to be £58.6m and are shown in the following table.

Table 1 Savings to March 2016

Ref		2009 -10	2010 -11	2011 -12	2012 -13	2013 -14	2014 -15	2015- 16	Total
		£m	£m	£m	£m	£m	£m	£m	£m
1.1	Police pay savings	0.0	-0.3	-8.5	-5.2	0.0	-0.4	-0.9	-15.3
1.2	Police staff savings	-2.8	-2.7	-4.5	-6.5	-1.3	-0.1	-1.3	-19.2
1.3	PCSO staff savings	0.0	0.0	0.0	0.0	0.9	-1.1	0	-0.2
1.4	Non-pay savings	-1.4	-2.0	-6.2	-3.5	-3.7	-3.2	-3.9	-23.9
1.5	Total savings	-4.2	-5.0	-19.2	-15.2	-4.1	-4.8	-6.1	-58.6

Police Officer numbers have reduced from 3,500 before the CSR to 2967 at 31 March 2016, a total reduction of 533. The introduction of Police Act provision A19 (forced retirement of officers over 30 years' service) between 2010 and 2012 removed significant numbers of officers, and costs, from the base budget. The remainder of reductions have been achieved through natural wastage. Police Officer numbers have remained relatively steady for the last 4 years.

Police Staff numbers have also reduced by 551 since 2009.

Outturn for 2015/16

The revised four year Medium Term Financial Strategy (MTFS) from 2016/17 to 2019/20 is based upon the estimated outturn results for 2015/16 and Table 2 shows the achievement of further forecast savings:

Table 2 Comparison of Total Budget to Outturn 2015/16

Ref		Budgeted Expenditure 2015/16 £m	Forecast Expenditure 2015/16 £m	Variation 2015/16 £m
2.1	Net Revenue Expenditure (excluding contribution revenue smoothing fund)	279.782	279.500	-0.282

The overall revenue position indicates a potential underspend of circa £280,000 which is considerably less than in previous financial years. This position masks a number of positive and negative variances. A significant saving of £800,000 will be achieved through earlier than budgeted natural reductions in officers and a pay rise that was 0.5% less than planned. The effect of this is partially offset by an increase in holiday pay due to changed national conditions and increased overtime payments. The planned annual savings of £6.09m are expected to be realised in addition to ongoing custody review savings of £200,000 in 2015/16.

A full review of 2015/16 expenditure has been undertaken in preparing the budget to ensure that there is no underlying under or over spending carried into the 2016/17 budget from 2015/16.

5. Central Government Funding

The financial year 2015/16 contained a number of formal economic announcements with a pre election budget in March, a summer budget in August and a four year Comprehensive Spending Review (CSR) in November. The summer budget imposed a restraint on public sector pay of 1% and as the 2015/16 MTFS had assumed a higher level of pay increase, significant savings have been achieved on forecast pay budgets over the 4 year period. However there have been increases in cost as well, for example, the introduction of modern apprenticeships increases budgeted spend by £800,000 from 1 April 2017 onwards.

Shortly after the General Election it was announced that the police funding formula was to be reviewed as part of the funding settlement for 2016/17. Indicative figures for the revised formula showed a range of grant losses between £24m and £15m, the accuracy of which was challenged by Devon and Cornwall OPCC resulting in the suspension of the review for 2016/17. Whilst the decision to postpone funding formula revision was welcome it placed a significant amount of uncertainty on the forecasting of central grant funding beyond 2016/17. The assumption for this MTFS is that grant funding levels will not be reduced by changes in the formula funding. This places significant emphasis upon the need for reserves should losses from the review materialise at the same levels previously forecast. As transitional

arrangements were not published in the review, the full impact of any formula changes will need to be provided for in terms of risk.

Whilst these economic forecasts, national budget reductions and formula review changes have been superseded by the funding settlement they have impacted upon the internal budget planning process, which has concentrated upon severe reductions rather than the unexpected flat line final settlement. This significant change in funding levels has created a time lag in order to adjust, especially in the area of officer recruitment.

The central government funding settlement was announced on 16th December 2015. The severe national reductions that were forecast for public services in the CSR did not materialise in the final police settlement. The Minister in his statement was able to announce a cash reduction of 0.6% in 2016/17 for all Forces and to announce that that 'no one will face a cash reduction if they maximise precept income' This statement sent out a clear message to PCCs that maximisation of council tax policing precept up to 1.99% is an accepted and critical part of police funding and service delivery. A council tax above this level would be subject to a referendum.

The settlement whilst set within the four years of the spending review to 2019/20 was provided for only one year, unlike local government which received a four year settlement. Whilst the CSR provides certainty overall for police funding levels there is increased uncertainty around the level to which those funds will be top-sliced for national priorities and formula transition changes in future years.

Table 3 Police National Revenue Funding Composition

Ref	Description	£bn
3.1	Parliamentary funding	8,995
3.2	Less:	
3.3	Counter Terrorism	(640)
3.4	Airwave	(204)
3.5	Police PFI	(73)
3.6	Legacy Grants	(545)
3.7	Overall core Government Settlement	7,534
3.8	Reallocation (topslice detailed below)	(219)
3.9	Transformation fund	(76)
3.10	London Special Grants	(178)
3.11	Formula funding amount	7061

Significant items for which further details at force level are awaited:

- Counter Terrorism; an increase of 13% on 2015/16 and additional capital funds.
- Airwave top-slice in future years.
- Information on the allocation of the Transformation fund (funding to tackle cyber crime and major firearms capability and capacity (£76m) and whether local match funding will be required.

The effects of reductions through topslicing at a national and local level are shown in the following table:

Table 4 Overall changes in the national top-slice and specific effect on Devon & Cornwall

Ref	National Top Slice	2015/16 £m	2016/17 £m	Increase/ (Decrease) £m	% Increase
4.1	- Police Innovation Fund	70	55	(15)	(21)
4.2	- IPCC	30	32	2	7
4.3	- College of Policing	5	5	-	0
4.4	- Special Grant	15	25	10	67
4.5	- Major Programmes	40	22	(18)	(45)
4.6	- Emergency Services Network	0	80	80	n/a
4.7	Total	160	219	59	37
4.8	Devon and Cornwall Top Slice	2015/16 £m	2016/17 £m	Increase/ (Decrease) £m	% Increase
4.9	- Police Innovation Fund	1.64	1.29	(0.35)	(21)
4.10	- IPCC	0.70	0.75	(0.05)	7
4.11	- College of Policing	0.12	0.13	-	0
4.12	- Special Grant	0.35	0.59	0.24	67
4.13	- Major Programmes	0.94	0.51	(0.43)	(45)
4.14	- Emergency Services Network	0.00	1.87	1.87	n/a
4.15	Total	3.75	5.14	1.4	37

The following table shows the net reduction of 0.5% in overall police funding from the current year:

Table 5 One Year Changes in Overall Grant Funding

Ref	Description	2015/16 Actual £m	2016/17 Actual £m	Change £m	Change %
5.1	Home Office and DCLG funding	166.800	165.800	(1.000)	-0.6%
5.2	Legacy Council Tax Grants and benefit funding	15.461	15.500	0.390	0.3%
5.3	Total	182.261	181.300	(0.961)	-0.5%

This is extended to a four year position in the following table, however there is considerable uncertainty about these funding figures and they are based at this point on the best interpretation of limited figures. Devon and Cornwall police also benefit from a legacy council tax grant of £2.4m for setting a nil rate of tax increase in 2011/12 and council tax benefit grant of £13.1m. It is assumed that these legacy grants will continue at current levels throughout the four years of the settlement.

Table 6 The Estimated Four Year Funding Position

Ref	Description	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
6.1	Central Grant Funding £m	(181.300)	(180.212)	(179.491)	(176.081)
6.2	% cash reduction in grant funding	-0.5%	-0.6%	-0.4%	-1.90%

The figures for 2016/17 are subject to Parliamentary approval on 3rd February 2016.

The following table shows the total cash funding position for grant and council tax income over the four year period of the MTFS.

Table 7 The Estimated Four Year Total Funding Position

Ref	Description	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
7.1	Central Grant Funding £m	(182.261)	(181.300)	(180.212)	(179.491)	(176.081)
7.2	Further top-slice for Emergency services	0	0	2.990	2.323	0.299
7.3	Council tax increase at 1.99%	(97.521)	(101.472)	(103.386)	(106.100)	(109.265)
7.4	Total Funding	(279.782)	(282.772)	(280.608)	(283.268)	(285.047)
7.5	% cash change in funding year on year		+1.04%	-0.7%	+0.9%	+0.6%
7.6	Total increase over the period					+1.88%

The table above shows that in total income will rise in cash terms by £5.3m or 1.88% over the four year period based on the assumption that council tax is increased by 1.99% in all four years and the tax base continues to increase over the period. Even with the increased council tax, total income increases are not set to keep pace with inflation at 1.88%.

6. Building the Total Budget Requirement

Financial Planning Assumptions

Budget assumptions have been made in the following areas:

- Inflation.
- Pay awards.

- The capital programme and force investment which affects revenue costs and new borrowing.

The main impacts of these items on the base budget are explained in the following paragraphs. This enables a budget requirement to be calculated.

Inflation

The MTFS assumes that the following levels of inflation are applied to the base budget expenditure levels:

Table 8 Assumed Inflation Rates applied to the MTFS

Ref	Inflation Category	2015/16 %	2016/17 %	2017/18 %	2018/19 %
8.1	Pay(effective September 2016)	1.0	1.0	1.0	1.0
8.2	Utilities	0	0	0	0
8.3	Fuel	0	0	0	0
8.4	Insurance and contracts(indexation where appropriate)	-	-	-	-

Table 9 Assumed Employers Pension Contribution Rates

Ref	Pensions:	2015/16 %	2016/17 %	2017/18 %	2018/19 %
9.1	Police Officers	24.2%	24.2%	24.2%	24.2%
	Police staff	15.3%	15.3%	15.3%	15.3%

For budget lines held locally no inflation will be added thus reducing the amounts available. This will result in a real terms cut in the budget concerned and contributes to the overall level of efficiency savings.

Pay Awards

Spending Review 15 proposed a pay restraint of 1% for both officers and staff for four years commencing in September 2016. This change is applied consistently to police officers, PCSOs and police staff.

The Overall Budget Requirement

In building the overall budget requirement the following steps have been taken:

- Unavoidable changes in costs arising from the budget assumptions above and other factors for example changes in Home Office policy with regard to

the funding of central facilities such as the Police National Computer have been calculated. These are set out in Appendix 1.

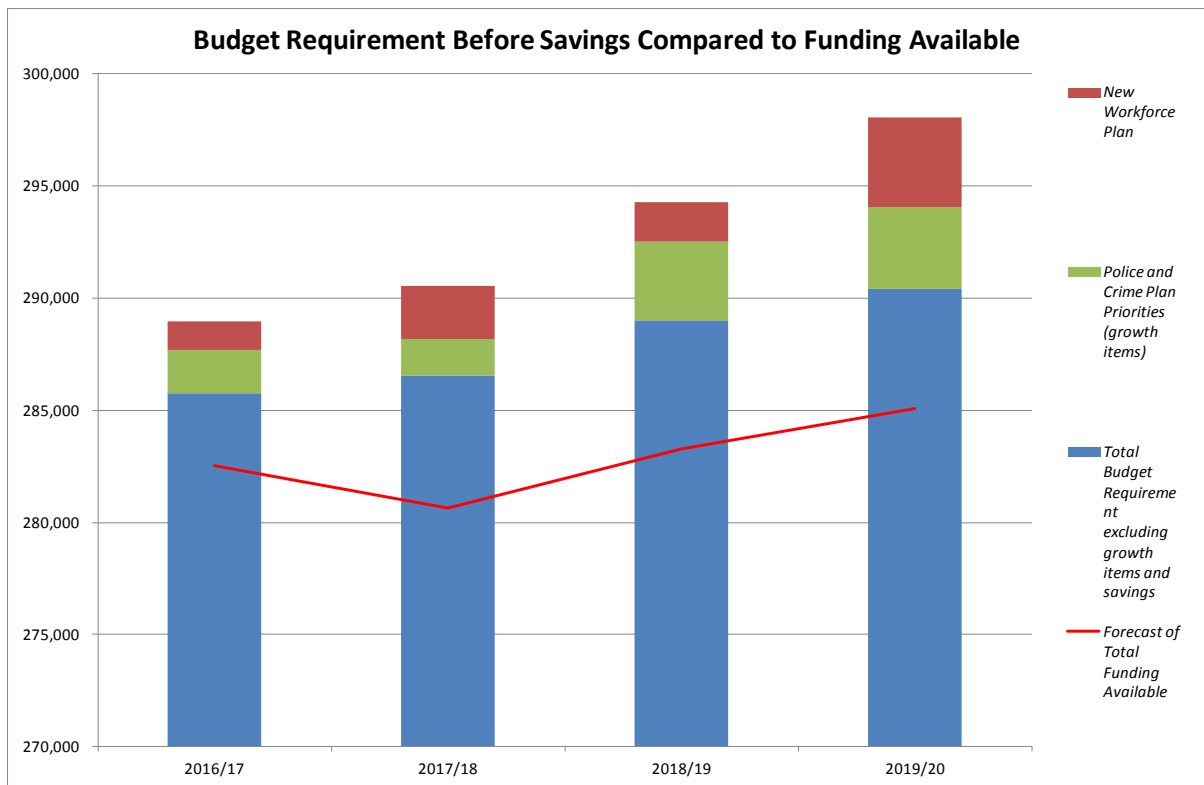
- A number of priority spending areas that are essential to delivery of the Police and Crime Plan and to improving the long term efficiency of the service have been identified and these are set out in Appendix 2.
- A new workforce plan has been costed that aims to ensure that the workforce mix is the optimum to meet ongoing policing requirements and can be afforded within the resources available.

Table 10 sets out the impact of these changes on the budget requirement.

Table 10 The Budget Requirement 2016/17-2019/20

Ref	Summary	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
10.1	Funding Available	282.519	280.622	283.283	285.062
10.2	Budget Requirement 2015/16	279.782	279.782	279.782	279.782
10.3	Adjust for change in contributions to reserves	(1.665)	(1.465)	(1.005)	(1.005)
10.4	Unavoidable changes in costs (see Appendix 1)	7.710	7.998	10.001	11.434
10.5	Budget Requirement before Police and Crime Plan Priorities	285.827	286.315	288.778	290.211
10.6	Police and Crime Plan Priorities (new growth see Appendix 2)	1.919	1.650	3.500	3.650
10.7	New Workforce Plan	1.268	2.337	1.784	3.973
10.8	Budget Requirement after Police and Crime Plan Priorities but before Savings	289.014	290.302	294.062	297.834
10.9	Budget Deficit before Savings	6.242	9.694	10.794	12.787

It can be seen from the table and the graph below that that total budget requirement is more than the funding available. In particular unavoidable cost changes cause costs to rise more quickly than the increase in funding from government grant and council tax.



The dip in funding in 2017/18 is caused by the assumption that Home Office top slices to fund the Emergency Services Network will increase in that year.

Savings Plans

Over the next four years it is anticipated that expenditure will still need to reduce by £13m (5%) in order to fill the gap in Table 10 above. These are significant cuts, coming as they do on top of the £58m already saved since the start of austerity.

Where possible non staff savings are maximised in order to protect public services. These cuts include further reductions in vehicle numbers and costs following the introduction of vehicle tracking systems, and the estates rationalisation strategy being led by the OPCC.

The most high risk savings are however around staff reductions. Significant savings will accrue from the agreed custody strategy and the as yet incomplete Criminal Justice review. The changes with the most impact will however be the savings agreed through the Strategic Alliance. This will involve difficult change especially as the most high risk reviews; command and control/call handling and ICT convergence have yet to be implemented. Nevertheless it will be a main driver to identifying the officer and staff reductions that need to be made over the next four years. The risks of successful implementation are high and dependent on the agreement between four corporation soles, technical and legal complexity and ambitious timescales. Reducing cost through design rather than crude halts in recruitment has been a real strength in the cuts programme to date.

Table 11 sets out the savings plans, more detail is given in Appendix 3.

Table 11 Summary of Main Savings Items

Ref	Item	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
11.1	Ongoing Savings Plan				
11.2	Police Officer Savings	(1.231)	(1.477)	(1.477)	(1.477)
11.3	Police Staff reviews	(1.224)	(1.224)	(1.224)	(1.224)
11.4	Non Staff Costs	(737)	(1.792)	(1.419)	(1.872)
11.5	Strategic Alliance	(3.050)	(4.520)	(6.541)	(8.214)
11.6	Total savings from Savings Plan	(6.242)	(9.013)	(10.661)	(12.787)

The impact of savings on the overall Budget position is set out in the table below:

Table 12 Overall Budget position

Ref	Item	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
12.1	Funding Available	282.772	280.608	283.268	285.047
12.2	Budget Requirement after Police and Crime Plan Priorities but before Savings	289.014	290.302	294.062	297.834
12.3	Total savings from Savings Plan	(6.242)	(9.013)	(10.661)	(12.787)
12.4	Budget Requirement after savings	282.772	281.289	283.401	285.047
12.5	Funding Requirement to be met from Revenue Support Fund	0	681	133	0

The Main Budget Components

The total budget requirement is built up of four main areas:

- The Chief Constables Budget
- The OPCC Office Budget
- The OPCC Commissioning Budget
- The Treasury Management Budget

Chief Constable's Budget

The PCC is responsible for all income and sets the overall expenditure envelope. During the financial year the Constabulary Budget is under the delegated control of the Chief Constable who monitors and manages its day to day spending.

Table 13 The Chief Constables Budget

Ref		2015/16 Budget £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
13.1	Chief	270.406	274.809	273.443	275.368	276.938

	Constables Budget					
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Delivering the Police and Crime Plan and the force mission relies on longer term planning than a single year. As in previous years the Chief Constables Budget is presented in the context of the future four year MTFs to ensure that any potential funding risks can be mitigated by operational savings within the timescale required. The respective Chief Finance Officers have worked together and are in agreement on the inflation and other assumptions built into the budget proposals. The proposals are based upon the likely funding over the following three years, annual 1.99% increases in council tax and the risk based reserves position in section 6 of this report.

People and Investment

Policing requirements have radically changed. The rise of social media and the internet has meant the public, and indeed criminals, communicate and operate in a way that visible policing in itself does not impact. Public and governmental expectations around child sexual exploitation, cybercrime and historical sex abuse require specialist resources that are not in ready supply; the Peninsula Strategic Assessment highlights these areas along with domestic abuse and alcohol related harm. The cuts to date in officer and staff numbers have meant that specialist skills to address these issues are in short supply within the force.

Protecting the public following recent outrages means that new and increased capabilities are expected. The Home Secretary has made it clear that the statutory Strategic Police Requirement will reflect these new tensions. Whilst we have not yet seen the details of this, it will mean increases in firearms and other key operational skills. At this stage there is not any specific growth items included in the budget and it is assumed that these additional requirements will be met through re-profiling of the workforce. The Chief Constables recruitment and investment proposals are designed to enable this.

As stated above, the funding restrictions from government mean that over the four year period there is a necessity for workforce savings. As a result, officer and staff number reductions of 189 are included in the proposal. Whilst it is possible to give firm figures for 2016/17, future years are based upon significant changes in the way the force deliver policing in order to meet new requirements and modernise the service. These need time to enable them to be fully developed and planning activities will continue into 2016/17 to inform that future structure. In addition, there are likely to be funding formula changes in future years. As a result it is not helpful to provide apparently definitive numbers of officers, staff and PCSOs to either the Police or Crime Panel or to the workforce. As a result, workforce numbers indicates only overall people numbers beyond the next financial year.

Table 14 Proposed People Numbers

Ref	People	2015-16	2016-17	2017-18	2018-19	2019-20	Total Reduction
14.1	Police Officers	2,967	2,924	-3%			-4%
14.2	Police Staff	1,807	1,779				
14.3	PCSOs	349	360				
14.4	Total	5,123	5,063	5,010	4,962	4,934	-189

The reduction in officer numbers arises due to:

- The savings included in the 2015/16 four year MTFs and retained in the new four year (see line 1 of [table X](#))
- The Strategic Alliance savings to be achieved through efficiencies in officer numbers.
- The impact of the new workforce plan, in which the overall mix of new recruits, transferees and police staff investigators results in a small reduction in officer numbers.

The recruitment of police officers and PCSOs was halted during the autumn of 2015 because of the very significant cuts that were anticipated at the time. The actual 2016/17 settlement allows the force to begin recruiting again. However there are limits to the maximum number of recruits that can be absorbed into the force at any one time (due to the training requirement in Basic Command Units-major area subdivisions). Nor is it possible to recruit transferees or police staff in large numbers within a short space of time due to the processes required. As a result, costs of new recruits, transferees, investigators and investment in volunteers will be part year costs in 2016/17. This is an inevitable outcome of moving from financial plans that included maximising cuts through non recruitment, to more targeted reductions, within three months of the start of a financial year.

The total number of police officer leavers during the next four years is relatively high and although there will be reductions in overall numbers there will be a need to recruit significantly during that period. The Chief Constable considers that this is good for organisational health, workforce diversity and will improve succession planning over the medium and long term. In addition it is planned to recruit a significant number of transferees (an estimated 120 over four years). Whilst transferee recruitment cannot be guaranteed this target will enable the force to seek out specific skills to meet new requirements.

Neighbourhood policing development. The budget for 2016/17 assumes that recruitment to neighbourhood community roles retains officer numbers at the current level of 360. It is, however, planned to trial new neighbourhood roles called Community Management Officers. This role will be essentially a preventative one, coordinating community resilience and capacity building. It will work to the Sector Inspector to create effective engagement and focussed problem solving. This is a

new role for policing and it is important that it is evaluated carefully before any significant roll out. In 2016/17 this will involve the temporary appointment of 10 serving PCSOs into these roles. The pilots will be evaluated during the year and proposals for permanent changes will be brought forward as part of the 2017/18 budget process.

Civilian crime investigators. In 2016/17 it is planned to civilianise 50 crime investigators. Police powers are not required for many investigative roles and accreditation at both PIP1 (basic investigation) and PIP2 (more specialist investigation) is available for non-sworn staff. The budget proposal will allow the recruitment of non-sworn staff into both PIP 1 and 2. This will provide the ability to recruit specialist skills from outside policing and also enable 50 experienced investigators to meet the new challenges around cybercrime and child sexual exploitation. When combined with the transferee programme, this will be essential to provide the skills available to meet new specialised areas of work.

Volunteers and Specials. Although success in recruiting additional specials has been achieved, the force have not transformed how this important resource is integrated with policing nor fully utilised volunteers. Work has been undertaken to evaluate how a transformation could be achieved and, although there are not yet finalised plans, it is clear from the experience of other forces that significant investment will be required to achieve improvements in this area. The budget proposal includes an allocation of £500,000 in 2016/17 (rising to £1.3m over the four years) to invest in the development of these roles.

Control and Call handling. This function is nearly always the first point of contact for the public. As such it is vital in prioritising work, identifying victim vulnerabilities, and allocating the right resource to deal with demand as efficiently as possible. It is crucial both to public confidence and to the effectiveness of the service. The budget includes two separate financial investments for control and call handling. The first is a £250,000 base budget allocation that can be used to support the technological and organisational changes already planned in this area. This may include project support for the development of a new investigation allocation model (PRISM) and the development of new technology. The second allocation is £330,000, as agreed by the Regional Governance Board, in support of the business case examining regional provision of call handling and control.

In summary the budget includes as part of the Police and Crime Plan priorities:

- Additional specialist investigation
- Additional specialist skills through transferee recruitment
- Trials for a new model of neighbourhood policing
- Investment in call handling and control
- Significant development of the role of specials and volunteers
- Reductions in officer and staff numbers of 4% over four years, achieved through design rather than crude halts in recruitment

The following table shows the projected workforce numbers over the period of the MTFS:

The Chief Constable, having worked closely with the PCC to construct these budget proposals has confirmed in a recent letter to the PCC that : ‘I am reassured that your funding proposals, which include a 1.99% council tax increase and sufficient reserves, provide sustainability’

OPCC Office Budget and Commissioning Budget

The Office of the Police and Crime Commissioner (OPCC) budget is under the control of the Police and Crime Commissioner in addition to the funds that he controls for commissioning purposes. The changes in these budgets are detailed below.

The following table shows the forecast for the OPCC office costs budget and the commissioning budget:

Table 15 The OPCC budget forecast

Ref		2015/16 Budget £m	2015/16 Forecast Actual £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
15.1	OPCC budget requirement	1.568	1.435	1.605	1.618	1.639	1.659

The forecast outturn for 2015/16 year shows an under-spending of £133k. Increased premises costs due to the delay in the OPCC move in office accommodation to Middlemoor have been offset by lower costs for support in the collection of council tax and staff savings from secondments and maternity leave.

The budgeted OPCC costs are expected to reduce in real terms by £108k between 2013/14, (the first full year of the PCC), and 2016/17. This represents savings of 6.6%. These changes reflect a reduction in establishment, the proposed move of the office to Middlemoor and the use of consultants for specialist work only.

The following table shows the total commissioning budget which includes the allocation of internal funding in addition to specific grants from MOJ and the Home Office.

Table 16 The Commissioning Budget Forecast

Ref		2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
16.1	Commissioning base budget	2.895	2.896	2.710	2.715	2.676

[Note-We have not received the MOJ funding allocation at this point.]

The total budget amount under the PCC's control is shown in the following table:

Table 17 The Total OPCC and Commissioning Budget Requirement

Ref		2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
17.1	Total OPCC and Commissioning Budget Requirement	4.463	4.501	4.328	4.354	4.335

The Capital Programme

Table 18 provides a summary of the proposed four year capital programme. Details of individual schemes are contained [Appendix X](#) to this report.

Table 18 The Proposed Capital Programme

Ref		2016/17 £m	2017/18 £m	2018/19 £m	2019/10 £m	Total £m
18.1	Capital Expenditure	15.335	20.946	14.385	12.489	65.515
18.2	Capital Financing					
18.3	Long term borrowing	3.928	8.059	2.150	1.000	15.137
18.4	Temporary borrowing	-	-	6.000	-	6.000
18.5	Capital Grant	1.925	1.076	1.076	1.076	5.153
18.6	Revenue Reserves	7.444	7.071	3.994	4.968	23.477
18.7	Capital Receipts	2.038	4.740	1.165	7.805	15.748
18.8	Total Financing	15.335	20.946	14.385	14.849	65.515

The annual revenue costs associated with this programme are contained within the annual budget base expenditure costs. Up to 2016-17 the estates parts of the overall programme is based mainly upon funding from capital receipts generated from the sale of existing assets. Additional borrowing of £ X will increase budgeted revenue costs.

During this financial year significant work on the re-design of services has been carried out and in order to improve services new capital investment is required. At this stage not all plans are finalised and agreed by business case, however the schemes are expected to be agreed during 2016/17 and funding will need to be available to ensure a timely start. The funding will be made available from revenue reserves as a contribution to capital schemes and is budgeted to comprise of the following:

Table 19 Proposed Revenue contribution to Major Capital Development Schemes

Ref	Scheme	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
19.1	Exeter custody	2.0	5.5			
19.2	Regional command				2.0	
19.3	Carbon reduction and security	0.5				
19.4	Integration of systems					4.0
19.5	Total	2.5	5.5		2.0	4.0

In addition to the scheme outlined above £3.8m is required to fill the gap in the funding of the programme caused by the reduction in Home Office capital grant since the 2015/16 capital programme was approved.

6. The Financial Risks

The PCC, Chief Constable and Joint Management Board (JMB) receive a financial healthcheck report at every meeting following the first quarter of the year. This allows any budgetary under or overspending to be identified. The JMB also regularly review the financial uncertainties contained in the joint risk register and the following areas (updated for current circumstances) are determined as high uncertainty and high impact financial risk areas:

- Police and Crime plan not financially planned and fully funded from grant and council tax by 2019/20
- Chancellors future economic projections affected by lower growth and falling tax receipts causing austerity to return to policing.
- The review of Home Office funding in 2016/17 introduces further annual losses of grant.
- The council tax referendum cap may be reduced to levels below that contained in the Medium Term Financial Strategy (i.e 2%)
- The Increase in Top-slice funding in future years further depletes resources.
- The allocation of commissioning grant does not provide a worthwhile amount for service delivery.
- That the 1% pay restraint announced for 2015/16 is relaxed in future funding years.
- Financial reserves are targeted as part of central financial policy.

In addition to these wider risks the following areas are kept under review.

- Reduced funding for 2017/18 to 2019/20 below that included in the Medium Term Financial Strategy (mid year review)
- Increased funding required for the change programme
- Revenue savings not delivered on time
- Business planning and financial planning unaligned
- Increases in long term interest rates
- Budget uncertainty through assumption changes
- Major incident cost overrun
- Government expectations to include other services such as fire in the PCC remit
- Further cost transfers from the centre (e.g Emergency Services Network and IT company costs)
- Reductions in local authority funding placing pressure on the police service
- Opening up of old crimes especially around CSE
- Severance costs increased from those planned exceeding budget; and
- Possible impacts of the A19 legal appeal.

In previous years the main concerns have centered around uncertainties in major reductions in central government funding. The CSR announcement has reduced these uncertainties at national level, however new risks have emerged. This report has consistently stated that the combination of a new PCC, a one year funding settlement and the review of the formula funding have created a very uncertain planning environment beyond 2017/18 and one where there are significant financial risks.

As part of the budgetary process for 2016/17 the PCC has asked that the overall level of reserves and the policies relating to them are reviewed. The objective of the review of reserves is to determine their adequacy when measured against the risks faced by the PCC and the Force in setting the budget and medium term financial strategy for 2016/17 to 2019/20.

7. Review of Reserves Assumptions

The accounting statements of PCCs use the following terminology to distinguish reserves:

Earmarked Reserves; Funds set aside to meet known or predicted future spending. A distinction is made within these funds between reserves that are based upon contingency where the risk is difficult to quantify e.g A19 and those that have planned profiles of expenditure e.g. the change programme or the revenue support fund.

General Reserves; This type of reserve is a working balance in order to manage the day to day fluctuations in cash flow and to protect annual budgets against one off unpredictable fluctuations.

These two types of reserve form the PCC's *Total Reserves*.

The following table shows the flow of funds to and from the Revenue Support Fund when the total income and expenditure position is brought together from **Tables X and Table X above**.

Table 20 Showing Contribution To and From Reserves.

Ref	Summary	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	Total Net Movement £m
20.1	Total budget requirement from Table X	282.772	281.289	283.401	285.047	
20.2	Total Funding from Table X	282.772	280.608	283.268	285.047	
20.3	Contribution to() and From Reserves	0	0.681	0.133	0	0.814

This table shows that there is a net outflow of £0.814m from the Revenue Support Fund to support the revenue budget over the four years .

Table 21 provides a historical perspective of reserves holdings over the last 4 years and the forecast position for the current year.

Table 21 Historical Summary of Reserve Trends

Ref	Reserve Type	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
21.1	Earmarked	22.3	32.0	43.8	59.0	50.7
21.2	General	6.2	6.2	6.2	6.2	6.2
21.3	Total	28.5	38.2	50.0	65.2	56.9

The doubling of reserves between March 2011 and March 2014 is a product of the continuing underspends in these years. It has been a conscious policy, reported to Joint Management Board, to increase these reserves by underspendings based upon a review of specific financial risks. They have also been increased in order to provide transitional smoothing fund monies thus allowing time for savings that need to be made.

If Devon and Cornwall is compared with organisations with similar sized budgets, i.e. with gross revenue budgets within the range of £250m-£350m the percentage that total reserves represent in comparison with spending is shown in the following table:

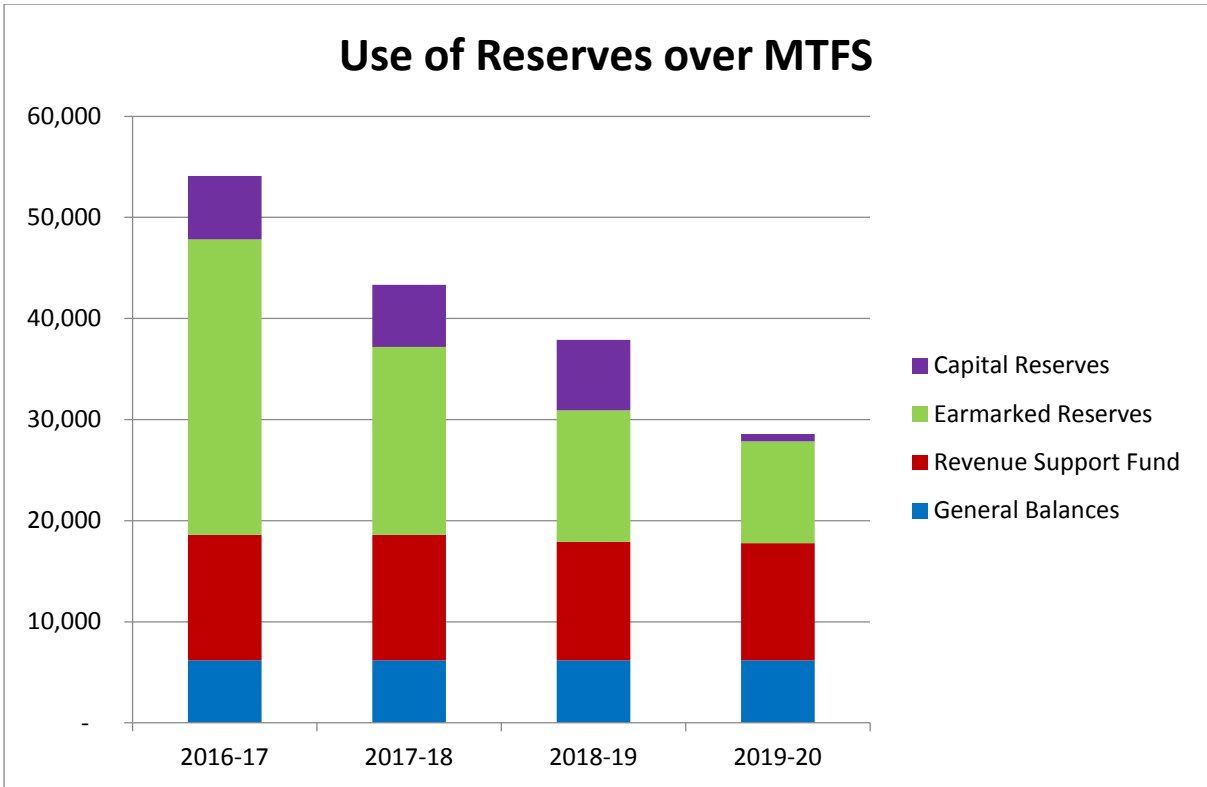
Table 22 Comparison of total reserves as a % of Net Revenue Budgets

Ref	No of PCCs £250m to £350m	Devon and Cornwall	Group	Variance
22.1	11	21.1%	15.8%	5.7%

Reserves are based upon the risks individual policing organisations face, these do not always correlate to budget size and therefore benchmarking can only be a broad indicator. A significant feature of reserve funding since 2010 is the contributions made into the revenue support fund in order to fund the transition to a lower base budget. Two thirds of this funding is destined in the four years from 2016/17 for use on infrastructure improvements to deliver better services.

Table 23 Projected Reserve Levels to 31/03/2020

Ref	Description	% of net expenditure at 31 March 2017	31 March 2017 £m	31 March 2018 £m	31 March 2019 £m	31 March 2020 £m
23.1	General Balances		6.2	6.2	6.2	6.2
23.2	Earmarked Reserves: Revenue Support Fund and Other Reserves		41.6	31.0	24.7	21.6
23.3	Sub total Revenue Reserves		47.8	37.2	30.9	27.8
23.4	Specific capital reserves		4.2	6.3	6.1	7.0
23.5	Provisions		2.7	2.7	2.7	2.7
23.6	Total		54.7	46.2	39.7	37.5



Assessing Adequacy

The assessment of reserves is a two part process. Firstly an assessment has to be made of the risks where financial provision needs to be made and then secondly what the size of the identified provision should be.

Financial risks: The following table shows the significant financial risks facing the PCC and how relevant financial reserves are in mitigation of those risks. The risks identified expand on those contained in the joint risk register.

Table 24 Risk Adjusted Reserves

Ref	Financial Risk	Potential size	Mitigation	% Probability assigned by the Treasurer	Possible call on Reserve £m
24.1	Chancellors future economic projections are affected by lower growth and falling tax receipts causing austerity to return to policing	Future grant reductions of 1% per annum (above current forecast) in 2017/18 to 2019/20	Revenue Support Fund used to transition to lower levels of expenditure	50%	4.2
24.2	Review by Home Office of funding formula causes funding to reduce by £15m to £24m, say 10%	£18m maximum annual loss, phased over the period 2017/18 to 2019/20 and mitigated by reductions in recruitment	Support funding needed to transition costs to a lower level	100%	10.0
24.3	The Council Tax referendum cap may reduce to 1% or 1.5% in line with inflation In 2017/18	Each 1% reduction removes £1.0m of funding annually	Would require further annual savings to reduce base budget. Support fund needed to transition to lower level	75%	0.7
24.4	Increase in topslice from the police grant	Each 1% is a loss of £1.8m one off	On off reduction which would be charged to Revenue Support Fund in order to reduce expenditure levels	50%	0.9

24.5	Reductions or cessation in commissioning grant after 2016/17 for CSPs	Need to fund annually from own resources £1.7m	Would require further annual savings to reduce base budget. Support fund needed to transition to lower level	25%	0.4
24.6	Pay restraint cannot be maintained at 1% level built into budget plan. Assume increase is 0.5% more than forecast	Ongoing impact of £1m per annum	Would require further annual savings to reduce base budget. Smoothing fund needed to transition to lower level	50%	3.0
24.7	Increased funding of change programme	£1m possible overspend based on past performance and pressures from UNIFI spending	On off reduction which would be charged to smoothing fund or projects and Programme reserve	50%	0.5
24.8	Revenue reduction from the Strategic Alliance and other savings not delivered in time	£8m additional savings not achieved on time	Would require further annual savings to reduce base budget. Smoothing fund needed to transition to lower level	25%	2.0
24.9	Working Capital One weeks spending in reserve	Reserves required to cover working capital for one weeks expenditure.	This amount could be covered by working capital or temporary borrowing in extreme circumstances.	100%	6.2

24.10	Major incident cost overrun	Major incident cost £6.0m requiring additional £5.5m over budget	Charge to specific major operations reserve	25%	1.4
24.11	Severance costs exceed the budget	Large pension strain costs 500k	Charge to workforce modernisation	25%	0.1
24.12	Impacts of A19 and other impacts from court decisions relating to Police Regulations		Charge to remuneration reserve	Best Case	3.0
24.13	Capital Financing – future projects				2.0
24.14	Total				£33.9m

The above table shows that reliance is placed on the revenue support fund to mitigate any major one off swings in central government expenditures.

The following table compares the reserves position as forecast in the current MTFS as at 31 March 2020 against the risk based assessment of £33.9m in **table X** above. As part of the reserves review carried out, the specific reserve relating to A19 has been discontinued and incorporated within the workforce modernisation reserve.

Table 25 Risk Adjusted Balance Levels

This table compares the reserves at the end of the current four year MTFS (i.e 31/03/2020) with the possible calls on reserves adjusted by probability.

Table 25 Risk Based Assessment of the Probable Calls on Earmarked and General Balances

Ref	Description of Balance	Amount at 31/03/2020 £m	Probability calls on funding Table X £m
25.1	General Balances	6.198	6.200
25.2	Revenue Support Fund	11.579	19.300
25.3	Police Officer Ill Health	0.080	0
25.4	Major Operations Reserve	2.375	1.400
25.5	Programmes & Projects Reserve	0.908	0.500
25.6	Workforce Modernisation	3.000	3.000
25.7	Capital Financing	2.275	4.000
25.8	Estates Development Reserve	0.019	0
25.9	Police and Crime Plan Reserve	0	0
25.10	Strategic Alliance Reserve	1.404	0
25.11	Total Earmarked	21.640	28.200
25.12	Total Reserves	27.838	34.400

The above reserves, provisions and balances have been tested against the identified financial risks from the OPCC risk register. The table shows an underfunding of £6.1m. On the basis of the above, and given that risk calculation is not an exact science, the reserves and balances cover known liabilities and commitments and provide adequate cover for unknown liabilities at the assessed level for 2014/15.

The Treasurer as Section 151 officer confirms that these reserves provide an adequate level for 2016/17 given the identified financial risks in the budget.

8. Setting the Council Tax

In setting the council tax for 2016/17 the policing minister has given a clear indication in the funding settlement that no one will face a cash reduction if they maximise precept income. There is no council tax freeze grant available to enable a 0% increase amount to be set. The maximum amount that the council tax can be increased by is 1.99% in line with government guidelines

The budget forecasts contained in this report are based upon the assumption that the council tax will be increased by 1.99%. The following table shows the funding position if the council tax is increased in line with the ministers proposals:

Table 26 The Council Tax Requirement

Ref	Item	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
26.1	Total Budget Requirement from Table X		282.772	281.289	283.401	285.047
26.2	Less					
26.3	Central funding From Table X		(181.300)	(177.222)	(177.168)	(175.782)
26.4	Contribution to/ from reserves From Table X			(0.681)	(0.133)	
26.5	Total net council tax requirement at 1.99%	(97.521)	(101.472)	(103.386)	(106.100)	(109.265)
26.7	% increase		1.99%	1.99%	1.99%	1.99%

Devon and Cornwall Police have traditionally set council tax levels at the national average level for all 43 police forces. The following table shows the recent history in council tax rises over the past four financial years have been in line with government policy and have raised taxation levels on average by 6pence per week

Table 27 Past Trends in Council Tax Increases

Ref		2012/13	2013/14	2014/15	2015/16
27.1	Council Tax Increase	2%	2%	1.99%	1.99%

In comparison with forces that are in a similar group the following table show that Devon and Cornwall **has.....**

Table 28 Comparison with HMIC Most Similar Group (MSG) 2015/16

Ref		Devon and Cornwall	National Average	MSG Group	Variance from MSG	Variance from National average
28.1	Council Tax Increase	£169.47	£174.60	£194.80	15% below	3% below

In 2015/16 Devon and Cornwall is currently 15% below the average band D council tax level for PCCs in the most similar group and 3% below the national average. This shows that even if all forces did not raise their current council tax levels by 1.99% in 2016/17 and D&C did the current comparative position of D&C below both these levels would be maintained.

The final table shows that if the council tax is raised in 2016/17 by a further 1.99% the force would be the second lowest level in the region a position it has held for at least the last four years.

Table 29 Comparison with Regional forces 2016/17

Ref	Regional comparison 2015/16	Proposed increase	Expected comparison 2016/17	Financial increase	% Difference from Lowest
29.1	Gloucester	1.99%	211.86	44.62	26.6
29.2	Dorset	1.99%	190.83	23.59	14.0
29.3	Avon and Somerset	1.99%	178.26	11.02	6.6
29.4	Devon and Cornwall	1.99%	171.50	4.26	2.5
29.5	Wiltshire	1.99%	167.24	0	0

*Based upon indicative levels and consultation requests prior to Police and Crime Panels

In considering the full increase of 1.99% in council Tax Funding, the PCC has considered this year's funding settlement and is aware that funding for the force and OPCC will only keep pace with inflation at current levels if his precept rise strategy of 2% per year is continued. Police funding is continuing to fall over this MTF5 and the current level is based upon the Chancellors predictions in the Autumn statement being fulfilled. These predictions are far from certain and further spending reductions may be faced towards the end of the plan. In addition to the desire to keep budgets at current levels in real terms there are new and different demands being placed upon policing and resources need to be freed up to address these. If the council Tax is not increased then further annual savings will have to be made in services to finance these changed priorities. Many of these new areas of policing require investment in new technology which requires forward funding before any operational savings can be generated. Increases in the council tax now will allow these investments to be made.

Whilst the CSR15 has set out a more or less flat lined settlement for four years, within that total there is considerable uncertainty over the future of the funding

formula allocation and this could at levels of £15m remove up to 8% of annual funding allocation. In order to address this, reserves will be used to transition to new levels of base expenditure however these transition savings will be less harsh if council tax funding levels increase.

The Ministry of Justice has also reduced funding outside the Home Office grant settlement. In order to make good these funding reductions further pressure is placed upon other forms of funding and % of the proposed council tax increase will support the % reduction in victims services.

As explained in this report one of the main improvements that the PCC and Chief Constable wish to make is to the architecture of neighbourhood policing and the roles within it. Without the proposed increase in funding these changes would become less sustainable.

Finally the PCC ,as set out in his opening overview ,wishes to ensure that his successor inherits an organisation with a strong financial base, any increase in the council tax will preserve reserve funding for the many and considerable risks faced whilst building in baseline increases to support better service delivery in future years.

The PCC has also consulted the Chief Constable about his proposal to increase the council tax and the Chief Constable has made the following statement:

I very much welcome the PCCs support in seeking a council tax increase at 1.99%. A zero increase in council tax would mean £1.8m less funding in 2016/17 and in each year thereafter. Whilst I am grateful that police funding is more robust than many places in the public sector, the central grant, even when combined with a 1.99% council tax, does not cover all inflationary costs. We will be making cuts of £7m in 2016/17 to meet those inflationary costs and reinvest in key areas of service. The budget proposal for 2016/7 from the PCC is, although challenging, sufficient for me to address his Police and Crime Plan. It is also important that the budget is funded to allow confidence that sufficient funding for policing will be available beyond 2016/17. I am confident that the PCC's precept proposal provides that sustainable funding base for policing.

In proposing the 1.99% increase in council tax the increases in tax bands are contained within the attached booklet at Appendix 1.

9. Conclusion and Recommendations to the Police and Crime Panel

This report considers the future four year financial position for the PCC and Chief Constable and presents the following council tax recommendation for consideration by the Police and Crime Panel:

A 1.99% increase in the police element of the council tax for the 2016/17 financial year is proposed

Tony Hogg
Police and Crime Commissioner
January 2016

Commitment and Police Changes – Appendix 1

Cost Increase	Reasons for Increase	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Pay Inflation	Cost of paywards based on 1% pay ward cap announced ...	2,017	4,371	6,730	6,730
National Insurance Levy	Government decision, single state pension	4,500	4,500	4,500	4,500
Employment legislation - holiday pay	Bear Scotland Employment Tribunal decisions re holiday pay	400	400	400	400
Police Officer turnover	The savings generated by replacing experienced officers with new recruits	(3,598)	(7,132)	(10,295)	(10,295)
Increments	Contractual increments	1,900	4,393	6,686	6,479
Police Officer terms and conditions	Winsor changes plus changes to costs of housing allowances and competency based payments	(1,066)	(1,466)	(1,466)	(1,466)
Police Staff Pay Model		327	308	290	1,219
Overtime	Change in bank holiday overtime profile	(326)	460	87	121
Further changes in pay commitments		710	469	525	684
Apprenticeship levy		0	838	838	838
Total for Pay Costs		4,864	7,141	8,295	9,210
Price Inflation	Provision for price inflation on selected budgets	360	747	1,131	1,496
Premises	Increase in Estates contract renewals	99	99	99	99
Premises	Further changes to premises costs	78	(91)	(197)	(302)
Premises	Estates Development Costs	757			
Premises	Increase in refuse collection costs	100	100	100	100
Supplies and Services	ICT facilities management contract - changes in metrics and prices	136	173	210	328
Supplies and Services	Net savings other ICT contracts	(257)	(263)	(267)	(208)
Supplies and Services	Further changes to contractual costs	(12)	(332)	(290)	(318)
Supplies and Services	Mobile data	0	100	100	100
Supplies and Services	Major equipment replacement profile	(30)	295	226	226
Training Course Meals	Reduction in costs of training course meals	0	0	0	0
Third Party Payments	Regional Collaboration in crease in project costs including Zephyr estates contribution	302	302	302	302
Third Party Payments	National Police Air Service - nationally agreed change in contribution	(315)	(625)	(945)	(945)
Third Party Payments	Increase in charges from Home Office for National Police IT Services and Police ICT Company	599	623	647	717
Third Party Payments	Reduction in recharges to regional collaboration projects	(500)	(500)	(500)	(500)
Other Expenditure	Other minor changes	(29)	(135)	(113)	(246)
Income	Income: Firearm's Licensing & DSP	(88)	44	(28)	112
Income Adjustment	Changes to the income profile	113	46	348	285
Strategic Alliance Set Up costs	Strategic Alliance Set Up costs	1,404			
Counter terrorism grant	Possible reduction in Counter Terrorism Grant	0	89	537	537
Capital Financing	Increased capital financing costs	129	185	346	441
Total For Non Pay Costs		2,846	857	1,706	2,224
Overall Total		7,710	7,998	10,001	11,434

Priority Investment and Growth – Appendix 2

Ref	Cost Increase	Reasons for Increase	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
	ICT Convergence Strategy and additional Airwave costs	Impact of ICT convergence and Emergency Services Mobile Communication Project	700	-400	1,150	2,300
	Policing plan priorities	Increased funding for 101 service	250			
	Policing plan priorities	Regional collaboration priorities	419			
	Policing plan priorities			1,000	1,000	
	Specials/volunteering		500	1,000	1,300	1,300
	OPCC Income Generation Officer		50	50	50	50
	Total		1,919	1,650	3,500	3,650

Savings – Appendix 3

Cut	Impact	Risk	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Strategic alliance	Transformational	High. Dependent on four corporation soles; legislative change and PCC elections may impact. Scale of change to deliver savings especially challenging	-645	-2,882	-5,391	-5,391
Strategic alliance	Transformational	As above	0	0	-3,009	-3,009
Strategic alliance - additional savings on police officer posts	Transformational	As above	-2,150	-3,620	-4,591	-5,464
Strategic alliance - change in profile to police staff savings	Transformational	As above	-255	1,982	6,450	5,650
Change programme police staff reviews	CJ and Custody reviews as already agreed - reviews not yet complete but on target	Medium - in budget. Custody review in particular may identify significant change processes	-1,130	-1,130	-1,130	-1,130
Vehicle reductions (technology)	In order to reduce usage of vehicles and improve deployment. Significant cuts in vehicle numbers have taken 20% of costs from the system. Providing vehicle location data will drive next round of savings whilst mitigating the operational impact of further reducing vehicle numbers	Medium - procurement process not complete. OBC identified good evidence from other forces on savings made	-600	-600	-600	-600
Estates	Assumes estates strategy shuts and does not re-provision some stations. Operationally are likely to be viable but may cause public / political concern. Stations to be initially considered include Budleigh, South Brent, Callington.	Medium. Likely opposition from staff, public and the press. Operational deployment issues less likely. Some potential closures would be of stations where the front desk has recently been closed. Interdependencies with other change (eg HQ Project) and resource issues	-48	-436	-58	-472
Mobile data (change programme)	Mixture of stationery and travels costs; and police staff reductions including in control room	Some medium and some high risk. Pilot of project not yet rolled out	-94	-94	-94	-94
Officer reductions	As contained in 2015-16 MTFS	In budget - low	-1,231	-1,477	-1,477	-1,477
Other locally managed budgets (underspendings and other reductions)		In budget - low	-14	-62	-68	-68
OPCC EPC	Estates and staff changes	In budget - low	-75	-108	-112	-112
OPCC Commissioning budgets		In budget - low	0	-186	-181	-220
ICT - telephony and data network -	Savings from introduction of Featuresnet system		0	-400	-400	-400
Total			-6,242	-9,013	-10,661	-12,787