

POLICE & CRIME COMMISSIONER FOR LEICESTERSHIRE POLICE AND CRIME PANEL

PAPER MARKED

Report of	OFFICE OF THE POLICE AND CRIME COMMISSIONER
Subject	MEDIUM TERM FINANCIAL STRATEGY UPDATE
Date	THURSDAY 16 TH SEPTEMBER 2015
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Purpose of Report

1. This report is to update the Police and Crime Panel (“the Panel”) on the Medium Term Financial Strategy (MTFS) including progress towards identifying the savings required for 2016/17 and approaches towards savings to 2020/21.
2. This report updates the Panel about potential risks and uncertainties associated with the MTFS, which include the Comprehensive Spending Review and the recently issued consultation on the Police Funding Formula.

Recommendation

3. The Panel is recommended to note the report.

Background

4. The report presented to the June and July 2015 Police and Crime Panel meetings (referenced below in the ‘background papers’ section) outlined the financial challenge set by the Police and Crime Commissioner (“the PCC”) in his Police and Crime Plan for the period 2013 to 2017, the Force’s response to the challenge and the new challenge which will face the next PCC.
5. In July, the Panel were advised of the following:
 - The initial financial challenge set of over £20m during the period of the Police and Crime Plan. When savings which had already been reduced from the base budget in 2013/14 of over £6m are taken into account, this increases the total savings required over the period to £27.8m.
 - Based on the assumptions in July, of the savings required to 2016/17, £23.8m had already been identified or implemented, and only £4m remained to be identified.

- When the 2015/16 precept was set, the PCC set the Force a challenge to identify, by 30th June 2015, at least £2.5m in revenue savings to be realised for 2016/17 and this was tabled on the agenda of the 28th July 2015 Strategic Assurance Board.
6. At the Strategic Assurance Board, the Force responded to the PCC with proposals for savings of up to £4.8m that have been identified from 2016/17 onwards (in excess of the £2.5m challenge).
 7. These proposals were queried and challenged where appropriate by the PCC and he has supported further work to take place and refine these proposals through the Change Board, with regular reports to the Strategic Assurance Board on their progress for implementation in the 2016/17 Budget.
 8. The Force proposals are designed to maximise opportunities from non-salary budgets and minimise impact on the frontline, including leaner management, back office efficiencies and support staff and officer attrition, with further work to continue to support this in line with the areas identified by the PCC in January 2015.
 9. Additionally, the Force is undertaking Output Based Budgeting (a radical process which identifies how things are currently done and proposes how things can be done differently and more efficiently), which is anticipated to drive out further waste and identify opportunities.
 10. Given this significant progress on identifying the remaining savings by the force, if the CSR reductions for 2016/17 are in line with the forecast, it is anticipated that the challenge of realising over £27.8m in savings by the end of the Police and Crime Plan in 2016/17 will be met.
 11. However, should the CSR and the Funding Formula Review bring higher reductions than those forecast in the MTFs for 2016/17, this will increase the challenge (and the Panel will be updated at the December meeting), then this would be significantly more difficult to achieve.

Future Challenges

12. As the landscape is continually changing, the MTFs is updated at key stages throughout the year. Changes have been made to the MTFs reported to the Panel in July 2015, to incorporate implications from the Chancellor's Statement and in respect of anticipated grant reductions from the Home Office. There are two key areas which are awaited and will have a significant impact on the MTFs:

Comprehensive Spending Review (CSR) 2015

- HM Treasury has introduced the CSR 2015 that will cover the period up to and including 2019/20 (i.e. 4 years). Within it, the tone has been set concerning an ongoing austerity agenda and the aim to "eliminate the deficit by 2019/20". Government departments (including the Home Office) have been asked to model both 25% and 40% savings in real terms (i.e. after adjustment for inflation). How these potential savings may affect the police service will become clearer when the Chancellor delivers the CSR on 25th November 2015.

- The Police and Crime Commissioners Treasurers Society (PACCTS) is coordinating this work with the PCCs and the Home Office and at this point in time, they are now suggesting that PCCs assume a 5% grant reduction (this will continue to be refined nearer the time of the Budget allocations). This has been reflected in the revised MTFS.

Funding Formula Consultation

- In July 2015 the Home Office issued a consultation document regarding proposals to reform the police funding arrangements (commonly known as the “funding formula”) in England and Wales. The consultation runs for 8 weeks and is due to end on 15th September 2015.
- As the Panel are aware, the current formula was never fully implemented, is almost ten years old and these challenges are recognised at local, regional and national levels.
- Key features of the consultation are as follows:
 - Proposals for a new, simplified allocation model based on five variables:
 - i. Population
 - ii. Band D Equivalent properties
 - iii. Households with no adults employed and dependent children
 - iv. Hard pressed population
 - v. Bars per hectare
 - A fundamental review of the existing formula model.
 - Proposals based on overarching principles (detailed allocations are not provided and whilst some work has been undertaken by PACCTS, there is insufficient detail to be able to reliably estimate or calculate the financial impact that the proposed new funding model would have on police grant allocation to Leicestershire).
 - Consideration of how legacy Council Tax Freeze Grants are managed.
 - Consideration of London allocations.
 - Consideration of a range of transitional arrangements (recognising the Government’s ambition to implement in 2016/17).
 - The Innovation Funding and Counter Terrorism Grants are out of scope for the consultation and top slicing for these will continue in 2016/17.
 - Representatives from the OPCC have attended a number of meetings to review the proposals from a national perspective which will be coordinated by PACCTS and Leicestershire are preparing responses both from an East Midlands region perspective but also a response that is specific to Leicestershire’s needs and views on the proposals.

- At the end of the consultation period it is hoped that the Home Office will share details of the exemplifications for the proposed new funding model, allowing the impact to be factored in to the MTFS.
- An update on both the CSR and the Funding Formula Review will be incorporated (if available) in the next update to the Panel.

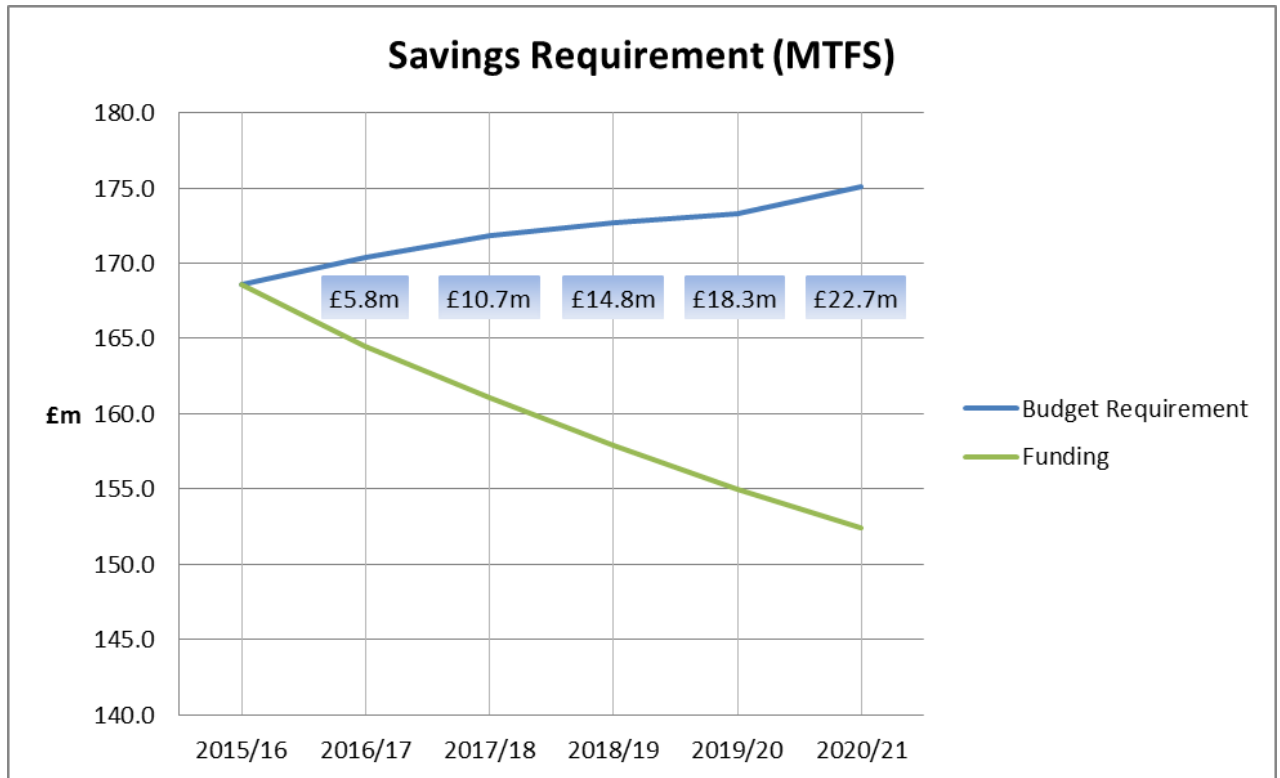
The Updated MTFS Outlook to 2020/21

13. As highlighted previously, the MTFS is regularly reviewed and has been updated to take account of the Chancellor's statement and updated guidance from the Home Office and PACCTS in respect of grant reductions.
14. Additionally, where savings proposals have been identified and refined through the Force Change Programme, these have been incorporated.
15. As requested by the Panel, the MTFS now includes 2020/21 to enable a five year forecast for consideration. However, given the significant changes facing the public sector and the police service, this needs to be viewed in that uncertain context.
16. The current estimated savings targets for the period 2016/17 (the final year of the current Police and Crime Plan) to 2020/21 are as follows (compared to the July MTFS):

<i>MTFS Anticipated Shortfall</i>	Current Plan	Blueprint 2020			
		2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
July 2015 Shortfall	6.1	9.7	13.5	16.9	n/a
August 2015 Shortfall	5.8	10.7	14.8	18.3	22.7

17. As outlined in paragraphs 6 and 10, the Panel are advised that if the reductions from the CSR are in line with those assumed in the MTFS, it is anticipated that if the 2016/17 savings will be achieved and have been identified from both Project Edison and the work which continues in respect of the Force response to the PCC's challenge. The PCC will monitor this progress regularly throughout the year.
18. However, the shortfall for 2017/18 and beyond has increased, mainly as a result of the latest detrimental estimate in respect of Home Office Grants.

19. The estimated shortfall based on the August 2015 MTFS can be depicted as follows:



20. The savings requirement identified is being progressed as follows:

Year	Savings Requirement £m	Progress to date
2016/17	5.8	£2.1m Savings identified, £4.8m identified and being refined (£3.7m required for the year), see paragraph 25
2017/18	10.7	Savings to be identified
2018/19	14.8	Savings to be identified
2019/20	18.3	Savings to be identified
2020/21	22.7	Savings to be identified

Assumptions

21. Key assumptions included within the MTFS are as follows:

- Reduction in police grant of 5% per annum (increased from a 3.2% reduction) – based on latest PACCTS and Home Office indications.
- Precept increase of 1.99% per annum – in line with the levels identified for the Police and Crime Plan assumptions for 2016/17 and continued for future years.
- Tax Base inflation of 1% per annum – this will be reviewed with billing authorities as part of the preparation of the 2016/17 budget.

- Pay inflation of 1% per annum – in line with the *maximum* increase announced by the Chancellor of the Exchequer.
- Utilities and fuel price inflation of 5% per annum – in line with PACCTS assumptions but these will be reviewed further as part of the budget preparation process
- Other non-pay price inflation of 2% per annum – in line with PACCTS assumptions.

Risks

22. In addition to risks already identified by the Force and the OPCC in their Risk Registers, the following key risks may have a bearing on the estimations contained in the MTFS:

- The outcome of the CSR 2015 is as yet unknown – police grant allocations may reduce by more or less than 5% per annum.
- The impact of the review of the funding formula on Leicestershire is as yet unknown.
- The Tax Base used in calculating precept income each year may not grow by the 1% estimated rate.
- The new PCC elected in May 2016 will be required to set a Police and Crime Plan, detailing their priorities whilst in office and this may impact on the current assumptions included within the MTFS (for example, if the precept strategy were 0%).
- There may be changes to the referendum limit for council tax increases which could impact on the precept strategy.
- It is currently uncertain whether freeze grants will continue in the Base funding and it is anticipated that this will be considered in the CSR.
- Top slicing of Grant for Central Initiatives (e.g. Innovation, Counter Terrorism) may be higher (or lower) than anticipated.
- Slower rates of staff/officer attrition (whether for retirement or other reasons) may delay the achievement of savings that have either been incorporated within the MTFS or are still to be quantified.
- Regional savings from collaboration may not be in line with those anticipated.
- Pay and price inflation may be higher (or lower) than estimated.
- The impact of any potential strategic alliance is as yet unknown both in terms of timing and value of any savings that could be achieved through closer alignment with other Regional Forces.

Precept Strategy

23. Whilst this will be considered in more detail as part of the 2016/17 Precept, the table below highlights the potential impact of a Precept freeze on the savings requirements identified above if all other assumptions were to remain unchanged. Any government incentives in the form of a freeze grant (if offered) could partly offset any shortfall; however, this information is not yet available.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Current MTFS Precept income estimate (1.99% per annum)	55.3	57.0	58.7	60.4	62.2
Estimated Precept income from a 0% Band D increase	54.2	54.8	55.3	55.9	56.4
Additional savings requirement	(1.1)	(2.2)	(3.4)	(4.5)	(5.8)

24. This impact needs to be viewed in the context that it would be subject to a number of changes in assumptions and would be considered in more detail as part of the 2016/17 Budget and Precept preparation.

Regional Collaboration and responses to the financial challenge

25. The updated MTFS includes known/expected savings from collaboration (for example Custody). Further savings related to the East Midlands Operational Support Services (EMOpSS) and Regional Criminal Justice arrangements (recent developments) are being finalised as work progresses and will be included within the MTFS going forward.

26. As outlined to the Panel in July 2015, further collaborative options are being discussed and these will be shared as work is scoped and progressed. The Force continues to develop its 'Blueprint 2020' concept to build a vision of what policing in Leicester, Leicestershire and Rutland may look like in the future.

27. PCCs and Chief Constables from Leicestershire, Northamptonshire and Nottinghamshire have begun early discussions concerning the formation of a strategic alliance. They have reached an agreement in principle to develop options for closer alignment of the services provided by the three Forces. As these discussions progress there will be appropriate engagement and consultation with both officers/staff and external partners/stakeholders.

Next Steps

28. The MTFS will continue to be reviewed on a regular basis and where possible, the financial update to the Panel in December 2015 will include an update on the potential impact of the CSR and Police Funding Formula Review in advance of the January 2016 Precept considerations.

Conclusion

29. This report updates the Panel on the progress made in meeting the financial challenge set out in the Police and Crime Plan for 2013/14 to 2016/17.

30. This report highlights some of the key financial challenges, risks and assumptions facing the MTFS from 2016/17 onwards, including the CSR review and the recently announced Police Funding Formula Review.

Implications

Finance: To update the Police and Crime Panel on the Medium Term Financial Strategy, uncertainties and timescales.

Legal: There are no legal implications identified

Equality Impact Assessment: Equality Impact Assessments will be required where proposals are identified

Risks and Impact: Risks and uncertainties are identified in the report.

Links to the Police and Crime Plan: The report provides an update on Strategic Priority 18

List of Attachments / Appendices

None

Background Papers

Police and Crime Panel 25th June 2015 – Medium Term Financial Strategy Update

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