



Nottinghamshire

POLICE & CRIME COMMISSIONER

DRAFT

Medium Term Financial Plan

2016-17 to 2019-20

January 2016

Commissioners

Medium Term Financial Plan

Introduction

This document is part of the overall financial framework of the Police & Crime Commissioner. It builds on the budget proposed for 2016-17 and incorporates plans to meet changes in available financing with the need to meet current and future commitments.

Within the current economic climate the Government has made significant reductions in public sector finances.

The previous Comprehensive Spending Review (CSR) Nottinghamshire needed to deliver £42million in efficiencies in order to balance the budget and improve performance. Continuous achievement of these substantial cuts is proving more difficult as time progresses and 2014-15 and 2015-16 will see the efficiency targets not being achieved. The latest CSR announcement is better than had been anticipated, but still leaves much to be done to continue delivering a service within a balanced budget.

Whilst the cuts to grant funding are relatively small, costs continue to increase and with salary increases the pressure to deliver savings continues. For 2016-17 Nottinghamshire faces some significant pressures from changes in employer contributions for National Insurance and making up the budget gap from 2015-16, where reserves are being used to bridge a significant gap in achieving a balanced budget.

The settlement announcement covering next year and indicating funding over this CSR, includes assumptions in relation to precept increases and council tax base increases. The amounts that these increase by will be mirrored by a reduction in main grant. This is defined as being no reduction in real terms. However, in cash terms grant will reduce as the total amount available for main police grant is being reduced to finance Top Sliced expenditure (e.g. NPAS, NICC and Counter Terrorism) and Home Office new funding initiatives such as Police Transformation Fund.

A funding formula review had been started with the intention to bring a simplified approach to police funding in place for April 2016. However, this has now been delayed and will not be in place before April 2017.

Under the existing funding formula Nottinghamshire continues to lose over £10m per year. As the formula itself has never been fully implemented. Over the past 10 years this amounts to over £100m that the Home Office formula says should have come to Nottinghamshire, but to protect those that would lose significantly has been used to protect over funded forces from significant loss. Therefore, any new formula needs to be clear from the onset as to when it would be fully implemented and all forces work towards what the formula indicates as being appropriate level of funding for the police area.

The latest settlement announcement assumes that Council Tax Precept will increase by 2% per annum and that the Tax Base itself will also increase by 0.5% per annum over the CSR period.

The Police & Crime Commissioner has produced a Police & Crime plan, which has been refreshed to include the feedback and comments made by stakeholders, partners and the public over the last 12 months.

The Police & Crime Plan is built upon the following 7 strategic priorities:

- Protect, support and respond to victims, witnesses and vulnerable people.
- Improve the efficiency, accessibility and effectiveness of the criminal justice process.
- Focus on those priority Crime types and local areas that are most affected by crime and anti-social behaviour.
- Reduce the impact of drugs and alcohol on levels of crime and anti-social behaviour.
- Reduce the threat from organised crime.
- Prevention, early intervention and reduction in re-offending.
- Spending your money wisely.

At the time of writing this report there was no clarity on the split between main grant and Top Slicing in the Home Office budget for policing. However, the Home Office has said that they are working on this and hope to provide clarity on the next 4 years shortly. This may be available when the final confirmation of the settlement is laid before Parliament in February.

Funding

This year remains a significant challenge to funding for policing in Nottinghamshire. These are summarised as follows:

1. The amount of grant funding is reduced by £0.7m.
2. The Home Office assumption after accounting for a 2% precept increase and 0.5% tax base increase is that our total core funding available is £189.5m. The estimates within the precept report show that the tax base increase is just over 1.8% resulting in total funding available of £190.2m.
3. However, the cost pressures that we are also seeing are also having an adverse effect (i.e. pay wards of 1%, inflation at just over 1% and the impact of national insurance changes for the state pension estimated at £3.5m) especially as the funding available continues to reduce.
4. 2015-16 is the second year that the force has had difficulty in achieving a balanced budget, as a result of not achieving the efficiency plans. This shows how increasingly difficult it is becoming to deliver on average over £10m in savings each year. There is a possibility that the MTFP reserve will need to be utilised in full for 2015-16. This has a consequential impact on the budget for 2016-17.
5. At the time of writing this report the all but two of billing authorities had yet to declare their final and actual tax base for 2016-17.
6. At the time of writing this report the billing authorities had yet to declare any surplus or deficit on the collection fund accounts.
7. The Commissioner at a local level and regional level continues to bid for additional funding being allocated by the Home Office from the Innovation Fund. We have previously been successful in relation to bidding for this additional funding. The criterion for such funding continues to tighten.
8. A Police Funding Formula Review is underway and the results of this will be incorporated from 2017-18 onwards.

The estimated funding for the Police & Crime Commissioner over the next four years (and compared with this year) is as follows:

| <u>Funding Available</u> | 2015-16 £m | 2016-17 £m | 2017-18 £m | 2018-19 £m | 2019-20 £m |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Police & Crime Grant | 126.8 | 126.1 | 123.4 | 120.7 | 118.1 |
| Council Tax Legacy Grant* | 9.7 | 9.7 | 9.7 | 9.7 | 9.7 |
| Precept | 52.4 | 54.4 | 55.8 | 57.2 | 58.6 |
| Collection fund surplus/(deficit) | 0.7 | | | | |
| TOTAL | 189.6 | 190.2 | 188.9 | 187.6 | 186.4 |

*Legacy Grant is subject to review as part of the funding formula review

Investment

The Police & Crime Commissioner has continued to support investment in many collaborative projects which should deliver significant savings or improve and change the way in which the policing service is provided.

Nottinghamshire is a significant partner in all regional collaborations and collaborations which go outside of the region. More recently the Commissioners of Nottinghamshire, Leicestershire and Northamptonshire have agreed to form a Strategic Alliance for all policing and support functions.

Key to many of the changes has been the need for significant investment in technology. This will ensure an on-going visible presence in neighbourhood policing and provide the training and equipment to meet the needs for all cyber related crime detection.

Investment continues to be made at a regional level and collaboration is well established within the East Midlands. Many specialist policing services such as major crime, roads policing and serious and organised crime are provided through regional teams.

The Commissioner has reduced the size of the police estate and invested in IT to ensure officers are out within our communities for longer.

Under the Commissioners wider remit of “and Crime” and Victims Services the Commissioner is investing in new ways of service delivery and crime prevention.

Savings and efficiencies

The settlement this year and indications for the CSR period is better than anticipated. However, 2016-17 has significant pressures which need to be made in order to balance the budget.

Funding itself remains broadly at a standstill position although costs and salaries continue to increase and additional burdens from national insurance changes all total £10m approximately in new costs to be covered.

In addition to this pressures from 2015-16 will impact on 2016-17 also and these have been estimated as totalling £11m.

Further efficiencies will need to be delivered as the level of reserves diminishes and could affect financial viability. We currently hold the third lowest level of reserves across policing in England and Wales.

The table below summarises the savings plans currently in place for the next financial year:

| Efficiencies | 2016-17 £m |
|--|-----------------------|
| MRP | 1.0 |
| Reduction of Officers and Staff (DTF) | 5.0 |
| Non Pay savings | 1.7 |
| Reduction in acting up | 0.5 |
| Voluntary redundancy, DTF Business cases, Shift review | 3.5 |
| Internal Efficiencies | 12.0 |

The Commissioner is conscious of the risks associated should the efficiencies and savings identified not be achieved in the year that they are required and that achieving them will be a challenge.

The Commissioner is mindful that should there be some slippage in implementing these efficiencies then further savings will need to be identified and delivered in year.

Following the estimated requirement for £9.3m of reserves in 2015-16 there is insufficient reserves available should the efficiency programme not be delivered in full. Plans to replace the reserves utilised over recent years are planned to commence in 2018-19.

Risks in the Medium Term

Collaboration and Innovation

As a region we have been collaborating for a numbers of years. This has provided resilience to teams so small it becomes difficult to deliver and effective service and in later years has delivered significant savings. As we continue to collaborate savings will continue to be generated. The budgeted figures include the costs of collaboration, but do not include and savings currently. This will continue to be monitored and updated as the true level of savings becomes known.

We have also been successful in obtaining Innovation Grant Funding to pump prime new areas of collaborations and new ways of working that will generate future savings. The costs associated with Innovation Projects have been included, but no savings have been estimated at this stage. This will continue to be monitored and updated as the level of potentials savings is realised.

Devolution

At a local level the Commissioner is supportive of the Devolution agenda. However, the elections in May 2016 will be appointing a PCC for a further 4 years. How this is then incorporated into a timetable for devolution will need to be planned for appropriately.

Strategic Alliance

The Commissioner and Chief Constables across three force areas: Nottinghamshire, Leicestershire and Northamptonshire; have agreed to enter into a Strategic Alliance for all of the elements of the service that are not currently within a collaboration agreement.

It is envisaged that this will bring a significant change to the way in which Policing is provided across the three counties and deliver the needed savings to balance future year's budgets.

The final business case for the Strategic Alliance is being prepared and will be available in March. There is much work from the financial view that needs to be done to support this and each Commissioner may need to finance their contribution in different ways (e.g. reserves/capital contributions/revenue contributions) the final plan will then require revised budgets to support this.

Funding Formula Review

As mentioned previously the current funding formula review has been delayed and will not be in place before April 2017. It would not be prudent to assume that the indicative grant allocations provided in the Autumn 2015 will reflect the revised funding allocations in 2017. In fact because of the error made there will probably be a significant change.

Nottinghamshire has not seen a full implementation of the current funding formula and has had over £10m per annum withheld from the calculated amount of grant due (equivalent to £100m over the 10 years it has been in place). The Commissioner will continue to make the case that no matter what the finally agreed formula calculates; that there needs to be a clearly defined period for transition to full implementation.

Ministry Of Justice Funding

At the time of writing the report we still awaiting confirmation of the allocation of funding for Victims for 2016-17. The Ministry is one of the smallest central Government departments and is having to deliver a 15% saving across all of its budget. In our budget we have assumed that the Victims budget will also be cut by 15%, but there is a risk that it could be higher in order to protect other parts of the Department.

Emergency Services Network

The Home Office has been working on the costs associated with the new network, but there still remains a lack of clarity as to what it will mean at an individual force area.

We do know that:

- This is a long term project planned over 16 years with total costs of £4.9bn and projected savings of £3.3bn.
- The Police service will pick up 75% of the costs for England and Wales.
- The core element will cost £80m in 2016-17. It is anticipated that Forces will pay this and claim back through specific grants.
- Local costs for data connection, devices, installation in vehicles and transition costs will fall on the force.
- Dual running of Airwave until the system is functional will result in continued Airwaves costs. It does not pay to be one of the last forces to see the new system implemented.

This is an uncalculated impact on our budgets in future years.

Capital Grant

Capital Grant allocations have not been provided to date. It is expected that the 40% reduction referred to in the provisional settlement announcement will be lower when finally settled.

Allocations of other Grants

The allocations of other grants are still being worked on:

- Transformation fund might not be a bidding process
- Fire Arms – a national board has been set up and is assessing threat and Risk before the start of the financial year.
- Counter Terrorism allocations are being pressed for.

Expenditure

Traditionally expenditure budgets are incrementally changed from the previous year's net expenditure to allow for inflation and savings. During 2013-14 the Commissioner had an independent review of the base budget undertaken. This review identified some areas where further efficiencies might be delivered and provided assurance on the areas that the force was already reviewing. During 2015 this review has been revisited and further recommendations have been made. If the settlement had been as estimated we would have had to see a significant reduction in staff and officers in order to balance the budget.

The expenditure requirements of the Force and the Office of the Police & Crime Commissioner are continuously reviewed and monitored to ensure value for money. The role and responsibility of the Commissioner is to set a balanced budget assured that the force has robust systems in place for producing a full budget.

During 2015-16 it became apparent that the force was not going to deliver a balanced budget and there would be a need for significant additional use of reserves at year end. At the time of writing this report further work was being undertaken to reduce the deficit in year, but the need for reserves to meet the budget gap is currently estimated at £9.3m.

Officers, staff and PCSO's account for almost 80% of budgeted net expenditure and as such are a major asset for the organisation. The pace at which police officers, PCSO's and staff leave the organisation can fluctuate year on year, but this is budgeted for.

There has also been a recruitment freeze in place since the summer of 2015. The revenue budget report details the assumptions made for budgeting purposes.

Inflation and pay awards provide a significant cost pressure. This is constantly reviewed for accuracy.

Total Net Expenditure requirements are provided below:

| <u>Expenditure Summary</u> | 2015- 16 £m | 2016- 17 £m | 2017- 18 £m | 2018- 19 £m | 2019- 20 £m |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Previous year net expenditure | 193.8 | 191.2 | 190.2 | 188.9 | 186.4 |
| Net changes for pressures | 8.4 | 11.0 | 3.3 | 2.8 | 3.0 |
| Net expenditure requirement | 202.2 | 202.2 | 193.5 | 191.7 | 189.4 |

Summary

In conclusion there are robust plans in place to deliver savings both locally and regionally.

There is still work to do to achieve the required savings plans through to 2020, but the work started on transformation should enable balanced budgets to be set.

There is still a lack of clarity in relation to future budgets and the amount that would be top sliced before allocation to the individual forces. The amount of top slicing has been increasing significantly over recent years and between 2015-16 and 2016-17 is increasing from £159.6m to £218.4m.

The budgeted summary financial position is as detailed below:

| | 2015-16 £m | 2016-17 £m | 2017-18 £m | 2018-19 £m | 2019-20 £m |
|---|---------------|---------------|---------------|---------------|---------------|
| <u>Policing element</u> | | | | | |
| Net Expenditure | 197.7 | 197.6 | 188.9 | 187.1 | 184.8 |
| Savings efficiencies & reserves | (10.9) | (12.0) | (3.9) | (4.5) | (4.8) |
| sub-total | 186.8 | 185.6 | 185.0 | 182.6 | 180.0 |
| <u>Grants and Commissioning</u> | | | | | |
| Net Expenditure | 4.5 | 4.6 | 4.6 | 4.6 | 4.6 |
| Savings efficiencies & reserves | (0.1) | | | | |
| sub-total | 4.4 | 4.6 | 4.6 | 4.6 | 4.6 |
| Total net expenditure | 191.2 | 190.2 | 189.6 | 187.2 | 184.6 |
| Grants | 136.5 | 135.8 | 133.1 | 130.4 | 127.8 |
| Precept | 52.4 | 54.4 | 55.8 | 57.2 | 58.6 |
| Total Financing | 189.6 | 190.2 | 188.9 | 187.6 | 186.4 |
| Contribution (from)/to Reserves incl above | (9.3)* | | | | |
| Further (savings) required | | | 0.7 | (0.4) | (1.8) |

* The original budget for 2015-16 assumed a contribution from reserves of £1.6m. During the year the pressures have built and errors in budgeting identified. At the time of writing this report it is estimated that there will need to be a £9.3m contribution from reserves to balance to the budget. It could be slightly higher than this with an element being repaid in April 2016.

The Grants and Commissioning budget has now been increased by £219,000, being the transfer of service from the Force budget to the Commissioning budget for MARAC, SARC and Prevent.

Opinion

The Commissioner is of the view that achieving the levels of efficiencies shown above will be challenging. It is planned that there will be monthly monitoring of performance against these targets. Any slippage in the achievement can no longer be met from reserves and new in year savings will be required in order to balance the budget. There are insufficient levels of reserves available to smooth budget shortfalls in year.

Where reserves are used it is expected that these would be repaid over the medium term. The Medium Term Financial Plan assumes repayment for the use of reserves to date will begin with £3m in 2018-19 and 2019-20.