

**AVON AND SOMERSET POLICE AND CRIME PANEL
16 JANUARY 2013**

MEDIUM TERM FINANCIAL PLAN

**REPORT OF THE CHIEF FINANCE OFFICER OF AVON & SOMERSET POLICE
AND CRIME COMMISSIONER**

PURPOSE OF THE REPORT

1. This report provides an updated draft of the Medium Term Financial Plan (MTFP) for period 2013/14 – 2016/17 following funding settlement announcements on 19th December. Owing to the timing of this report there remains some uncertainty, particularly in relation to the community safety grant and impact of local council tax discount schemes, which mean that the figures presented are still subject to some fluctuation.

EXECUTIVE SUMMARY - THE KEY FINANCE ISSUES FOR AVON & SOMERSET PCC

2. The current four year spending review period (SR10 or “CSR”) 2011/12 to 2014/15 is the largest reduction in public spending affecting local authorities and Police Authorities/PCCs since the 1920s. The former Police Authority (“PA”) worked in conjunction with the Constabulary and identified circa £40m of the savings needed for current CSR ending 2014/15. The former PA did not look beyond this date.
3. The settlement for 2013/14 has been issued on 19th December. The PCC will receive £177.3 million main grant. This is circa £1m better than estimated to the Panel previously as the Home Office have absorbed some cuts/pay adjustments from central budgets not police budgets. This additional funding now closes the remaining deficit for 2013/14 without the need for unallocated savings.
4. The 2013/14 settlement also includes a Community Safety Grant of £2.4 million to the PCC. This is slightly less than funds issued by the Home Office in 2012/13 to community/drugs/crime partners. However the Home Office are being sparse with the detail to allow an accurate comparison to 2012/13 at this stage. The PCC is working on a fair and transparent model to commission projects from these funds.
5. Over 2013/14 and 2014/15 the PCC faces some £13m cash reductions in the Main Grant (incl. loss of £7m neighbourhood policing fund) including a possible further 2% departmental cut to policing from the Autumn statement in 2014/15.
6. The timing of the next CSR is uncertain, with the work in preparation for this due to take place during the first half of 2013. 2015/16 may become an extension to the current CSR. What is certain, however, is that the challenging outlook for the UK public finances and debt over the medium term will lead to further reductions in grant funding beyond the end of this CSR and most likely through until 2017/18.
7. The new PCC and new Chief (once appointed) will need to work together in 2013 to look at the strategic options for further savings in the coming years in the next CSR.
8. Avon & Somerset PCC remains significantly adversely affected by formula “damping” and remains the 2nd worst affected PCC. The Home Secretary has confirmed that “damping” will continue for two more years 2013/14 and 2014/15 before being

reviewed as part of a “fundamental review” of the policing funding formula in time for the 2015/16.

9. The new community safety (“CS”) grant will be subject to damping in 2014/15 when it is rolled into the Main Police Grant, potentially then reducing Avon & Somerset’s CS allocation. This appears especially unfair and the PCC will lobby against this measure.
10. Council tax “localism of benefits” has resulted in a reduced council tax base, a higher risk of lower collection rates and a new “Support Grant”. Across Avon & Somerset the final schemes will not be confirmed until 31 January 2013. Early indications show that Bristol’s scheme has the most adverse impact on the PCC funds and the overall impact of these changes across the region are estimated at £1 million funding reduction to the PCC in 2013/14. Local council tax schemes are not due to be finalised until 31 January 2013 when the full impact will then become clear.

FUNDING STRATEGY

11. The Panel were informed in December of the PCC's intention to freeze council tax precept in 2013/14 for one year. In so doing the PCC will receive a government grant for each of 2013/14 and 2014/15 that is equivalent to 1% increase in the PCC’s Band D amount multiplied by the council tax base for 2013/14 (not reduced for the element of the base receiving council tax support) – circa £850K each year.
12. The referendum level for “excessive” council tax precept rises set for Avon & Somerset PCC in 2013/14 is 2%. It is interesting to note however, that those PCCs whose 12/13 council tax was in the bottom quartile have been set a £5 rise in the basic amount as their “excessive” limit. In some cases this will be 4% plus....
13. The MTFP shows a balanced position with this frozen council tax position for 2013/14 and a deficit in 2014/15 and beyond.
14. The MTFP shows estimated numbers for the new CSR period (which are purely estimates at this stage based on expectations of reduced funding from central government). The forecast also illustrates what the funding position looks like if council tax precept rises in future are held at 1%.
15. The forecast for the next CSR on this basis shows an increasing deficit which will require more than departmental cuts and efficiencies to address.
16. In order to achieve savings to date (i.e. in the current CSR) 3 phases of spending reviews were conducted with the Constabulary – with phase 3 being a strategic review of how policing services are delivered and whose initiatives are still being delivered in 2013/14 and 2014/15.
17. The MTFP deficit beyond 2014/15 will require the new PCC and the new Chief constable (and their teams) to start a strategic review over the coming year (Phase 4) to assess the options for the next stages of cost saving reorganisations.
18. It is too early to commit where the future savings may be made as this will involve the PCC and new CC agreeing on material changes to officer numbers and how the force is configured. A “bottom up” review may be required beginning with demand and need and then assessing how this is serviced by officers and staff to support officers.
19. Possible areas for further savings and options to meet the deficit (before raising the precept) will include:
 - Strategic review of matching resources to demand;
 - Use of technology;

- Review of senior management structures;
- Further collaboration;
- Outsourcing;
- Review of specialist departments, communications and support functions;
- Review and reduction of services offered;
- Review of hiring policy;
- Review of retirements policy;
- Use of reserves in the short term to fund deficits, whilst reorganisation and modernisation changes are planned and then made.

20. In the coming years there are very material uncertainties in funding:

- Impact on grant funding levels for policing through the next CSR;
- Review of the funding formula “announced” by the Home Secretary;
- Impact of local business rates retention on police funding;
- Impact of new local council tax discount schemes;
- Distribution of community safety money (from 2013) and victims funding (from 2014);

21. The PCC’s approach will be to seek efficiencies and savings and to lobby for a fairer funding formula first - before raising the precept.

22. However, it may be that savings alone are insufficient to meet the funding challenges ahead and that more substantial precept rises may be required in coming years. There is a cap for precept rises set at 2% currently above which a PCC would have to call a referendum in order to raise precept above the cap. The cost of such a referendum in Avon & Somerset is circa £1 million if no other elections are running.

MEDIUM TERM FINANCIAL PLAN

23. The table below sets out the MTFP showing the standstill deficit across this CSR (until 2014/15) and the first two years of the next planned CSR (2015/16 and 2016/17).

	CURRENT CSR				NEW CSR	
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000	£'000
Constabulary Standstill Budget	301,868	306,504	309,788	305,156	322,298	331,440
Savings – Phase 1	(1,861)	(1,906)	(1,906)	(1,404)	(1,404)	(1,404)
Savings – Phase 2	(10,564)	(12,315)	(11,962)	(11,582)	(11,582)	(11,582)
Savings – Phase 3	-	(10,690)	(14,060)	(19,917)	(19,917)	(19,917)
Savings – Newly identified	-	-	(6,526)	(6,526)	(6,526)	(6,526)
Constabulary Revised Budget	289,443	281,593	275,334	275,727	282,869	292,011
Police Authority/PCC	1,259	1,400	1,450	1,475	1,500	1,530
3 rd Party Commissioning	-	-	2,063	2,280	2,223	2,166
TOTAL Budget Req'ment	290,702	282,993	278,847	279,482	286,592	295,707
Main Grant Funding	(185,273)	(172,857)	(177,348)	(167,126)	(162,948)	(158,770)
Council Tax Funding	(94,993)	(96,868)	(84,775)	(86,051)	(87,346)	(88,661)
Council Tax Support Grant	-	-	(11,104)	(11,104)	(11,104)	(11,104)
Council Tax Freeze Grant	(2,369)	(5,245)	(3,217)	(3,217)	-	-
Neighbourhood Policing Grant	(7,357)	(7,313)	-	-	-	-
Other Grant Funding	(710)	(710)	(2,403)	(2,280)	(2,223)	(2,166)

TOTAL Funding	(290,702)	(282,993)	(278,847)	(269,778)	(263,621)	(260,701)
Deficit/(Surplus)	-	-	-	9,704	22,971	35,006

24. As is demonstrated by the above the cumulative savings, since the beginning of the CSR, in order to balance the 2013/14 budget, will stand at £34.5m¹. The 2013/14 position is now shown as balanced, however we await the outcome of the new local council tax discount schemes before we are in a position to finalise the 2013/14 budget position.
25. Beyond 2013/14 we have, as requested by the PCP at its meeting in December, modelled precept increases of 1%, which when combined with an assumed council tax base increase of 0.5%, lead to net increases of 1.5% in council tax income.
26. We have also built in an assumption that, following the Chancellor's Autumn statement, grant funding in 2014/15 will permanently decrease by 2% more than was originally forecast. We are assuming that this additional cut will not reduce the size of grant cuts beyond 2014/15, and therefore we continue to assume a 5% reduction split evenly across 2015/16 and 2016/17.
27. We have not assumed any reductions to other grants, including the local council tax support grant, and equally we have assumed that there are no changes to the damping mechanism applied in formula funding.

MAIN GRANT FUNDING

28. The following table summarises the assumptions for the Main grant funding across the MTFP period (which includes the first two years of the next CSR):-

	CURRENT CSR				NEW CSR	
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Main Grant	(186,063)	(185,273)	(172,857)	(177,348)	(167,126)	(162,948)
<i>(Increase)/Decrease %</i>	<i>0.45%</i>	<i>6.70%</i>	<i>(2.60%)</i>	<i>5.76%</i>	<i>2.50%</i>	<i>2.56%</i>
<i>(Increase)/Decrease £</i>	<i>790</i>	<i>12,416</i>	<i>(4,491)</i>	<i>10,222</i>	<i>4,178</i>	<i>4,178</i>
Closing Main Grant	(185,273)	(172,857)	(177,348)	(167,126)	(162,948)	(158,770)

29. The change in grant funding in 2013/14 of 2.6% increase needs to be considered in conjunction with the rolling up of the neighbourhood policing grant into the main grant funding. In 2012/13 this additional grant was for £7.3m, which when taken into consideration means that actual grant funding in 2013/14 has decreased by £2.8m (1.6%).
30. The 2013/14 settlement announced on 19th December was marginally better than our original forecasts. The reasons for this appear to be protection that the Home Office has given us on the pass through of the impact of a pay cap at 1% in 2013/14. However, this protection, combined with protection from the additional 2% cut announced in the Autumn statement, are only anticipated to be for 2013/14 and therefore we expect the funding cut in 2014/15 to be all the more significant as the protection ceases.
31. The funding position beyond 2013/14 does remain an estimate at this stage, and will be determined by the outcomes of the CSR which is scheduled to begin in the early

¹ The cumulative savings increases to £39.6m if you include the scrutiny savings and in-year savings it was necessary to deliver in 2010/11 in order to balance the budget in that year and to deal with the in-year reduction to the Additional Rule 2 grant.

part of 2013. The figures presented therefore come with a health warning, and are at this stage considered to be a conservative assessment.

COUNCIL TAX FUNDING

32. The following table summarises assumptions for Council Tax across the MTFP:-

	CURRENT CSR				NEW CSR	
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Council Tax	(94,230)	(94,776)	(95,879)	(84,775)	(86,051)	(87,346)
Base (Increase)/Decrease %	(0.6%)	(1.2%)	11.6%	(0.5%)	(0.5%)	(0.5%)
Base (Increase)/Decrease £	(546)	(1,104)	11,104	(424)	(430)	(437)
Precept (Increase)/Decrease %	0.0%	0.0%	0.0%	(1.0%)	(1.0%)	(1.0%)
Precept (Increase)/Decrease £	-	-	-	(852)	(865)	(878)
Closing Council Tax	(94,776)	(95,879)	(84,775)	(86,051)	(87,346)	(88,661)
Council Tax Support Grant	-	-	(11,104)	(11,104)	(11,104)	(11,104)
Council Tax Freeze Grant	(2,369)	(5,245)	(3,217)	(3,217)	-	-
Collection Fund Surplus	(217)	(989)	-	-	-	-
TOTAL	(97,362)	(102,113)	(99,096)	(100,372)	(98,450)	(99,765)

33. Council Tax Benefit Changes:

- 33.1. Avon and Somerset PCC will raise £95.9m from council tax payers in 2012/13, equating to an Average Band D precept of £168.03. This precept is calculated across 100% of the taxbase, adjusted only for collection uncertainties. Therefore, collecting authorities either collect this council tax income from local tax payers, or administer council tax benefit for which they receive grant (equivalent to 100% of council tax benefit provided) and treat this as income into the collection fund for distribution across precepting authorities.
- 33.2. From 1st April 2013 the previous council tax benefit scheme is being abolished to be replaced by locally designed council tax discount schemes. At the same time the Government intends to cut its grant funding by c.10%, and to pay this grant directly to individual authorities rather than to the collecting authority (this is shown in the table above as the council tax support grant).
- 33.3. Each collecting authority is required to approve a local council tax discount scheme, which sets the criteria by which they will locally determine who shall be entitled to a discount on their council tax bill. Through the design of this scheme it is possible that the rules on entitlement could be changed to reduce those currently in receipt of council tax benefit and thereby nullify the impact of these funding reductions on themselves and other precepting authorities.
- 33.4. However, there are limitations on the design of the scheme (pensioners are excluded from the impact of any changes for example), and it is widely expected that the impact of any reductions in entitlement could lead to increases in bad debt. These issues, coupled with the fact that as a discount scheme it is likely to have less of a stigma associated with it than the previous benefit scheme, means that the true impact of this change is unlikely to be fully understood for some time yet.
- 33.5. As a major precepting authority, each of our local collecting authorities have been required to consult with us on the design of their schemes, and we have

responded that we would support the scheme which has the least financial impact on PCC funding.

33.6. Local Authorities are in the middle of considering and approving the design of these local schemes, and we do not expect to know the outcome of this on the council tax base until mid January. At this stage we are assuming that the impact is revenue neutral, with any reductions in funding offset by the 2012/13 council tax surplus which is equally not included in forecast at this stage.

34. **Council Tax Freeze Grant:**

34.1. Following the decision of the Police and Crime Commissioner to freeze council tax in 2013/14, we anticipate the receipt of a grant equivalent to a 1% precept increase (currently calculated to be £848k) payable to us in both 2013/14 and 2014/15. When added to the grant we continue to receive following the freeze decision taken in 2011/12 means we anticipate council tax freeze grants of £3,217k in 2013/14.

34.2. The council tax freeze grant received in 2012/13 (£2,876k) was payable only in this financial year, and as such we are not forecasting the continuation of this income.

34.3. Both the 2011/12 and 2013/14 freeze grants are payable to us through 2013/14 and 2014/15, and we are forecasting that they will be cut thereafter.

35. **Collection Fund Surplus:**

35.1. In setting the council tax base our collecting authorities assess the likelihood of council tax collection. Historically authorities have assessed their collection rates to be lower than actual, and this has resulted in more income collected than anticipated. Where this is the case the collecting authorities accounts for a surplus on the collection fund, which is distributed across all precepting authorities.

35.2. Early indications from collecting authorities suggest a 2012/13 surplus in excess of £400k, however in keeping with historic practice we do not anticipate recognising this income until the surplus is confirmed. In so doing we believe we are covering, at least in part, the anticipated risk presented by the impact of the local council tax discount schemes.

35.3. It should be noted that it is possible for collection rates to be lower than originally forecast leading to a deficit. Historically we have seen some localised deficits reported (Bristol City Council and Taunton Deane Council), and it is possible that one of the impacts of the local council tax discount schemes in future will be more deficits.

OTHER GRANT FUNDING

36. **Neighbourhood Policing Grant Funding:**

36.1. 2012/13 represents the last year that we will receive this ring-fenced grant in support of PCSO's. From 2013/14 this grant has been consolidated into the main, non ring-fenced grant funding, and we have factored this adjustment in to assumptions for the main grant funding levels.

37. **Community Safety Grant Funding:**

- 37.1. The community safety grant for 2013/14 for Avon & Somerset PCC has been confirmed as £2.4 million and is an amalgamation of Home Office funding previously given to Local Authorities for community safety, Youth Offending Teams, Positive Futures and Drugs and Alcohol Teams.
- 37.2. This appears to be slightly reduced from the various Home Office funding streams given to various crime/drugs/community partners in 2012/13. However the Home Office is being rather opaque about which previous funding streams have stopped and is not providing reconciliation from one year to the next. Hence, at this stage, it is not possible to be certain what is the exact “like for like” 2012/13 comparison to this figure.
- 37.3. The PCC is working on a model to enable fair and transparent distribution of these funds and also to prioritise key priority areas from the manifesto.
- 37.4. During January/February 2013, the PCC will meet with BCU commanders and CSP representatives to discuss these plans before final allocations are agreed later in February.
- 37.5. In principle the PCC has said that the community safety fund will be:
- for projects not posts;
 - issued against defined and measurable outcomes set out clearly in business cases;
 - distributed in an equitable and fair manner across the force area;
 - tracked during the year, with evidence of outcomes required and measured.

THIRD PARTY COMMISSIONING BUDGET

38. At present we're assuming that the funding received in this area will be used by the PCC to commission services from 3rd parties.
39. The only exception to this in 2013/14 is the continuation of the £340k drug intervention funding which has historically been provided to the constabulary to enable routine drug testing of detainees in custody in Bristol. The PCC has approved the continuation of this funding in 2013/14 and then will roll this back into the main Force budget.
40. **Ring-fenced Grant Funding:**
- 40.1. The PCC will continue to receive other ring-fenced grants, particularly in relation to Counter Terrorism. Because this funding is ring-fenced to activities carried out within the Constabulary we continue to present the budget for this income netted off against the Constabulary's budget requirement.

OFFICE OF THE PCC BUDGET

41. The PCC is seeking to operate the OPCC office materially within a £1.45 million budget – being the level inherited from the Police Authority (£1.4m) plus inflation. The saving from Members costs has been reinvested in the PCC and additional resources for community engagement and contact.
42. The PCC will assess during 2013 the need for a Deputy and how best to manage the requirements for increased media/communications and increased contact from/to the public.

CONSTABULARY BUDGET

43. This remains the largest part of the budget and funds the running of the Constabulary. The following table sets out the MTFP across the key subjective areas of this budget:-

	2013/14	
	£'000	% of Expenditure
Employee Costs	230,505	79.3%
Premises Budgets	10,170	3.5%
Transport Budgets	6,129	2.1%
Supplies and Services	13,941	4.8%
Partnership Working (inc Southwest One)	24,816	8.5%
Capital Financing	5,093	1.8%
Income – Grants	(7,896)	
Income – Other	(7,424)	
TOTAL	275,334	

44. The 2013/14 budget shown above is balanced as a result of £34.5m of cumulative savings identified across the first three years of the CSR. £24.9m of these savings were delivered to balance the 2012/13 budget, and therefore an additional £9.5m is identified to be delivered in 2013/14.
45. Of these 2013/14 savings some are the continuation of savings previously identified (£3.0m), and some have been newly identified (£6.5m) in order to balance the 2013/14 revenue budget.
46. The budget requirement assumes 1% pay rises in September 2013 and 2014 and then 3% each of the next two years thereafter – which may be prudent but the recent Autumn statement was “silent on public sector pay” and hence a cautious approach is taken at this stage.
47. The newly identified savings for 2013/14 have built upon the Constabulary’s established transformation programme. These newly identified savings have come from all areas of the Constabulary’s budget including some changes in the way in which the Constabulary manages its budgets - e.g. centralisation of pay budgets.

NEXT STEPS

48. The MTFP presented above presents a balanced 2013/14 budget but increasing deficit levels thereafter.
49. Looking ahead, there remains significant uncertainty regarding the impact of changes to council tax. The information expected from local authority partners over the coming weeks should mostly address this uncertainty, but as highlighted in this report, these changes are so fundamental that it is unlikely the full impact will be known for some time.
50. Beyond 2013/14 there is still much work to be done to deliver a balanced MTFP and this is made more difficult by the significant funding uncertainties that remain from central government.

51. The certainty, however, is that central government funding of policing in the next 5 years will continue to reduce. The cumulative effect of future cuts will be a challenge for the PCC and Chief Constable. Work has started with the Constabulary to identify strategic options to address the deficit including further savings beyond those already planned and consideration of the best strategy for the PCC's council tax precept in coming years. It is anticipated that the arrival of a new Chief Constable in 2013 will enable much of this work to be taken forward in earnest during 2013/14.

RECOMMENDATIONS and ACTION

52. Members of the Panel are invited to review and discuss the MTFP update and assumptions used.
53. The Panel is requested to respond to the PCC's intention to freeze council tax precept in 2013/14.

MARK SIMMONDS

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