

OFFICE OF POLICE AND CRIME COMMISSIONER

TITLE: Medium Term Financial Projections 2017/18 to 2021/22

DATE: 7th June 2016

TIMING: Routine

PURPOSE: For Consideration

1.	<u>RECOMMENDATION</u>
1.1	<p>That the Police and Crime Commissioner for Gwent (Commissioner) considers the updated Medium Term Financial Projections (MTFP) to 2021/22 in order to:</p> <ul style="list-style-type: none">a) Shape the development of his emerging Police and Crime Plan;b) Highlight the funding impact of on-going national austerity measures;c) Provide early consideration to his precept strategy;d) Identify the emerging in-service cost pressures and developments; ande) Consider the Staying Ahead Programme of work and identified schemes to address future funding deficits.
1.2	<p>Moving forward, the Commissioner will also need to review the overall levels of reserves held, both general and earmarked and also the future capital programme and its funding requirements as part of his consideration for setting the 2017/18 budget.</p>
2.	<u>INTRODUCTION & BACKGROUND</u>
2.1	<p>In order to set the financial strategy in support of the Commissioner's Police and Crime Plan, an updated MTFP is produced on at least a quarterly basis to reflect the best estimates of the future financial landscape of delivering police and crime services within Gwent. With the commencement of the formal annual budget setting exercise in September each year, the updating of the MTFP then becomes at least a monthly exercise, up until the confirmation of the budget proposal by the Commissioner (and endorsement of the precept by the Police and Crime Panel), in January/February each year.</p>
2.2	<p>The MTFP appended to this report is the first update following the agreement of the 2016/17 budget in February 2016. With the movement into the new financial year (2016/17), the Commissioner will note that this latest MTFP now projects to 2021/22 – the convention being that any given MTFP forecasts 5 years beyond the current financial year.</p>

<p>3.</p> <p>3.1</p> <p>3.2</p> <p>3.3</p> <p>3.4</p> <p>3.5</p>	<p><u>ISSUES FOR CONSIDERATION</u></p> <p>The 2016/17 budget setting round was unprecedented, in that the planning assumptions used in the build-up to its compilation (based on the Government's Comprehensive Spending Review (CSR) 2015 intentions and professional judgement (national, regional and local)) were significantly altered in the Chancellor's Autumn Statement on the 25th November 2015.</p> <p>Whilst early indications of the CSR 2015 suggested that significant reductions should be expected for police funding (as much as 40% real-term reductions over the 4 years 2016/17 to 2019/20), in his Autumn Statement, the Chancellor stated that "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". In essence however, overall national funding for policing and crime, including funding for Counter Terrorism, has been cut by 1.3% in real terms over the four years; with this cut based on the assumption that local council tax precepts are increased by <u>at least</u> 2% and that the council tax base nationally increases by 0.5%.</p> <p>The Chancellor was able to lessen the cuts falling on policing in the CSR 2015 as a result of a £27bn 'windfall' arising from a revised forecast by the Government's fiscal 'watchdog', the Office for Budget Responsibility (OBR). The improved forecast took account of changes to the way it measures VAT and national insurance receipts, coupled with lower borrowing costs and stronger tax receipts linked to economic growth. However, the Institute of Fiscal Studies (IFS), have stated that the Chancellor "needs his luck to hold out" for this windfall to be sustainable. When considered with the current risks to economic wellbeing arising from the EU Referendum, continuing turmoil in the Middle East and the slowing of the global economy (particularly evident in China and their recent suspension of trading on their stock markets), the Chancellor's ability to lessen the cuts falling upon policing and crime budgets may well be questioned. If the windfall is not sustainable, a further CSR will be forthcoming in the short-term that may well reverse this decision.</p> <p>Moving from the overall national funding available for policing to what is actually allocated to individual Commissioners, takes account of 'reallocations' (previously known as topslices), from Commissioner's budgets into other parts of policing within the Home Office (HO). In 2016/17, a number of reallocations are earmarked to fund additional schemes notably: counter terrorism; transformational funding to support efficiency and reform; increased capability for firearms, cyber-crime and child exploitation; and the Emergency Services Mobile Communications Programme. Each has an impact upon the amount of funding awarded to Commissioners through the Police Funding Settlement into the future.</p> <p>In addition to the above, on 9th November 2015, the Rt. Hon. Mike Penning MP (Minister for Policing, Fire and Criminal Justice and Victims) announced to Parliament that the Government had decided to delay the police funding formula changes for 2016/17 that were previously intended to be made. By way of background, once the overall size of the policing budget 'cake' is determined by the HO (via the CSR), then the size of each 'slice of cake' to</p>
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	<p>respective Commissioners is determined by the police funding formula. It has been well publicised that the current formula is out-dated, overly complex, opaque and in need of review. Therefore, consultation on a new formula was undertaken in the summer of 2015, but following criticism on the process, coupled with the discovery of an error in the HO's exemplifications, a halt on proceedings was announced. Moving forward, the HO would now better seek the views of Police and Crime Commissioners and the National Police Chiefs' Council before going any further. The Minister stated that "it is essential that we come to a funding formula that is not only fair, transparent and matched by demand, but supported by the police. I have listened throughout the consultation, and the Government will continue to do so in considering the next steps, in conjunction with police leaders. We should all support the reform of the police funding formula. Police forces and Committees of the House have been calling for it for years. We will bring it forward, but we are delaying the process at the present time". As a result of this pause in the funding formula review, existing bases for calculation and damping will continue for 2016/17. Importantly however, upon receipt of corrected exemplifications from the HO, showing the effect of the revised police funding formula which the HO were suggesting, they identified a £6m cut in Central Government Grant to Gwent. It could be expected therefore, that the HO will continue with their approach following this pause and from the 2017/18 financial year onwards, the Commissioner could be faced with a £6m cash cut in addition to the cuts forecast from the effect of the CSR. It is also likely that this cut will not be actioned in one fell swoop, but transitional arrangements will affect the cut over a number of financial years.</p>
3.6	<p>In light of the above remaining funding uncertainties, coupled with the continuing need to deliver efficiency savings well beyond the £42.069m delivered to date, it is proposed that the latest MTFP is refined to reflect 3 different scenarios, namely:</p> <ul style="list-style-type: none"> a) Pessimistic; b) Probable; and c) Optimistic;
3.7	<p>The following paragraphs articulate the differences between the respective scenarios:</p>
3.8	<p><u>Pessimistic</u></p> <p>This scenario reflects the underlying assumptions and bases from the previous iteration of the MTFP (January 2016) with the following revisions:</p> <ul style="list-style-type: none"> a) Items that increase the cumulative deficit: <ul style="list-style-type: none"> i. Cost of additional Police Officer pay increments between 2017/18 and 2021/22 ; and ii. Cost of funding the new Apprenticeship Levy from 2017/18.

	<p>b) Items that decrease the cumulative deficit:</p> <ul style="list-style-type: none"> i. Reduction in inflationary pressures between 2017/18 and 2021/22; ii. Identification of additional savings from previously reported efficiency schemes between 2017/18 and 2019/20; and iii. Identification of new efficiency schemes between 2017/18 and 2019/20. <p>This scenario is at Appendix 1. The Commissioner will note that the projected recurring deficit before efficiencies is £26.153m by 2021/22. However, following the application of currently identified efficiency schemes and budget reductions, the projected recurring deficit after efficiencies is £13.123m.</p>
3.9	<p><u>Probable</u></p> <p>This scenario reflects the revised assumptions and bases from the Pessimistic scenario above with the following amendments:</p> <p>a) Items that increase the cumulative deficit:</p> <ul style="list-style-type: none"> i. None. <p>b) Items that decrease the cumulative deficit:</p> <ul style="list-style-type: none"> i. Reduction in the 'contingent pressure funds' between 2019/20 and 2021/22; and ii. Identification of further new efficiency schemes in 2018/19 and 2019/20. <p>This scenario is at Appendix 2. The Commissioner will note that the projected recurring deficit before efficiencies is £21.563m by 2021/22. However, following the application of currently identified efficiency schemes and budget reductions, the projected recurring deficit after efficiencies is £6.233m.</p>
3.10	<p><u>Optimistic</u></p> <p>This scenario reflects the revised assumptions and bases from the Probable scenario above with the following amendment:</p> <p>a) Items that increase the cumulative deficit:</p> <ul style="list-style-type: none"> i. None. <p>b) Items that decrease the cumulative deficit:</p> <ul style="list-style-type: none"> i. Removal of the impact of reduced funding as a result of the Government's review of the police funding formula between 2017/18 and 2019/20.

	<p>This scenario is at Appendix 3. The Commissioner will note that the projected recurring deficit before efficiencies is £15.915m by 2021/22. However, following the application of currently identified efficiency schemes and budget reductions, the projected recurring deficit after efficiencies is £0.585m.</p>
3.11	<p>In order to articulate the ‘austerity journey’ of delivering police and crime services within Gwent since 2008/09; and to also pictorially represent the MTFP at Appendices 1 to 3, a number of graphs have been produced. The following paragraphs provide the narrative to accompany the graphs:</p>
3.12	<p><u>MTFP – Funding Source Analysis</u></p> <p>Appendix 4 highlights the downward trajectory of Central Government Grant into Gwent, against the upward trajectory of precept funding raised through council tax. The Commissioner will note that in 2008/09, the Net Revenue Expenditure of the Police Authority was funded by £80.604m of Central Government Grant (71%) and precept of £33.697m (29%). Forecasting to 2021/22 (using the Pessimistic scenario), the split is estimated to be £59.887m Central Government Grant (50%) and precept of £59.651m (50%). This highlights that a degree of the impact of austerity is being mitigated through local taxation. By far and away however, the largest mitigating factor to austerity is the Staying Ahead Programme and the success of the efficiency programme to date.</p>
3.13	<p><u>MTFP – Cumulative Deficits</u></p> <p>The graph at Appendix 5 aims to articulate the cumulative deficit that <u>would</u> have opened up if unavoidable expenditure increases since 2008/09 were left unchecked, i.e. if no Staying Ahead Programme existed and therefore no efficiency schemes and budget reductions were made to offset these expenditure increases and therefore provide a balanced budget year on year.</p>
3.14	<p>Starting from a balanced pre-austerity budget in 2008/09, whereby funding and expenditure match, if forecast expenditure increases year on year are mapped against actual and forecast funding allocations year on year, then a deficit of £68.222m would have opened up (£187.760m minus £119.538m).</p>
3.15	<p>The important message in this graph is that overall funding will ‘flat line’ between 2008/09 and 2021/22; even after accounting for precept growth of 3.99% per annum between 2017/18 and 2021/22. In simple terms, the funding available for delivering police and crime services in Gwent in 2021/22 will be less in cash-terms than that seen in 2010/11. However, unavoidable expenditure increases, such as pay awards and inflation, have been accommodated year on year.</p>
3.16	<p>The Commissioner will note however, that between 2008/09 and 2016/17 expenditure did not run unchecked and efficiency schemes and budget reductions of £42.069m have been delivered, thereby ensuring balanced</p>

	<p>budgets year on year. In reality therefore, between 2008/09 and 2016/17 both the 'blue' Expenditure line and the 'red' Overall Funding line have 'met'. The following 2 appendices therefore articulate the emerging deficits post 2016/17.</p> <p><u>MTFP – Pre-Efficiency Scheme Deficits</u></p> <p>3.17 Appendix 6 utilises the information in the 3 MTFP scenarios discussed above to highlight the potential deficits faced by the Commissioner post 2016/17, prior to the application of currently identified efficiency schemes and budget reductions.</p> <p>3.18 When analysed, the Commissioner will note that the Pessimistic and Probable scenarios share the same funding assumptions – the Optimistic scenario is different. Conversely, the Probable and Optimistic scenarios share the same expenditure assumptions – the Pessimistic scenario is different.</p> <p>3.19 Confirming the narrative earlier in this report, this graph highlights the following pre-efficiency deficits by 2021/22:</p> <ul style="list-style-type: none"> a) Pessimistic - £26.153m (£145.691m minus £119.538m); b) Probable - £21.563m (£141.101m minus £119.538m); and c) Optimistic - £15.915m – (£141.101m minus £125.186m). <p><u>MTFP – Post-Efficiency Scheme Deficits</u></p> <p>3.20 Appendix 7 is similar in nature to Appendix 6, but highlights the potential deficits faced by the Commissioner post 2016/17, <u>after</u> the application of currently identified efficiency schemes and budget reductions.</p> <p>3.21 Again, confirming the narrative earlier in this report, this graph highlights the following post-efficiency deficits by 2021/22:</p> <ul style="list-style-type: none"> a) Pessimistic - £13.123m (£132.661m minus £119.538m); b) Probable - £6.233m (£125.771m minus £119.538m); and c) Optimistic - £0.585m – (£125.771m minus £125.186m). <p>3.22 The Commissioner will note that under the Optimistic scenario, the budget could potentially run a small surplus between 2017/18 and 2020/21, before returning to a deficit in 2021/22.</p>
4.	<u>NEXT STEPS</u>
4.1	<p>This report signifies the commencement of the journey to the setting of the 2017/18 budget and ultimately the Police and Crime Panel meeting in January 2017, whereby they will be required to review the proposed precept and make a report to the Commissioner on the proposed precept (whether they veto the precept or not) by the 8th February 2017.</p>

4.2	The MTFP will be further refined during the year and will be scrutinised by Chief Officers, Strategy and Performance Board, Joint Audit Committee and the Police and Crime Panel regularly throughout the year.
5.	<u>FINANCIAL CONSIDERATIONS</u> This is a major financial report with clear financial implications. These are fully articulated within the narrative and Appendices.
6.	<u>PERSONNEL CONSIDERATIONS</u> The majority of the policing and crime budget covers employees' salaries and employer's contributions. It follows that in the current situation, where Central Government Grant funding is reducing, the number of employees will inevitably fall. Addressing the situation in a sensible and timely manner as part of budget preparation demonstrates the actions of a good employer.
7.	<u>LEGAL IMPLICATIONS</u> Setting the budget requirement and precept are statutory responsibilities of the Commissioner.
8.	<u>EQUALITIES AND HUMAN RIGHTS CONSIDERATIONS</u> 8.1 This report has been considered against the general duty to promote equality, as stipulated under the Strategic Equality Plan and has been assessed not to discriminate against any particular group. 8.2 In preparing this report, consideration has been given to the requirements of the Articles contained in the European Convention on Human Rights and the Human Rights Act 1998.
9.	<u>RISK</u> 9.1 The MTFP and associated budget setting process robustly identifies the financial implications of the strategic and operational risks faced by both organisations. 9.2 Furthermore, a timely decision on the precept will minimise the risk of failing to achieve the statutory deadline.
10.	<u>PUBLIC INTEREST</u> This report will be placed on the website of both the Commissioner and the Police and Crime Panel.

11.	<u>CONTACT OFFICER</u> Darren Garwood-Pask, Chief Finance Officer to the Police and Crime Commissioner for Gwent.
12.	<u>ANNEXES</u> The Appendices to this report are highlighted throughout.