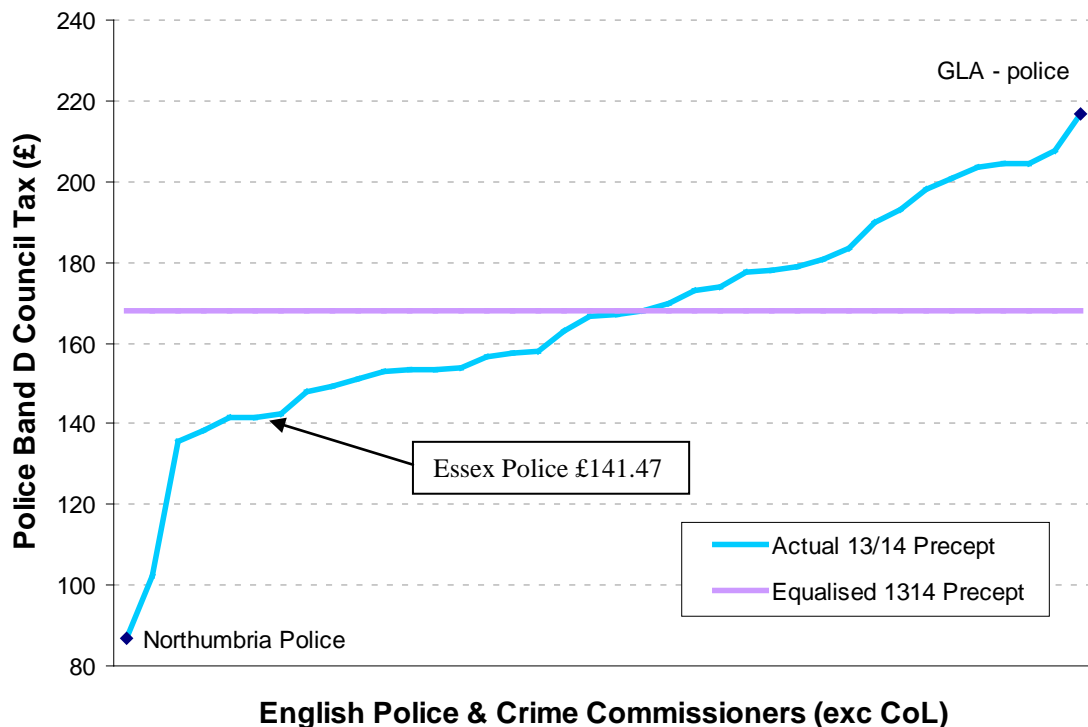


1. 2014/15 Council Tax

Comparative Data

1.1 When compared with the other 35 shire forces in England and Wales, for 2013/14 Essex has, per head of population, the:

- ❖ 2nd lowest net expenditure
- ❖ Lowest non staff expenditure
- ❖ Below average number of police officers
- ❖ Below average number of PCSOs
- ❖ 7th lowest number of police staff
- ❖ Above average proportion of officer time spent on the operational front line
- ❖ 4th lowest precept as shown below:



1.2 Had the Essex precept been set at an average level, depending upon the method of calculation, there would be between **300** and **500 more** Police Constables employed.

1.3 Essex is the 8th most populous area of the country (including the major city conurbations). Its make-up and proximity to London add to the complexity of its

policing. Despite low spending and low council tax Essex has devoted a greater proportion of its total spending to police officers than most other shire forces.

2014/15 Council Tax Proposal

- 1.4 For 2014/15, the Government has offered PCCs who set a 0% increase in their precept (the element of council tax that contributes to police funding), an additional one-off grant equal to a council tax rise of 1% (£0.8m for Essex) for the two year period 2014/15 and 2015/16. Unfortunately, a one-off grant cannot sustain continuing employment of police officers.
- 1.5 In cash terms, the impact for Essex is a choice between receiving a 3.5% Council Tax increase worth £5.8m over the next 2 years or receiving one-off grants totalling £1.6m over the same period.
- 1.6 The Government has yet to determine the council tax increases in 2014/15 that would trigger a referendum. An announcement is expected in February as part of the final finance settlement. The likely options are either a limit of 1.5% (1.46% in order for the police proportion of the council tax to be divisible by 9) to correspond with local authorities or 3.5% which reflects the current year limit of £5.00/pa for forces with a precept in the lower quartile. The PCC would not trigger a referendum if the cash increase is less than £5.00/pa.
- 1.7 Table 3 shows the values of various potential increases and resulting tax levels.

Table 1 - Potential 2014/15 Band D Police Council Tax

2013/14 Police Council Tax	2014/15 Increase	2014/15 Increase	2014/15 Police Council Tax	Additional Cash
£/pa	%	£/pa	£/pa	£m/pa
£141.48	nil	nil	£141.48	£0.80
£141.48	1.46	£2.07	£143.55	£1.20
£141.48	3.5	£4.95	£146.43	£2.90

Note: The above figures do not take into account the additional receipts arising from the increase in the tax base.

- 1.8 It is worth highlighting that 2014/15 is both the last year of CSR2010, which covered the 4 year period 2011/12 to 2014/15, and the first year of CSR2013. The MTFs for CSR2010 assumed that the precept would need to increase by 2.5% in order to limit the savings required to £3.8m in 2014/15.
- 1.9 The level of savings required are directly related to the level of precept as follows:

Table 2 – Relationship between precept increase and savings required

2014/15 Precept increase	Savings required £m
0%	10.8 (with CT freeze grant)
1.46%	10.4
3.5%	8.7

- 1.10 Given the current low precept level along with its impact on the level of savings required, the Commissioner's proposal is for a 2014/15 precept increase of £4.95/pa (a 3.5% increase equivalent to less than £0.10 per week). Even after this proposed increase, the Essex police precept will be in the lowest quartile of the 35 Shire Forces in England and Wales.
- 1.11 Therefore the PCC proposes to increase the precept by 3.5%. The additional cash available would amount to £2.9m which is equivalent to 57 police officers on a permanent basis.

2. Central Government Financial Support

- 2.1 In June 2013 the Chancellor of the Exchequer announced the outcome of the Spending Round 2013 (SR2013), which set out public spending totals for 2014/15 and 2015/16. Police funding from central government would reduce further by 3.3% in 2014/15 and 3.2% in 2015/16. These are national figures and individual force grant allocations were announced in the Provisional Grant Settlement.
- 2.2 The Government's provisional Police Grant Settlement confirmed 2014/15 funding but gave no information for 2015/16 or future years other than to signal a continuing downward trend in public spending, which for Essex Police will mean further reductions in police officer numbers.
- 2.3 The settlement for 2014/15 was published in December 2013 and confirmed the level of overall support to the police service with a **total cash reduction in Government funding of 4.8%. This amounts to £8.4m which is equivalent to 165 police officers.** Top slicing of funds for specific purposes such as counter terrorism and PFI schemes accounts for the difference between 3.3% mentioned in para. 2.1 above and 4.8%. Any variation in final grant funding, as with any variation in the final Council Tax base, will result in a compensating adjustment to the planned use of the general reserve.

Table 2 Government Grants – Difference between 2013/14 and 2014/15

Grant	2013/14 £m	2014/15 £m	Difference £m	% Change
Home Office 'Core'	114.441	110.111	-4.33	-3.8
Home Office 'Formula' Grant	60.950	58.109	-2.841	-4.6
Community Safety Fund	1.246	Nil	-1.246	-100
Sub Total	176.637	168.22	-8.417	-4.8
Council Tax Support Grant	10.957	10.992	0.035	0.3
2011/12 CT Freeze Grant	2.133	2.133	Nil	Nil
Total	189.727	181.345	-8.382	-4.4

- 2.4 In addition to the above grants, the Home Office has top-sliced £50m to create an 'Innovation Fund' to support joint working between different police forces, as well as local authorities. A £20m Precursor Fund has also been announced for 2013/14. The PCC has made 5 bids for a share of the Precursor Fund and, at the time of writing

this report, has been informed that 2 out of the 5 bids will receive funding, exact amounts yet to be announced. The successful bids are a 'Visual Media – evidence and innovation programme' (joint bid with Kent Police) and 'Police ICT' (jointly with the Association of Police and Crime Commissioners).

- 2.5 The provisional settlement confirmed that at least £564m has been allocated to Counter Terrorism in 2014/15. For security reasons these allocations are not publically available.
- 2.6 Parliament is scheduled to debate this provisional settlement on 5th February, after which the final figures will be announced.

3. **2014/15 Budget Proposals**

Revenue Budget Planning

- 3.1 The approach taken in building the 2014/15 budget and Medium Term Financial Strategy is to:-
- a) Review the latest forecast 2013/14 outturn, establish the position on reserves and identify on-going unavoidable cost pressures or savings to be included
 - b) Update the 2014/15 base budget for known inflationary pressures
 - c) Deduct all efficiency savings and service reductions and add service development costs, if any
 - d) Forecast the medium-term impact for 2015/16 and subsequent years
 - e) Estimate all central government funding and other income sources
 - f) Identify planned use of reserves and finally, identify the council tax required
- 3.2 The proposed 2014/15 budget is detailed in Appendix A and summarised in table 3 below:

Table 3 - 2014/15 Revenue Budget (summary of Spending and Funding)

	2014/15 £m	%
Total Planned Expenditure (excluding one-off)	301.836	100
Funded by:		
Council Tax receipts	86.630	29
General Government Grants	181.346	59
Sub Total core funding	267.976	
Specific Government grants	11.200	4
Fees, charges & sales	22.660	8
Total funding	301.836	100

- 3.3 The latest forecast outturn, based on figures at 31st December 2013 (month 9) is that forecast net revenue expenditure is forecast to be under budget by £3.7m. This is due to a number of factors including police officers retiring from the force earlier than anticipated.

- 3.4 The force is setting a police officer establishment of 3,214 FTEs for the 1st April 2014. The establishment for PCSOs is 343 and for staff is 1,862 FTE. The profile of officers and staff during the financial year will change and will be subject to monthly scrutiny by the OPCC and EVOLVE programme team.
- 3.5 The PCC proposes to maintain the annual budget for the PCC's office at £1.15m subject to any inflationary increase. This represents just 0.4% of the total policing budget, which will leave the PCC's office with one of the lowest costs per head of population in the eastern region.
- 3.6 A revenue budget summary showing the 2014/15 budget analysed on a subjective basis is shown in Appendix B.

Community Safety Grants

- 3.7 During 2013/14 the PCC has provided community safety grants to 78 organisations, including community safety partnerships to reduce crime and disorder in Essex. During 2013/14 the total budgeted amount of grants available is £2.9m. For 2014/15 the base budget continues with the majority of the 2013/14 budget provision, the only exception being the PCC's decision to reduce the new initiatives fund by £200k to £300k. This sum is believed to be sufficient to support high quality innovative initiatives over the course of 2014/15.
- 3.8 For 2013/14 progress on the allocation of community safety grants is well advanced with less than £250k remaining uncommitted from the budget of £2.9m. The third wave of the new initiatives fund is in progress which will use part of the uncommitted sum. From the remaining fund the PCC's intention is to establish an endowment fund with a value of up to £150k with the Essex Community Foundation to support community resilience in the medium to long term.
- 3.9 From October 2014 the PCC is responsible for commissioning victims services. A Government grant of £561k has been allocated the PCC for 2014/15 followed by £1.871m for 2015/16. In summary, the 2014/15 budget is shown below.

Table 4 – Community Safety Grants

Community safety funds	2013/14 Budget £k	2014/15 Budget £k
Community Safety Fund	2,125	2,125
Whole Essex Community Budget	290	290
New Initiative Funds	500	300
Victims/restorative justice set up	640	nil
Victims/restorative commissioning	nil	561
Total	3,555	3,276

- 3.10 During 2013/14 work has progressed on the development of a commissioning approach whereby funding is linked more directly to delivery against police and crime plan outcomes.
- 3.11 For all grant monies with the exception of the New Initiative Funds the commissioning model to be adopted for 2014/15 is for the PCC to allocate 50% of grant monies on a 'continuity' basis in order to provide a measure of assurance to partners. The remaining 50% of funds, amounting to some £1,343k to be allocated on a 'commissioning' basis whereby the PCC will be making payments based on specify particular outcomes being achieved.

Athena

- 3.12 The delay in the implementation of the Athena software has been highlighted at previous meetings of this Panel. The latest date of technical 'go-live' is April 2014 which has resulted in additional costs and savings. These are highlighted below:

Table 5 – Updated Athena Costs over the period of development and implementation

Expenditure	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	Total £'000
Original Business Case Nov 2011	684	1,423	555	200	2,862
Latest cost profile	54	1,241	774	1,824	3,892
Difference	-630	-182	219	1,624	1,030

- 3.13 The additional cost arises from the extended use of systems that Athena software replaces along with the consequences on development and training schedules.
- 3.14 For 2015/16 onwards there is an expectation of 'business as usual' with payments made to the supplier within approved limits.

Pensions Deficit

- 3.15 As at 31 March 2013, the Authority's element of the Local Government Pension Fund had assets to cover 85% of its liabilities, equivalent to a current deficit of £33.3m. The deficit has reduced from £49.8m since the last valuation of 2010 however consideration needs to be given to how best stop the deficit growing and, indeed, how to recover the historic deficit. Failure to adequately address the deficit may present future council tax payers with an unacceptable burden.
- 3.16 In order to ensure that the current employer contributions meet the ongoing pension liabilities the rate needs to increase from 10.2% to 13.1%.
- 3.17 With regards to addressing the pension deficit a range of options have been considered:

- i) Repay the deficit over a 20 year period, which is a generally accepted approach for non public sector organisations taking into account the long period of time over which pension liabilities are extinguished.
 - ii) Repay the deficit over a 30 year period (the limit for public sector bodies), recognising the unique tax raising ability of organisations to raise funds.
 - iii) Repay a lump sum upfront as a means of reducing the annual contribution to the deficit.
- 3.18 The advantage of reducing the deficit recovery period from 27 to 20 years is that it is less expensive, but the disadvantage is that the revenue contributions may be less affordable in the short term.
- 3.19 The additional cost of reducing the deficit period from 27 years to 20 years will cost an additional £420k per year from £1,470k to £1,890k per year.
- 3.20 A financial comparison between the two options is shown below:

Table 6: Cost comparison between deficit recovery periods

Deficit recovery period	Annual £k	Total amount payable £k
27 Years	1,470	39,690
20 Years	1,890	37,800
Difference	420	1,890

- 3.21 The additional cost of opting for the 20 year deficit recovery period results in a saving of almost £1.89m over a 27 year period as shown in the table above.
- 3.22 The PCC recognises that a prudent approach to funding the pension scheme liabilities by repaying the deficit over a shorter period has a beneficial impact for future tax payers and is his preferred approach.
- 3.23 Whilst there are a range of deficit recovery periods, some other PCC's have a deficit recovery period of considerably less than 10 years. It is the PCC's intention to also achieve this position subject to the affordability of additional contributions to the pension fund.

EVOLVE Programme

- 3.24 Although the operational policing model will need to be adjusted to take account of the shrinking budget, the continuing focus of policing activity will be:
- Maintaining public safety
 - Reducing crime and anti-social behaviour
 - Bringing offenders to justice
 - Improving public and victim satisfaction
- 3.25 Budget pressures mean there will be a reduction in the number of police officers and police community support officers (PCSOs) working in Essex. There are however, a number of uncertainties about the level of funding available that make precise levels at which the numbers will settle difficult to forecast at this point.

- 3.26 Local policing and public service will continue to be at the heart of the Essex Police operating model. Local policing means officers and staff working from local offices, with a good local knowledge, responding to the needs of local communities in conjunction with local partners. Functions that fall under the banner of local policing include; responding to calls for assistance, investigating local crime and anti-social behaviour, dealing with local offenders and working with partners to solve local problems.
- 3.27 The force and the PCC will continue to promote collaboration where it achieves better value for money for Essex taxpayers. On-going collaborative work with Kent Police is improving policing services as well as being a savings initiative that pre-dates the current SR period.
- 3.28 The force also continues to explore options for further collaboration with other forces (such as the Eastern Region), emergency service providers, local and county council as well as the private sector.

Capital Programme Proposals

- 3.29 An important feature of the Capital Programme is that it contains schemes that have a long term benefit to the force. The Capital Programme is driven by three main strategies; Estates, fleet and IT.
- 3.30 All three strategies are currently under development. We are ensuring that this work is co-ordinated and links closely with the work of EVOLVE.
- 3.31 New capital spending proposals will only be included in the Capital Programme where they are essential and the following criteria have been met:
- a) The business need for capital investment is justified and the most appropriate solution is being proposed.
 - b) There is certainty over the project's capital costs and consequential revenue costs and savings on completion.
 - c) There is certainty regarding how all costs will be funded.
 - d) Resources to manage and implement projects are already or are planned to be in place. (Recent reductions in staff numbers have increased project risks).
 - e) The project can be started in the financial year and there is some clarity over project start and finish dates.
- 3.32 The **draft 2014/15 capital programme** is outlined below and detailed at **Appendix C**. The schemes have yet to be finally approved by the PCC.

Table 7 - Forecast Capital Payments

For a detailed breakdown of the schemes see Appendix C					
Forecast Capital Payments	Total cost of new schemes £000	forecast payments			
		2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
From 2013/14 and earlier years projects		6,175	2,478	-	-
New schemes starting in:					
2014/15	22,283	-	9,819	9,108	3,215
2015/16	3,478	-	-	3,378	100
2016/17	3,585	-	-	-	3,485
Totals	29,346	6,175	12,297	12,486	6,800

- 3.33 Forecast capital resources to fund the capital expenditure are shown in Table 8 below. This shows that the capital programme is fully funded for 2014/15 and 2015/16 but there is a forecast shortfall of £4.1m in 2016/17. The immediate options are to reduce the programme, increase resources through a revenue contribution or a mixture of both.
- 3.34 There are insufficient resources available within the Force with the specialist expertise required to undertake essential work in support of the capital strategies covering the diverse subject areas of estates, IT and fleet. A revenue budget of £250k has been set aside to facilitate this work with an expectation that the strategies will be completed by summer 2014.

Table 8 – Forecast Capital Resources

Forecasts of Total Resources	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Opening balance of funds available	15,296	11,997	5,658	205
Estimated resources to be generated in year -				
Home Office - capital settlement	2,160	2,200	2,200	2,200
Other capital contributions	467	-	-	-
Capital receipts	242	3,758	4,833	259
Transfer from revenue	7	-	-	-
Less, estimated capital payments in year	-6,175	-12,297	-12,486	-6,800
Surplus/shortfall (-) of funds available	11,997	5,658	205	-4,136

3.35 The funding shortfall of £4.136m in 2016/17 will be addressed during 2014

3.36 The revenue consequences arising from the 2014/15 programme will be absorbed within the current base budget.

4. *Medium Term Financial Strategy (MTFS)- Appendix D*

4.1 The forecast revenue deficit increases year on year over the next three years to reach £28.8m by 2016/17. This arises due to a combination of the reduction in government grants and new unavoidable costs for pay & price increases resulting from national pay awards and other contractual or inescapable costs. The forecast deficit is the estimated gap between annual revenue spending and annual income from government grants and council tax receipts over the 3-year period. The planned profile for the £28m savings are shown in Table 9.

Table 9 - Planned MTFS Savings over the 2-year SR2013 period plus one year

	2014/15 £m	2015/16 £m	2016/17 £m
Annual Savings Target	8.7	7.9	12.2
Cumulative Savings Target	8.7	16.6	28.8

4.2 The plans to achieve savings of £28.8m over 3 years are made up of £3.8million savings previously identified under the Reform programme and £25million as a result of the Evolve programme of work. The £28.8m target assumes council tax increases of 2% in both 2015/16 and 2016/17.

5. Use of Reserves

- 5.1 Earmarked or Specific Reserves are set aside for specific policy purposes, whilst the balance on the General Reserve is set aside for unforeseen contingencies and cash flow management. A full analysis of reserves is shown in Appendix E.
- 5.2 The general reserve balance is forecast to be £20.1m at 31 March 2014 and £13.4m at 31 March 2017. However, reserves that are 'cash-backed' at the end of 2016/17 are shown as £4.7m. This level is insufficient to meet working capital requirements, estimated at £8m, let alone a minimum contingency for unplanned police operations, and estimated at £4m. Reserves therefore need to be managed to maintain a minimum level of £12m.
- 5.3 The reason for the forecast reduction in reserves for 2016/17 are:
- i) The three year capital programme 2014/15 to 2016/17 shows a capital shortfall in resources of £4.1m. This will be addressed by the emerging capital strategies and associated capital funding profile.
 - ii) Use of reserves to balance the budget for 2016/17.
 - iii) A shortfall of £1.9m in the insurance provision. This area is subject to review during 2014/15 with the objective of ensuring that PCC liabilities are met and the forecast negative reserves for the provision are addressed.
- 5.4 The minimum level on reserves to be maintained at **£12.0m** throughout the period of the medium term plan.
- 5.5 The Panel will recall last year's brief report on why the PCC's reserves are not all 'cash-backed'. At the end of March 2014 £9.1m of internal borrowing will be remaining on assets purchased that, for the most part, are no longer in use. The PCC proposes to accelerate the repayment of internal loans. At the current repayment level of £0.5m per year it will take approximately 18 years to repay internal borrowing. Increasing the payments to £1m will enable the internal debt to be extinguished within 9 years.

6. Robustness of Estimates

- 6.1 Section 25 of the Local Government Act 2003 requires that the Treasurer reports to the PCC when he is considering his budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that the PCC will have authoritative advice available to him when he makes his decision. Section 25 also requires the PCC to have regard to the report in making his decisions.
- 6.2 The decision on the level of the council tax precept is taken before the year begins and cannot be changed during the year, so allowance for risks and uncertainties that might increase spending above that planned, must be made by:
- i) Making prudent allowance in the estimates for each area of spend,

- ii) Ensuring that there are adequate reserves to draw on if the estimates turn out to be insufficient.
- 6.3 These matters are more critical this year as the scale of budget reductions and the significant reduction or elimination of leeway in budgetary provision increases the risk of overspending.
- 6.4 The timely, accurate and regular monitoring of the budget and balance sheet items throughout the year is a mitigating factor and it is important that the Finance Department maintains the capacity and capability to support this work alongside other essential tasks such as the successful completion of the statutory accounts and advisory role to the EVOLVE work stream.
- 6.5 All project developments, particularly those in support of EVOLVE; will require financial advice and guidance at various levels. There are arrangements in place to ensure consistency of financial reporting whereby all financial content of reports presented to the PCC are reviewed by the Treasurer.
- 6.6 The following matters are taken into account when assessing the adequacy of reserves:
- Assumptions about inflation / deflation
 - Estimates of the level and timing of capital receipts
 - Treatment of demand led pressures
 - Treatment of savings
 - Financial risks inherent in any significant new development
 - The Authority's financial standing (level of borrowing and debt)
 - The Authority's track record on budget management
 - The Authority's capacity to manage in-year budget pressures
 - The Authority's requirements and year-end procedures in relation to over and underspends
 - The strength of financial information and reporting arrangements
 - The adequacy of insurance arrangements
- 6.7 The level of general reserve as at 31 March 2015 will represent 10% of the budget. However, this level may not prove to be sufficient to provide certainty over the medium term and this is being addressed.

7. Consultation with Taxpayers

- 7.1 The Business breakfast has been set for 2nd February 2014, to which local businesses have been invited to discuss the Authority's budget proposals.