



The Office of the Police and Crime Commissioner for Devon and Cornwall and the Isles of Scilly

Police and Crime Panel Meeting

7 February 2014

**Report of the Police and Crime Commissioner
Open for the purposes of FOI**

Report of the Police and Crime Commissioner to the Police and Crime Panel

Recommendation:

- 1) That the council tax increase for 2014-15 should be set at 2%**
- 2) That the council tax freeze grant for 2014-15 is not accepted; and**
- 3) If prior to 7th February 2014 the rules in relation to the setting of a precept alter so that a referendum will be triggered if a precept of 2%, or less or more than 2%, is set then the budget proposal and police and crime plan may be altered and re-submitted to the panel.**

1. Introduction

At the end of my first full year in office I have undertaken a refresh of the Police and Crime Plan, presented to this panel in February last year, to ensure that it remains relevant to the people of Devon and Cornwall and provides a firm basis on which to calculate the budget for the next financial year and the following three years. The Police and Crime Plan (PCP) is supported by the Medium Term Financial Strategy (MTFS) for the period 2014-15 to 2017-18, which has been drawn up after consultation with the Chief Constable, and shows how my future plans can be afforded within the limitations of declining central government grant and centrally determined permissible levels of council tax increase. The Chief Constable has indicated his support for this plan.

It is not my intention in this report to review the progress and achievements made during 2013-14 in delivering the current Police and Crime Plan as this will be covered in my first full year Annual Report to be presented to the Panel in the summer.

The attached booklet sets out in more detail the MTFS for the period 2014-15 to 2017-18 and the proposed annual budget for 2014-15.

At the time of submitting this report we are still waiting for a decision from the Secretary of State for Communities and Local Government regarding the council tax precept and the level at which the precept can be set without triggering a referendum. This delay is unacceptable and I have already raised this with the policing minister, and will also be raising this issue with the Home Secretary. I have had to make some key assumptions regarding the precept decision in order to be able to bring this report to the Panel within the statutory time limits. However if the eventual decision is different than 2% I may need to bring the budget back to the Panel.

2. Financial Summary - Key Messages about my Second Budget

The current four year spending review period (SR10 or “CSR”) 2011-12 to 2014-15 represents the largest reduction in public spending affecting local authorities and PCCs since the 1920s with the percentage of national government spending projected for 2018-19 falling as a percentage of National income to levels last seen in 1948. My assumption is that austerity is here to stay.

The key factors that underpin the 2014-15 budget are:

- i. That it follows three years of budget reductions totalling £40.5m;
- ii. That Home Office formula funding in 2014-15 is 4.8% less than in 2013-14 and £2.6m less than I forecast this time last year;
- iii. There is a high degree of uncertainty with regard to funding in future years; the Home Secretary has not announced details for the 2015-16 police settlement and the final two years of the Medium Term Financial Strategy are beyond the current Spending Review period and the next general election. For this reason it has been necessary to interpret data released at the time of the Autumn Statement to produce a forecast for the final two years of the strategy, this indicates that in the period 2015-16 to 2017-18 central government funding will continue to fall at a similar rate as in 2014-15.

The key aims of my budget plan are:

- i. To achieve value for money in the delivery of policing services as set out in section 5 below;
- ii. To maintain police officer numbers above 3000;
- iii. To deliver on the key objectives in my Police and Crime Plan as set out in section 3 below.

To achieve these key aims I need to maintain, as far as possible, a stable funding platform for policing and crime prevention services in Devon and Cornwall. I propose to do this by increasing the police element of the precept by 2% and by using the Revenue Smoothing Fund¹ to even out the impact of changes in central government funding and significant changes in the cost

¹ The Revenue Smoothing Fund refers to budgetary reserves built up over previous years specifically to support future operating costs. This facility was put in place a number of years ago by the previous Police Authority to provide capacity to help manage future budget cuts over a longer time period and to support transition to a lower cost base.

base. 2014-15 is therefore the first year of a four year Medium Term Strategy aimed at ensuring the ongoing sustainability of the service.

3. Summary of Police and Crime Plan Objectives

Having reviewed the plan after the first year, and based on feedback from my ongoing engagement with the people of Devon and Cornwall, I am pleased to report that my original intentions appear to hold firm. However, there is much yet to achieve and some changes to the Plan have become necessary, contained in the following key objectives:

- *To make our area a safer place to live, work and visit – reducing the likelihood that people will become victims of crime.*
- *To reduce alcohol related crime and the harm it causes.*
- *To promote an effective criminal justice system that delivers high quality services for victims, witnesses and society.*
- *To champion the rights and interests of victims and to support them with accessible and high quality services.*
- *To make every penny count in protecting policing for the long term. To drive for further efficiency, work to secure more central funding and actively explore all avenues to deliver the significant savings we require to sustain our services.*
- *To encourage and enable citizens and communities to play their part in fighting crime and keeping their communities safe.*

A key supporting strategy is the maintenance of police officer numbers above 3000.

The refreshed Police and Crime Plan contains my future plans and the detail of this is elsewhere in the panel agenda. The main plan objective covered in this report relates to making every penny count in protecting policing for the long term.

4. Long Term Planning and Sustainability - Making Every Penny Count in Protecting Policing for the Long Term

Key to this budget proposal is medium term sustainability. I believe, along with the Chief Constable that a short term financial plan leads to stop-start police recruitment, crisis management and unplanned and unfocussed cuts; the result is inevitably an inconsistent and erratic policing service to communities and uncertainty for the essential work that our partners carry out.

My statutory requirement is to set a council tax for one year i.e. 2014-15; however given the uncertainties around central government funding it would

be irresponsible to submit a budget proposal for 2014-15 without taking into account the financial effects of policies pursued now over the following three years.

This longer term view is especially important in the planning for 2014-15 onwards as there are a number of 'fiscal cliffs' built into the future. These arise through government intervention in the tax and benefit system. In 2011-12 my predecessors, the Police Authority, took a four year council tax freeze grant equating to a 2.5% rise in tax. This grant was due to finish in 2014-15 but has now been extended until 2015-16 and is promised to be rolled into the main grant.

If we were to take the offered council tax freeze grant of 1% in 2014-15 for two years this would also finish in April 2016 which could cause a further 2% loss of precept revenue per annum equivalent to £1.8m. This position is further exaggerated by the anticipated reduction in central grants which suggest further reductions of £200,000 in 2016-17 and £1.8m in 2017-18. This in turn produces a significant further police staff reduction from April 2016 onwards. There is uncertainty about how changes to the way council tax benefit payments are funded and how they will affect the funding available for policing beyond 2014-15. The decisions made by local billing authorities with regard to council tax benefit and other technical reforms mean that there has been no net loss in income for 2014-15.

National Funding Projections

This proposed annual budget plan is the final year of a four year plan that addresses the reduction set out in the 2010 Comprehensive Spending Review (CSR). In achieving the reductions required the service has already made reductions of £40.5m over the 3 year period to 31 March 2014.

The Home Office funding settlement for 2014-15 reduced core funding for police bodies by 4.8%, this was 1.5% more than expected as the Home Office top-sliced the overall pot to provide for specific initiatives. We do not yet know the details of the 2015-16 police settlement, with Ministers stating that "decisions on the impact of the Chancellor's Autumn Statement on police funding for 2015-16 will be made at a later date after careful consideration of all Home Office budgets"

The Autumn Statement delivered by The Chancellor in December 2013 warned of further cuts in departmental budgets in 2017-18 on top of the existing cash cuts already included in the base and imposed by the Comprehensive Spending Review (CSR) in 2010. The Office of Budget Responsibility has estimated the impact on spending departments as 0.1% in 2016-17 and 1.1% in 2017-18 and I have based my estimates for future years funding levels on these assumptions and my professional advisor's judgement.

The Home Secretary has also committed to a full review of the police funding formula after the next general election. This adds further uncertainty to future funding streams

Funding in 2014-15

Home Office formula funding is £8.8m less than in 2013-14. This reduction includes the £2.6m in additional reductions top sliced by the Home Office to fund national initiatives. Table 1 below shows how the actual grant settlement varied from the forecast included in my 2013-14 MTFS.

Table 1-The effect of the 2014-15 funding settlement on projected grant income

Ref	Description of grant element	2014-15 Grant Funding as projected in MTFS in April 2013	Actual Grant settlement 2014-15	Variation
1		£m	£m	£m
1.1	Police Grant	176.793	175.782	-1.011
1.2	Community Safety Grant	1.600	0	-1.600
1.3	Sub total police funding	178.393	175.782	-2.611
1.4	Council Tax Freeze Grant	2.392	2.392	0
1.5	Council tax benefit Grant	13.028	13.069	+0.041
1.6	Total	193.813	191.243	-2.570

Budget Components and Expenditure Requirement

The following table shows how my budget requirement has changed since 2013-14.:

Table 2 Components of the Budget Requirement

Ref	Budget Division	2014-15	2015-16	2016-17	2017-18
2		£m	£m	£m	£m
2.1	Previous budget requirement	284.1	280.9	279.8	283.0
2.2	Pay and prices inflation	3.3	3.4	3.4	3.4
2.3	Impact of police officer recruitments and retirements	-2.6	-2.2	-3.4	-3.2
2.4	National Insurance Changes			4.5	
2.5	Other cost pressures on the force	1.4	0.5	0.9	1.6
2.6	Small Grants Scheme	0.1			
2.7	Capital Financing	0.1	-0.1	-0.1	-0.1
2.8	Support for Collection of Council Tax	0.1			

2.9	OPCC Budget	0.2			
2.10	Policing Plan Priorities (now reflected in OPCC and Force Budgets)	-0.9	0.4	0.6	0.5
2.11	Total budget Requirement before savings	285.8	282.9	285.7	285.2

The following table matches the budget requirement with the total funding to show the identified savings.

Table 3 - The Budget Gap and Identified Savings

Ref	Budget Division	2014-15	2015-16	2016-17	2017-18
3		£m	£m	£m	£m
3.1	Total budget requirement (Table 9)	285.8	282.9	285.7	285.2
3.2	Total funding(inc grants and council tax @ 2% precept increase)	284.4	280.0	276.1	271.3
3.3	Budget Deficit (-)- Surplus (+) Before new savings	-1.4	-2.9	-9.6	-13.9
	Identified Savings				
3.4	Efficiency Savings	3.3	0.5	0.6	0.1
3.5	PCSO Planned Cost Reductions	1.0			
3.6	Police Staff Planned Cost Reductions	0.2	1.1	0.8	
3.7	Police Officer Planned Cost Reductions	0.4	1.5	0.8	0.2
3.8	Total identified savings	4.9	3.1	2.2	0.3
3.9	Unidentified Savings			0.5	5.1
3.10	Remaining Budget Deficit (-)/ Surplus (+)	3.5	0.2	-6.9	-8.5
3.11	Contributions to (-)/from (+) the Revenue Smoothing Fund	-3.5	0.2	6.9	8.5
3.12	Balance on Revenue Smoothing Fund	26.5	26.7	19.8	11.3

In coming to a view about the 2014-15 budget I have considered the sustainability of the longer term plan. Work will be launched in 2014, as detailed in my draft Plan, to provide a more sustainable financial future from 2017-18 which will remove our reliance on the existing Revenue Smoothing Fund and create a balanced budget by 2017-18. To protect my budget against any potential delay in delivering the changes that will be identified in the

Financial Roadmap, I have, in consultation with my advisers, decided that the Revenue Smoothing Fund as at 31 March 2018 should be broadly equal to the budget gap in 2017-18 plus a reasonable estimate of the growth of the gap in the following year. This picture is reflected in my MTFs.

Table 3 thus shows that the budget gap in 2017-18 is £8.5m and the Revenue Smoothing Balance is £11.3 and I am satisfied that on the information currently available this meets my sustainability objective.

Row 3.9 shows the savings still to be identified, these include any savings to be achieved through the Strategic Alliance with Dorset.

This four year funding envelope supports the following officer and staff structure:

Table 4 – Officers and Staff Profile

Ref	Actual FTE	31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018
4.4	Police Officers	3090	3,040	3,020	3,010	3010
4.5	PCSOs	384	360	360	360	360
4.6	Police Staff	1,800	1,763	1,703	1,703	To be determined

The Chief Constable and I have sought to minimise the impact of these reductions in central funding by:

- Focussing on achieving value for money ;
- Setting a council tax of 2% in 2014-15 (within referendum limits) and rejecting the government freeze grant in order to maximise the ongoing funding base.
- Planning a sustainable use of reserves over the 4 year period of the Medium Term Financial Strategy;

In the following paragraphs I set out my plans in each of these key financial areas

5. Achieving Value for Money

Along with the Chief Constable I am committed to the delivery of value for money in policing and OPCC services and this is expressed through a joint value for money strategy. The budget for 2014-15 seeks to maintain officer numbers above 3000 in a similar way to that set in 2013-14. My savings plan seeks to do this whilst also providing greater visibility of policing and protecting the vulnerable through encouraging volunteers. To do this I will make reductions over the 4 year MTFs of £11.4m by replacing police officers who leave the organisation with new recruits

and I will also achieve £16.0m in savings by planned reductions, efficiency savings and as yet unidentified cuts. The reduction in the first two years of the plan for each type of saving is set out below.

Planned Reductions in 2014-15 and 2015-16

On the basis of firm figures announced for 2014-15, and estimates for 2015-16 and a council tax increase of 2% in each year, reductions of £13m are required in the next two years. I have considered a range of options, taking into account the need to ensure the cuts are deliverable and sustainable and to minimise the impact on service to the public.

Police Staff

Police staff numbers have already fallen by 14% over the last 3 years and the latest HMIC Value for Money data shows we spend below average on all support functions except fleet and ICT. The majority of police staff are in front line roles, with only 25% designated as business support by HMIC. My budget proposal includes a further net reduction of police staff numbers of 97 over the next two years, this includes the removal of 7 posts included on a temporary basis to deal with a specific policing initiative. It means that police staff post numbers will have reduced by 23% since 2010. I believe that the best way to maintain our service to the public is through intelligent review rather than crude staff reductions; that process has worked well in the past. The Chief Constable has already commenced work on the following reviews in order to save £1.6m over the next two years:

- Review of police enquiry offices. A review implemented in 2011-12 reduced staff numbers by 88 and closed 34 front desks. That review demonstrated that the footfall in many enquiry offices was low; and changes in document production requirements will reduce this further. The review will be revisited.
- Review of the Criminal Justice Department. This area of work has not been recently reviewed despite significant changes in technology and demand.
- Review of custody. Demand has fallen in this area due to legislative changes; there may be an opportunity to reduce the overall number of custody units.
- Review of crime. The Crime Review which has already reported has indicated the potential for reductions.
- Review of firearms licensing. A move to electronic firearms applications is underway and there has been a change in Home Office guidance on home visits.

Police Officers

In consultation with the Chief Constable, I have budgeted to continue to maintain officer numbers above 3,000 over the next four years. As the Force develops its workforce plan and operating model, it is clear that the officers we have remaining will undertake an increasingly multifunctional role. Individual officers, especially in our more rural areas, will undertake a range of investigation, neighbourhood and patrol functions. Officer numbers are also of course key to ensure we can meet our Strategic Policing Requirement functions (such as mutual aid) and be available to provide other cross border support.

PCSOs The delivery of the Police and Crime plan requires an adaptable and flexible workforce mix with the ability to balance that mix to meet operational requirements. Our current numbers of PCSOs have been increased in readiness for the next round of police officer recruitment as it is expected that a good number of our successful recruits will be existing PCSOs.

The Deputy Chief Constable is undertaking a review of PCSOs in the context of our overall local policing model. In the meantime I have agreed to a slowing down of further recruitment of PCSOs until such time as that work is completed.

The Review will report midyear allowing the balance between police officers and PCSO numbers to be considered in the light of the next year's medium term financial plan.

Efficiency Savings

In 2014-15 and 2015-16 non staff budgets will reduce by at least £3.7m per annum. These include:

- £957k reduction in ICT costs partially planned through the renewal of the Managed Services contract.
- £590k reduction in building running costs. This reflects the current strategy of reducing the footprint of the estate by 5%.
- A reduction in the major operations contingency fund of £420k, this contingency has underspent in recent years
- Reductions in devolved budgets and transfers to reserve, following the budgetary review, of £1.2m.
- Regional work, including the forensics collaboration, saving £558k.

The reductions are in addition to £12m of non staff cuts over the last 3 years.

I will continue to develop the role of citizens in policing in respect of the Special Constabulary, Street Pastors, Volunteering and other opportunities.

There will be other opportunities to reduce budgets, such as our work with Dorset Police and through local partnerships that offer opportunities for sharing services. We will also be working to significantly reduce demand on our services – through better working with mental health, pooling budgets and effective commissioning – which means that we can look again at overall police officer numbers in the future.

I will also be examining areas of cost recovery and income generation, as part of the financial roadmap work outlined in the Police and Crime Plan. I will also be examining operational opportunities through asset recovery.

Unidentified Savings 2016-17 and 2017-18

I recognise that the budget proposal does not identify where all the reductions over the four years will fall. Whilst I am proposing specific cuts in the next two years, £5.6m of cuts are as yet unidentified in 2016-17 and 2017-18. In addition I am including in my Police and Crime Plan that for the year beyond this budget period (2018-19) we should be aiming to balance our income with our expenditure.

There are no easy answers to funding these cuts and I wish to work with the Chief Constable in seeking ways of transforming the way that we provide policing and to seek savings from across the board through more efficient working.

We are not realistically at the point where these savings have been quantified but, as outlined in the Police and Crime Plan, work on the Financial Roadmap will commence immediately, will be quantified in the next 10 months and be included in the budget process next year, aiming to achieve a balanced budget by the start of 2018-19.

6. My OPCC Budgets

OPCC Efficiency

In order to run the Office of the Police and Crime Commissioner (OPCC) and discharge my statutory functions I have increased the number of staff posts in 2013-14 and the full year equivalent effect of these increases is contained within the OPCC budget for 2014-15. In order to offset these costs the consultancy budget has been reduced thus producing a budgetary requirement of £1.8m. This represents a base budget increase over 2013-14 levels of 11.9 % but is a reduction on the spending outturn of £0.15m. When compared on a per head of population served basis this level of budget is below the national average for PCCs. It is proposed to bring office and consultancy costs down further over the life of this plan.

Using Commissioning Money Carefully

I am able to make available to partners in this budget the same total amount of Police partnership funding as that given in 2013-14. The proposals for this funding are contained in a three year commissioning intentions plan with future intentions beyond this to preserve funding levels in cash terms. We are also in receipt of grants from the Ministry of Justice which are un-ringfenced for victim support and restorative justice commissioning. A small fund is to be created from reserves to support a programme of Crime Reduction Grants. This funding was £200,000 in 2013-14 and will reduce to £100,000 in later years.

7. Setting the Council Tax

Maintaining a Stable and Affordable Council Tax Base

As part of the consideration of the budget requirement I have involved the Treasurer and the Chief Executive of the OPCC, the Chief Constable and the Force Director of Finance and Resources in the analysis of two options. These are:

- Option 1 to refuse the council tax freeze grant of 1% and set a precept increase of 2%;
- Option 2 to take the grant for two years and increase the precept by 2% for the years thereafter.

Set a precept increase of 2% and Refuse the Council Tax Freeze Grant

The freeze grant is only guaranteed to stay in place for 2 years and is limited to 1%. If I accept the freeze grant this will mean that in 2016-17 our base budget would reduce by £1.8m. This would require a further reduction in officer and staffing numbers and potentially impact on my ability to keep officer numbers above 3000. It is for this reason that I propose to reject the freeze grant and set a precept increase of 2%.

1. Table 5 – Council Tax increase at 2% 2014-15 and ongoing

Ref	Summary	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m
5.1	Funding	284.4	280.0	276.0	271.3
5.2	Budget requirement (after savings)	280.9	279.8	282.9	279.8
5.3	Variation shortfall (-) surplus (+)	3.5	0.2	-6.9	-8.5
5.4	Smoothing fund balance at year end	26.5	26.7	19.8	11.3

A 2% increase in the council tax for 2014-15 will increase council tax bills by 6.3p pence per week or £3.26per year for a property in council tax Band D.

The weekly council tax increase for each band is contained in the attached MTFS booklet.

Set 0% precept and accept the Council Tax Freeze Grant

An alternative option of accepting the Council Tax Freeze Grant of 1% for 2014-15 and 2015-16 was considered. Whilst this option provides limited funding for the first two years the impacts become evident in 2016-17 onwards. Although central government has indicated that the freeze grant will be rolled into base funding from 2016-17 onwards there is no guarantee that it will remain at the same value. I am advised that we should work on the assumption that from 2016-17 the freeze grant funding will effectively be lost.

The key features of this option are that staff and officer numbers fall over the four year period as follows:

- Police Officers – reduce by 159 to 2931 at 31 March 2018
- PCSOs reduce by 24 to 360 at March 2014
- Police Staff - reduce by 97 to 1703 at 31 March 2017 with further reductions required in 2017-18
- £5.6m of as yet unidentified reductions are required over the period 2016-17 to 2017-18

Under this option a contribution is made to the Revenue Smoothing Fund in 2014-15, this fund is then used to support the budget in 2016/17 by £6.9m and 2017/18 by £8.5m.

Table 6 – Council Tax Freeze Grant at 1% 2014/15 (2-years), 2% increase thereafter – staff profile

Ref	Actual FTE	31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018
6.1	Police Officers	3,090	3,040	3,020	2,935	2,931
6.2	PCSOs	384	360	360	360	360
6.3	Police Staff	1,800	1,763	1,703	1,703	To be determined

Table 7 – Council Tax Freeze Grant at 1% 2014-15 (2-years), 2% increase thereafter – financial implications

Ref	Summary	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m
7.1	Funding	283.5	278.1	272.3	267.9
7.2	Budget requirement	280.5	279.8	279.2	276.4
7.3	Variation shortfall (-) Surplus (+)	2.6	-1.7	-6.9	-8.5
7.4	Smoothing fund balance at year end	25.6	23.9	17.0	8.5

This option in comparison with Option 1 provides 79 fewer police officers and raises £10m less funding over the period of the four year strategy through the use of the freeze grant and the ongoing 2% reduction in the council tax base. The loss of 79 officers is significant and would undermine the viability of the current neighbourhood policing model. In addition the Revenue Smoothing Fund balance as at 31 March 2018 would not be sufficient to meet the estimated budget gap in the following financial year meaning further significant reductions would be required.

8. Referendum Levels

Each year the Secretary of State announces the levels of precept increase above which the PCC will need to hold a referendum. In the current financial year this is 2%. I have set out in the MTFs an annual precept increase of 2% over the next four years and I intend to keep within this limit through proposing a 2% council tax increase for 2014-15. I am also mindful that council taxpayers have many increasing demands upon their incomes and that any increase in taxation is unwelcome. The rise I am proposing, based upon current intelligence, is likely to retain the Council Tax charge position at Band D as the second lowest in the region. The rise also equates to an increase of 6.3 pence per week at Band D.

I believe that this proposed increase represents good value and provides me with the opportunity to:

- Deliver the Police and Crime Plan.
- Maintain officer numbers at above 3000 for a further four years.(this will be five years in total including 2013-14)
- Protect visibility through a temporary peak in the number of PCSOs.
- Enable special officers to provide 150,000 hours of support
- Allow us together to work differently in the way we provide services across the public sector.
- Maintain stability across the medium term.
- Maximise efficient and effective policing within reasonable funding limits

For the coming financial year however the referendum announcement has been delayed for police organisations. This makes budget decision making uncertain, it is not my intention to trigger a referendum through my budget proposals.

As stated it is my intention to recommend a 2% increase in Council Tax for 2014-15, however if a lower figure is announced before the Panel meeting I will recommend that figure as the maximum increase. The table at Appendix 1 shows the adjustment to the annual shortfall or surplus and the resultant change in balance use at a precept level of 1.5%.

9. Managing Risk

In making my council tax proposals I have carefully studied the risks to the delivery of the MTFs.

The Joint Audit Committee (JAC) is set up to regularly review the process for determining the financial uncertainties affecting the OPCC and the Force and is attended by myself and the Chief Constable. The following areas are determined as high uncertainty and high impact financial risk areas. These headline risks and a number of others are covered in the long term plan:

- Funding uncertainty – in particular in the impact of the next Comprehensive Spending Review
- Cost uncertainty ;and
- The capacity of the Force to deliver the Police and Crime Plan within the resources available

We have considered internally the matter of funding uncertainty in detail and the components of this risk are outlined below:

- The loss of funding from council tax benefit localisation due to collection rate being lower than forecast by billing authorities
- The review of Home Office funding of the police service in 2016-17 to coincide with the further reductions in central government grant contained in the Autumn Statement for 2017-18. The impact of this review is very uncertain for a year where there are predicted staff reductions
- Reductions in the referendum limit below 2%

Each of these risks is kept under regular review with action plans and reported progress.

At present 2014-15 is the final year of the current Comprehensive Spending Review. However as announced in SR13 the council tax freeze grant taken by the former police authority has been extended by a further year to 2015-16 although no such guarantee exists for 2016-17. For these reasons the level of uncertainty with regard to funding increases considerably from 2016-17 onwards. Once the national decisions concerning the police funding formula and the new Comprehensive Spending Review are known, and dependent on their outcome, a major review of the budget plan may be necessary.

This plan aims to reduce the risk to future levels of service provision arising from the funding risks set out above by maintaining the level of balances and reserves as far as possible and applying reserves wisely as set out below.

10. Applying Reserves Wisely

The OPCC maintains reserves principally to mitigate against future financial risk and to provide funds for smoothing changes in base expenditure levels between years. There are three types of reserve held and the following gives the type and reasons for each holding.

- Earmarked: these are held at the discretion of the OPCC and are designed to address specific areas of un-quantified risks, e.g. major operations or to fund smoothing of expenditure between years. A risk impact exercise is carried out each year to assess the adequacy of these.
- General unallocated balances: a general reserve to finance working capital requirements, the amount set equates to just over one weeks spending and represents about 2% of net expenditure.
- Provisions, these relate to known financial liabilities and for the OPCC they cover future expected insurance claims where the OPCC is liable for the first £100,000 of expenditure.

The following table shows the types and levels of reserves and balances over the four main areas.

Table 8 - Balances, Reserves and Provisions at 31 March 2015

Ref	Description	% of net expenditure at 31 March 2015	31 March 2015 £m	31 March 2016 £m	31 March 2017 £m	31 March 2018 £m
8						
8.1	General Balances	2.2%	6.2	6.2	6.2	6.2
8.2	Earmarked Reserves:					
	Revenue					
	Smoothing Fund	8.8%	26.5	26.7	19.8	14.8
	Other Reserves	6.8%	19.4	16.2	15.2	11.3
8.3	Specific capital reserves	1.4%	3.9	3.7	2.9	2.5
8.4	Provisions	0.5%	1.4	1.4	1.4	1.4
8.5	Total		57.4	54.2	45.5	36.2
8.6	Total Excluding Revenue Smoothing Fund	10.9%	30.9	27.5	25.7	21.4

The other earmarked reserves are held mainly for the following purposes:

- Transformation, change management projects, planned to reduce to nil at the end of the current change programme.
- Workforce modernisation exceptional costs, current exercise expected to be complete in one year's time and will be reviewed at that point.
- Unpredictable-Major operations, ill health. The level of balances enables reductions in annual budget for this amount.

For comparison purposes the actual level held in reserves by Avon and Somerset Police (excluding revenue smoothing) at the end of 2013 is £28.6 m which represents 11 % of net expenditure this is broadly similar to our 10.9% for a similar sized organisation.

The above reserves, provisions and balances have been tested against the identified financial risks from the OPCC risk register. On the basis of the above, the reserves and balances cover known liabilities and commitments and provide adequate cover for unknown liabilities at the assessed level for 2014-15.

An exercise will be carried out in 2014-15 to consider the merits of pooling these reserves relative to the risks involved.

11. Recommendation

On the basis of the above report I recommend:

- 1) The budget precept should be set at 2%**
- 2) That the council tax freeze grant for 2014-15 is not accepted; and**
- 3). If prior to 7th February 2014 the rules in relation to the setting of a precept alter so that a referendum will be triggered if a precept of 2%, or less or more than 2%, is set the budget proposal and police and crime plan may be altered and re-submitted to the panel.**

Note: The effect on the council tax bands at a 2% increase is shown in the attached Medium Term Financial Strategy 2014-15 to 2017-18 and proposed Annual budget 2014-15 in the attached MTFS booklet

**Tony Hogg
Police and Crime Commissioner
For Devon and Cornwall and the Isles of Scilly
January 2014**

Appendix 1

Council Tax Options at different Increase Levels

Council Tax increase at 1.5% 2014-15 and ongoing

Ref	Summary	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m
8.1	Funding	283.9	279.1	275.1	270.4
8.2	Budget requirement	280.9	279.8	282.9	279.8
8.3	Variation shortfall (-) surplus (+)	3.0	0.7	-7.8	-9.4
8.4	Smoothing fund balance at year end	26.0	25.3	17.5	8.1

Appendix 2

Value for Money Statement

Details of the savings contained in the 2014-15 budget and the medium term financial strategy are as follows :-

Savings Plan 2014-18	2014-15	2015-16	2016-17	2017-18	Total	Ref
	£m	£m	£m	£m	£m	
Optimising staffing numbers within funding levels						
Police Officer Leavers (Turnover)	-2.6	-2.2	-3.4	-3.2	-11.4	
Police Officer Reduction	-0.4	-1.5	-0.8	-0.2	-1.5	
PCSO Reduction (Recruitment)	-1.0	0	0	0	0	
Police Staff Reduction (Reviews)	-0.2	-1.1	-0.8	0	-2.0	1
	-4.2	-4.8	-5.0	-3.4	-17.3	
Efficiency savings						
ICT Budget Savings	-0.7	-0.3	-0.4	0	-1.4	2
National Aviation Service (NPAS)	-0.1	0	0	0	-0.1	3
Estates	-0.4	-0.2	-0.2	0	-0.8	4
Procurement	-0.3	0	0	0	-0.3	5
Vehicle - Travel	-0.1	0	0	0	-0.1	
Forensics	-0.3	0	0	0	-0.3	6
Major Operations	-0.4	0	0	0	-0.4	
Other Locally Managed Budgets	-1.0	0	0	-0.1	-1.1	
	-3.3	-0.5	-0.6	-0.1	-4.5	
Unidentified budget cuts	0	0	-0.5	-5.1	-5.6	
Total Savings Plan	-7.5	-5.3	-6.1	-8.6	-27.4	