



Report of the Chief Finance Officer of the PCC to the Police and Crime Commissioner for North Yorkshire

28th July 2015

Status: For Information

Medium Term Financial Plan (MTFP) 2016/17 to 2019/20 and Capital Plans 2016/17 to 2019/20 Update

1. Executive Summary

1.1 Purpose of the Report

This report is to provide the PCC with an update on the delivery of the MTFP Revenue and Capital plans of the organisation based on the plans agreed by the PCC in February 2015 and any significant changes that have taken place since February.

2. Recommendations

The PCC is requested to note:

- 2.1 Significant progress has been made, since February 2015, in setting out the savings that the organisation is planning to make to balance the budget for 2016/17 and beyond.
- 2.2 There is obviously still a significant amount of work required to actually deliver against these plans at this stage however this will be monitored through the Affordability Delivery Group and progress and updates incorporated into future updates of the MTFP.
- 2.3 The plans rely on assumptions and estimates about what will happen in the future. There are a significant number of unknowns that are outside of the control of the organisation and as such there are a number of significant risks to the organisation. The main risks are set out within the report and will be kept under review.
- 2.4 A further update on the MTFP will be provided during October.

3. Planning and Funding Assumptions

3.1 National Budgets

Since the 2015/16 Budget was set by the PCC there have been 2 National Budgets, the first prior to the General Election in March 2015 and the second in July 2015.

3.2 A summary of the key points of the July/Summer Budget are provided at Appendix A focusing on those areas of particular interest to Policing and Local Government.

3.3 The key areas in terms of financial planning and budgeting are as follows:

- **Public Sector Pay** - Public sector pay awards will be limited to 1% a year for the 4 years from 2016-17 onwards, in order to protect jobs.
- **Budget Surplus** - The Government plans to achieve a surplus on its budget by 2019-20, which will require £37bn of further savings. Savings from welfare will contribute £12bn to this amount, with an additional £5bn from changes to the tax system to address imbalances and tackle avoidance and evasion. The remaining £20bn of savings will come from Departmental Expenditure Limits (DELs) and will be outlined in the autumn, following the Spending Review process.
- **Spending Review** - The Spending Review, due to report in the autumn will consider all elements of public spending 'in order to create a more efficient public sector, whilst continuing to prioritise growth-promoting expenditure and spending on public services for those who need them the most'. No date has yet been announced for when the Spending Review will report in autumn and it is not yet clear how many years the process will cover.
- **Departmental Spending Cuts** – Over the Parliament overall departmental spending will fall by an average of 1.5% per year in real terms. **No year will see cuts as severe as in 2011-12 and 2012-13.** According to the OBR: 'On the basis of these provisional plans, the forthcoming Spending Review looks a lot less challenging. The squeeze pencilled in for the first year of the next Spending Review period – 2016-17 – has been eased very significantly'.

[It is worth noting that the cuts in Government Grant received by the PCC were 6.2% in 2011/12 and 6.5% in 2012/13]

3.4 Government Funding for 2016/17

Given the general tone and messages in relation to the levels of Government Funding going forward, this area continues to be kept under close review and will continue to be an area of significant discussion as part of the Affordability Group.

3.5 The PCC will be aware of the on-going work of the Affordability Group with the aims to identify options for change through scenario planning and the impact these different factors would have on the operational and organisational function and structure going forward to meet the budget pressures.

- 3.6 As a result of this working group and also better information through the passage of time, some of the assumptions within the MTFP, that was presented in February 2015, have been revisited and updated.
- 3.7 In terms of the assumptions in relation to Government Grant the assumptions have changed to the following:

Assumed Government Grant Reductions		
	Feb 2015 MTFP	July 2015 MTFP
	%	%
2016/17	-5.4%	-4.0%
2017/18	-2.5%	-4.0%
2018/19	-2.5%	-4.0%
2019/20	N/A	-2.5%

- 3.8 The 'easing' of the likely cuts, from those set out within the March 2015 National budget to those in the July 2015 National budget means that the 4% that is now factored into the MTFP, based on the work of the Affordability Group, still remains a realistic planning assumption at this stage. The Comprehensive Spending Review plans are due to be announced by the Government on the 25th November and therefore the exact funding settlement for 2016/17 is unlikely to be received until December 2015.
- 3.9 Government Funding for 2017/18 and beyond
There is currently no clear indication of what will happen to the levels of Government Funding for 2017/18 and beyond other than they will reduce. There is also no indication, as of yet whether the plans for the Comprehensive Spending Review, to be announced in November 2015, will be a multi-year announcement or only an announcement for 2016/17.
- 3.10 Given current projections at a national level it is likely that cuts during both 2017/18 and 2018/19 could be higher than the 2.5% per annum reductions that were factored into the MTFP as at February 2015. For planning purposes it has therefore been assumed that Government Grants will now reduce by 4.0% per annum in both 2017/18 and 2018/19. A 2.5% reduction has now been modelled into 2019/20 also.
- 3.11 The current forecasts for Government Funding across the next 4 years, in comparison to the amounts for 2015/16 are therefore:

	Actual	Forecasts			
	2015/16	2016/17	2017/18	2018/19	2019/20
Funding	£000s	£000s	£000s	£000s	£000s
Police Grant	(42,370)	(42,741)	(41,031)	(39,390)	(38,405)
RSG/National Non Domestic Rate	(26,747)	(25,677)	(24,650)	(23,664)	(23,073)
Government Grant Funding	(69,117)	(68,418)	(65,682)	(63,054)	(61,478)

3.12 Funding Formula

A review of the Funding Formula that allocates Government Grant to PCC's was announced on the 21st July 2015. The consultation is open for a very short timeframe with responses due back by the 15th September 2015.

3.13 The consultation was announced with the following description 'One of the government's key priorities in this new parliament is to continue the ambitious programme of police reforms taken forward over the last five years. This includes putting police funding on a long-term, sustainable footing.

3.14 A detailed review of existing arrangements has concluded that the current model for allocating core government grant funding to the police in England and Wales, the Police Allocation Formula (PAF), is complex, opaque and out of date. The government believes that the formula should be replaced by a simplified model, and has launched a consultation seeking views on the principles underpinning this model, with a view to implementation for the 2016/17 financial year. It also invites views on a number of key decisions including how to transition from the current approach to the new model and proposes a further simplification in the way in which legacy council tax grants are managed.'

3.15 The consultation considers:

- Principles of a simplified model – The Government's "guiding principles" for a new model are that it is robust, stable, transparent, future proof and incentivises Government objectives
- Simplified Model - The consultation's preferred option is to replace existing funding arrangements with a significantly simplified model which uses population levels, the underlying characteristics of that population and environmental characteristics to determine force level allocations. The table below shows the proposed weighting for each element of the simplified model.

Force Allocation for Population	24%
Force Allocation for Band D equivalent properties	16%
Force Allocation for households with no adults employed and dependent children	25%
Force Allocation for 'hard pressed' population	25%
Force Allocation for Bars per Hectare	10%

- Transition arrangements from the current distribution to a simplified model

- Police precept component of council tax and the need for a new funding model to take into account ability to pay. It also examines further simplifying the way in which legacy council tax grants are managed.
 - This consultation does NOT consider “the wider policy of reallocations from core police grant, which include the Police Innovation Fund and funding for central policing bodies, nor does it apply to the overall total or allocation of the Counter Terrorism Grant, which this Government has ring-fenced.”
- 3.16 There is no allowance within the MTFP, at this stage, for any adverse impact on the funding available to North Yorkshire as a result of the implementation of a New Funding Formula. The current allocation method has a damping mechanism which ensures that all policing areas receive the same level of percentage reductions. If this damping was removed from the current formula North Yorkshire would receive around £9m per annum less Government grant than is currently received.
- 3.17 Precept
There are now 3 elements that make up what would have previously been the amount of funding received in relation to precept.
- 3.18 There continues to be the amount raised locally via the ‘police’ element of the Council Tax bill. However this has been reduced significantly given the government decision to localise the council tax benefits system. **The assumption throughout this plan for planning purposes is that this element will continue to increase at a rate of 1.99% per annum.** There is a risk that Government policy in relation to referendum limits means that increases of this level are not possible which would increase the financial pressures within the LTFP.
- 3.19 As a precepting authority the PCC will receive a grant of £5,746k in 2015/16 in recognition that a proportion of Council Tax Benefits that were previously paid by the Government to the Local Councils were ultimately due to the PCC as part of the ‘police’ precept.
- 3.20 The current plan assumes that the current level of grant remains unchanged throughout the plan.
- 3.21 There remains a risk that this element of funding to the PCC becomes part of the overall Police Grant and therefore subject to reductions in future years and/or gets allocated by the formula that distributes funding within policing as a whole instead of based on local need.
- 3.22 The final area of ‘precept’ funding is in the form of the Council Tax Freeze grant. The PCC is currently in receipt of 2 grants as a result of decisions to freeze precept in previous years. Both grants have been confirmed for 2015/16 at the same level as received in 2014/15.

- 3.23 A grant of £1,532k per annum is as a result of the decision of the then Police Authority to freeze council tax levels in 2011/12. Originally this grant, for £1,532k per annum, was for 4 years but it has been extended into a 5th year. Based on current information this grant will not be available for the 2016/17 financial year.
- 3.24 The other Council Tax Freeze Grant is for £620k per annum and results from the decision of the PCC to freeze council tax levels in 2013/14. It is also expected that this grant will not be available in 2016/17 and beyond.
- 3.25 The PCC will be aware that over the last 2 years there have been increases in both the number of calculated Band D properties within North Yorkshire and also Council Tax Collection Surplus' to which the PCC has benefited from. At this stage the financial plans don't include any increases in these areas in any of the year within the current MTFP. However contact will be made with all Councils, as normal, towards the end of the calendar year to understand the most up to date picture for 2016/17. As information is received this will be factored into the financial plans.
- 3.26 The current forecasts around the funding for precept and precept related items over the next 4 years, in comparison to 2015/16, are as follows:

	Actual	Forecasts			
	2015/16	2016/17	2017/18	2018/19	2019/20
Precept Related Funding	£000s	£000s	£000s	£000s	£000s
Precept	(60,806)	(61,243)	(62,462)	(63,705)	(64,973)
Council Tax Freeze Grants	(2,152)	0	0	0	0
Council Tax Support Grant	(5,746)	(5,746)	(5,746)	(5,746)	(5,746)
Precept Funding Total	(68,704)	(66,989)	(68,208)	(69,451)	(70,719)

- 3.27 Specific Grants, Other Income and Community Safety Grant
While the main government grant and money related to precept provide the PCC with the majority of its funding there are other areas from which the PCC will receive income. The assumptions in relation to this area build on the experience of the last 2 years and expected changes.
- 3.28 In terms of Specific Grants the PCC is forecast to receive between £2.4m and £3.0m per annum for the life of this plan. They are called specific grants as there is a requirement to spend them on the areas for which they are granted for. The vast majority of this funding relates to Victim and Witnesses grant from the Ministry of Justice, National Security funding; and Innovation Funding from prior year successful bids.

- 3.29 Other funding is generated from a variety of sources such as secondments, interest on balances held and invested, collaboration contributions, special services income and speed awareness income.
- 3.30 These sources of income and funding are forecast to provide between £6.2m and £6.7m across the life of the plan.
- 3.31 The entire funding therefore expected to be available to the PCC for the next 4 years in comparison to 2015/16 is as follows

	Actual	Forecasts			
	2015/16	2016/17	2017/18	2018/19	2019/20
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Government Grant	(69,117)	(68,418)	(65,682)	(63,054)	(61,478)
Council Tax Precept	(60,806)	(61,243)	(62,462)	(63,705)	(64,973)
Council Tax Freeze Grant	(2,152)	0	0	0	0
Council Tax Support Grant	(5,746)	(5,746)	(5,746)	(5,746)	(5,746)
Funding for Net Budget Requirement	(137,821)	(135,408)	(133,890)	(132,506)	(132,197)
Specific Grants	(2,953)	(2,524)	(2,528)	(2,435)	(2,435)
Partnership Income/Fees and Charges	(6,198)	(6,737)	(6,498)	(6,462)	(6,515)
Total Funding	(146,972)	(144,669)	(142,915)	(141,403)	(141,147)
%age change in Total Funding	0.6%	-1.6%	-1.2%	-1.1%	-0.2%

- 3.32 The current proportion of the 'Government Grant' funding that is reducing, equates to 47% of the overall income to be received by North Yorkshire in 2015/16. Local precept currently makes up 41% of the overall funding.
- 3.33 Precept makes up a higher proportion of the overall funding received by North Yorkshire than most Policing Areas and therefore the impact of the reductions in Government funding is to some extent mitigated by this source of funding.

4. Expenditure Plans

- 4.1 When setting the budget for 2016-17 the PCC will need to make decisions on how the overall funding discussed in Section 3 is allocated. The PCC will need to provide funding/budgets to the areas discussed in the following sections:

4.2 Office of the PCC

The PCC set a budget of £911k for 2015-16 which was £169k (or 16%) less than the budget inherited from the former Police Authority. The current planning assumption is that this budget remains static throughout the life of the plan. Further details will be provided in future versions of the MTFP.

4.3 Commissioning and Partnerships

The role and responsibilities of the PCC is wider than Policing and this has been acknowledged with the addition of responsibilities around Community Safety and Victims and Witnesses services. These additional responsibilities

have also attracted some additional funding. The Community Safety grant was provided in 2013-14 before being absorbed into the main Police Grant, while the provision of grant funding from the Ministry of Justice for the commissioning of services in relation to Victims and Witnesses services continues into 2015-16 and will increase as the PCC's responsibilities in this area increase.

- 4.4 The forecast expenditure within this area has increased by £300k per annum since the plans set out in February 2015 as the responsibility for the SARC budget has transferred from the Force to the Commissioning team. The current expenditure plans within this area are set out below, however they will be subject to on-going review around need and performance:

	Actual	Forecasts			
	2015/16	2016/17	2017/18	2018/19	2019/20
Commissioning and Partnerships	£000s	£000s	£000s	£000s	£000s
Community Safety	382	382	382	382	382
Substance Misuse	236	236	236	236	236
Youth Justice	375	375	375	375	375
Sexual and Domestic Violence	120	120	120	120	120
Victims and Witness Services	862	862	862	862	862
Community Fund	250	250	250	0	0
SARC Services	0	300	300	300	300
Staff Pay	324	328	334	341	348
Non-Pay	28	23	17	10	3
Total Costs	2,577	2,875	2,875	2,625	2,625

4.5 Corporate Services

The table below sets out those areas and budgets that remained with the PCC post the 'Stage 2' transfer in relation to Corporate Services. The forecasts for the next 4 years are based on decisions made to date and an allowance for expected levels of inflation

	Actual	Forecasts			
	2015/16	2016/17	2017/18	2018/19	2019/20
Corporate Services	£000s	£000s	£000s	£000s	£000s
Staff Pay	6,869	6,613	6,569	6,634	6,730
Other Non Salary	745	386	291	292	298
Premises	4,795	5,277	4,596	4,491	4,410
Supplies and Services	9,005	9,622	9,720	9,743	9,777
Transport	857	273	324	344	365
Asset Management	266	864	770	750	750
Total Corporate Services	22,537	23,035	22,271	22,254	22,330
%age Change in Expenditure	2.5%	2.2%	-3.3%	-0.1%	0.3%
PCC Corporate Staff (FTEs)	197	184	182	182	182

- 4.6 Movements, savings and future plans are covered in the Affordability Programme section below.

4.7 Police Force

As expected the vast majority of the funding received by the PCC is provided to the Chief Constable. The Chief Constable is accountable to the law for the exercise of police powers, and to the Commissioner for the delivery of efficient and effective policing, management of resources and expenditure by the police force.

4.8 Based on the current split of resources and responsibilities between the PCC and CC the CC has modelled a budget for 2016-17 and beyond based on maintaining 183 FTE PCSOs and also the impact of delivering the Workstreams set out within the Affordability Programme. The current position is outlined within the table below:

	Actual	Forecasts			
	2015/16	2016/17	2017/18	2018/19	2019/20
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay					
Police Pay	70,593	69,790	68,955	69,754	70,558
Police Overtime	1,807	1,462	1,752	1,584	1,600
Police Community Support Officer Pay	5,866	6,029	6,070	6,131	6,216
Staff Pay	25,126	24,452	23,915	24,063	24,465
Pay Total	103,392	101,733	100,692	101,531	102,839
Non-Pay Budgets					
Other Pay and Training	918	900	908	917	920
Injury and Medical Police Pensions	3,168	3,199	3,231	3,263	3,296
Premises	65	66	68	69	68
Supplies and Services	8,904	8,833	8,594	8,678	8,806
Transport	2,345	2,282	2,412	2,515	2,624
Non-Pay Total	15,400	15,280	15,212	15,441	15,714
Total Planned Force Expenditure	118,791	117,013	115,904	116,973	118,552
%age Change in Expenditure	-1.2%	-1.5%	-0.9%	0.9%	1.4%
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,393	1,326	1,295	1,295	1,295
PCSOs	183	183	183	183	183
Police Staff - Police Force	828	786	759	756	756
Specials (target)	286	286	286	286	286
Volunteers (target)	125	125	125	125	125

4.9 Movements, savings and future plans are covered in the Affordability Programme section below.

5. Overall Financial Summary

5.1 Taking into account the forecasts around income outlined in section 3 and of expenditure outlined in section 4, the table below pulls together the overall financial summary of the organisation:

	Actual Budget	Forecasts			
	2015/16	2016/17	2017/18	2018/19	2019/20
Funding	£000s	£000s	£000s	£000s	£000s
Total Funding	(146,972)	(144,669)	(142,915)	(141,403)	(141,147)
%age Change in Funding	0.6%	-1.6%	-1.2%	-1.1%	-0.2%
Office of the PCC Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	911	911	911	911	911
Commissioned Services	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	2,577	2,875	2,875	2,625	2,625
Corporate Costs	£000s	£000s	£000s	£000s	£000s
Total Corporate Costs	22,537	23,035	22,271	22,254	22,330
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay Total	103,392	101,733	100,692	101,531	102,839
Non-Pay Total	15,400	15,280	15,212	15,441	15,714
Total Planned Force Expenditure	118,791	117,013	115,904	116,973	118,552
%age Change in Expenditure	-1.2%	-1.5%	-0.9%	0.9%	1.4%
(Surplus)/Deficit	£000s	£000s	£000s	£000s	£000s
	(2,157)	(836)	(954)	1,360	3,271
Contribution to Capital Programme	1,980	3,978	4,239	4,187	4,055
Planned Transfers to/(from) Earmarked Reserves	176	(1,152)	(321)	(60)	(60)
Net (Surplus)/Deficit After Reserves	(0)	1,990	2,964	5,486	7,266
General Reserves	£000s	£000s	£000s	£000s	£000s
General Fund Balance b/f	9,697	9,697	9,697	9,697	9,697
General Fund Balance c/f	9,697	9,697	9,697	9,697	9,697
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,393	1,326	1,295	1,295	1,295
PCSOs	183	183	183	183	183
Police Staff - Police Force	828	786	759	756	756
PCC Corporate Staff	197	184	182	182	182
PCC Private Office Staff	10	10	10	10	10
Assumptions					
Staff Pay Increases	0.0%	1.0%	1.0%	1.0%	1.0%
Police Pay Increases	1.0%	1.0%	1.0%	1.0%	1.0%
Non Pay Inflation	1.8%	1.3%	1.3%	1.3%	1.3%
RPI	2.5%	2.5%	2.5%	2.5%	2.5%
Precept Increases	2.0%	2.0%	2.0%	2.0%	2.0%
Government Grant Reductions (Cash Basis)	-5.1%	-4.0%	-4.0%	-4.0%	-2.5%

- 5.2 Significant progress has been made since February in setting out the plans to balance the budget for both 2016/17 and beyond. The MTFP as at February 2015 set out the following savings required across the plan at that time:

Savings Required as at Feb 2015		
2016/17	2017/18	2018/19
<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
9,794	14,246	18,119

5.3 Affordability Programme

The Affordability Programme has been established to look at how we can shape the organisation and the operations to deliver the right service to the public of North Yorkshire within the budgetary constraints.

- 5.4 The significant reduction in the savings required to balance the budget across the MTFP has been possible as a result of the following savings being factored into the revised financial plans:

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Savings Gap as at Feb 2015	£9,795	£14,247	£18,119	£22,307
Affordability Savings Plans factored into this MTFP				
Collaboration	2,250	2,500	2,500	2,500
Transforming the Organisation	1,877	3,367	3,440	3,443
Affordability	1,206	3,971	6,210	8,563
Funding	2,223	1,196	234	285
Income	549	549	549	549
Revised Savings Gap as at July 2015	£1,690	£2,664	£5,186	£6,967

- 5.5 In addition to the above savings there is also work on-going within the Affordability Programme to deliver the following additional savings:

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Collaboration	0	0	1,000	1,000
Transforming the Organisation	0	500	1,750	1,750
Affordability	1,690	1,389	1,224	1,224
Use of Reserves	0	0	0	1,780
Income	0	775	1,212	1,212
Additional Savings Proposals	£1,690	£2,664	£5,186	£6,967

- 5.6 The details that support these summaries are attached as Appendix B.
- 5.7 While those savings that have been factored into the MTFP at this stage are deemed deliverable or plans are in place to deliver them, most have not yet been delivered and there is still some element of estimation in both the level of savings to be delivered and the timing of when it will be possible to deliver the savings. These will be monitored through the Affordability Group and updates provided within the MTFP.
- 5.8 Based on the current assumptions around future levels of funding and income if all of the savings outlined within the Affordability Programme can be delivered and any pressures contained within current budgets then the organisation should be able to balance the budget over the coming years.
- 5.9 There are however a number of risks associated with the assumptions within the plan these will be kept under review and any changes incorporated into future plans. A full review of these assumptions will be incorporated into the Review of Estimates and Adequacy of Financial Reserves report that the PCC will be able to consider prior to setting the 2016/17 budget.

6. Capital Financing and Expenditure

- 6.1 The assets owned by the PCC are a vital platform for the delivery of the Police and Crime Plan, with the overall purpose of the capital plan to provide sufficient funding to renew the asset base of the organisation, informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes, business continuity requirements and invest to save expenditure. Plans have been drawn up and are being developed for capital investment which would aid the organisation in delivering against the Police and Crime Plan.
- 6.2 At the end of 2014/15 the PCC had reserves set aside for Capital that totalled £18.3m. The table below shows how this is planned to be utilised over the coming years. Since the February plan the PCC has authorised the purchase of Alverton Court and the wider Estates Strategy. The financial implications of those decisions have been incorporated into the Capital plans as set out below.
- 6.3 The timing of the delivery of some of these plans will obviously be subject to change as further decisions are made and plans are developed. The Capital plans will be revised throughout the year as this area becomes clearer. The revenue consequences, both in terms of the savings that are expected to be delivered from the implementation of the Estates strategy and also the costs of borrowing to fund the Capital programme have been incorporated into the overall MTFP.
- 6.4 While the capital plans around the Estates are well developed it is expected that further investment in IT will be needed across the MTFP period particularly around servers, data storage and telephony. These are likely to be timed to coincide with the movement of the Data Centre from Newby Wiske. The costs and timing of this will be incorporated into future plans as this becomes better defined.

NOT PROTECTIVELY MARKED

CAPITAL AND REVENUE DEVELOPMENT PROGRAMME - FUNDING FORECAST SUMMARY MTF P v46						TOTAL from 2015/16 to 2019/20 £'000
SUMMARY	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	
Available Reserves Brought forward	18,298	3,110	494	2,793	4,846	
Capital Grant	840	600	1,100	1,100	1,100	4,740
Capital Receipts	1,039	-	-	-	-	1,039
Estimated future Capital Receipts from Estate	-	4,425	3,205	2,090	-	9,720
RCCO from Revenue	1,980	3,978	4,240	4,187	4,055	18,440
Transfers from Revenue	1,347	-	-	-	-	1,347
Transfers to Earmarked Reserves	-	-	-	-	-	-
External Borrowing	5,000	-	-	-	-	5,000
Internal Borrowing	3,964	(2,384)	(767)	-	-	813
Leasing	3,045	-	-	-	-	3,045
Projected Funding Available	35,514	9,729	8,271	10,170	10,001	44,145
Capital and Revenue Project Expenditure Plans						
ISD	11,706	3,335	1,161	636	821	17,658
Transport	2,822	1,220	961	1,351	1,428	7,781
Other Rolling Programmes	1,161	1,120	1,100	1,094	1,080	5,555
Estimated Estates Strategy	13,327	2,316	603	1,045	-	17,290
Property and Facilities	2,040	1,240	1,654	1,199	638	6,771
Externally Funded	320	-	-	-	-	320
Other Projects	1,029	5	-	-	-	1,034
	32,404	9,235	5,478	5,325	3,967	56,409
Earmarked and Capital Receipts Reserves Carried Forward	3,110	494	2,793	4,846	6,034	

NOT PROTECTIVELY MARKED

7. Reserves

7.1 As at the end of 2014/15 the PCC had Usable Reserves of £32.4m, this is down from £43.5m at the end of 2013/14 due to investment in the capital programme and the repayment of the pension fund deficit. The main reserves currently being held are for the following reasons:

- Capital Reserves - £18.3m
- General Reserves - £9.7m
- Force Short Term Reserves - £2.0m
- PCC Short Term Reserves - £1.8m
- Insurance Reserve - £0.5m

7.2 The expected movements on all reserves held by the PCC are shown at Appendix C. The current plans would see the reserves held by the PCC reduce to the following amounts at the end of the following financial years:

- 2015/16 - £15.9m (from £32.4m)
- 2016/17 - £12.1m
- 2017/18 - £14.1m
- 2018/19 – £15.9m
- 2019/20 - £15.0m

7.3 With overall Usable reserves expected to reduce to around £15m this equates to just over 11% of the Net Revenue Expenditure of the organisation. The recent National Audit Office highlighted that Usable Reserves across Force areas ranged from 9% to 38%, with North Yorkshire having the 4th highest percentage nationally. A full review of reserves and the robustness of the assumptions within the MTFP will be prepared for consideration by the PCC before the 2016/17 budget is set.

8. Risks

8.1 The major risks and unknowns surrounding the figures presented here are:

- Any differences between the future years' actual settlements and the estimated figures.
- The impact of the recently announced funding formula review, if that reduces the share of Government Grant received in North Yorkshire.
- That Legacy Council Tax grants are reduced in the future.
- Variations in future years between the estimated tax base used and the actual declared tax base.
- Changes in the referendum limits for Precept increases below the currently anticipated 2% pa. The potential costs and risks associated with a public referendum.

- Any adjustment to the Police Pension Grant regime and/or any top slicing of funding to contribute to the increasing cost of the Police Pension Fund Top up Grants.
- Impact of Winsor recommendations in respect of Police Staff. These are subject to further discussion at national level.
- Recent court cases have suggested that there may be a liability to higher cost of salary during annual leave for employees who work regular, compulsory overtime. The situation is subject to appeals, and it is not clear what the impact (if any) on NYP would be. No provision for additional costs has been included in the figures presented here.
- Sensitivity of assumptions, including inflation and borrowing costs.
- Any additional investments required in order to deliver the Affordability Programme that are unknown at this stage.
- Growth in partnership and other costs over and above inflation.
- Ability to deliver the savings outlined within the Affordability Programme within the timeframes set and also to the level needed whilst delivering the required levels of service.

Report Information

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Date: 21 July 2015

Background Information and Related Documents

MTFP Revenue and Capital Reports (v46) and associated documents

Introduction

On 8 July the Chancellor of the Exchequer, George Osborne, made his [2015 Summer Budget](#) announcement in the House of Commons. This Budget is George Osborne's seventh Budget as Chancellor, but the first Conservative-only budget since November 1996.

Alongside the Budget the OBR published its [Economic and Fiscal Outlook](#) (EFO), containing its forecasts for the economy and the public finances, and an assessment of whether the Government is likely to achieve its fiscal mandate and supplementary target.

This briefing outlines the key announcements in the Budget, in particular those of interest to police and local government. References to the relevant paragraphs in the Budget report for each announcement are included in square brackets.

POLICE

Public Sector Pay - Public sector pay awards will be limited to 1% a year for the 4 years from 2016-17 onwards, in order to protect jobs. [2.20]

Counter-Terrorism – The Budget protects overall counter-terrorism spending across government, a total of more than £2.0 billion spent by a range of departments, agencies, and the police. [1.81]

Local Government Pension Scheme - The Government will work with LGPS administering authorities to ensure that they pool investments to significantly reduce costs, whilst maintaining overall investment performance. Authorities will be invited to bring forward their own proposals to meet common criteria for delivering savings. The Government will consult later this year on the detailed criteria, as well as legislation to require those authorities which do not have sufficiently ambitious proposals to pool investments. [2.19]

Local Authority Assets – The Government will make available a further £6m to expand the 'One Public Estate' programme to local authorities in England with a significant asset base.

DEVOLUTION AND LOCAL GROWTH

County Devolution - The government is offering towns and counties the opportunity to agree devolution deals and is making good progress towards a deal with Cornwall. [1.285]

City Devolution - There are negotiations going on over elected mayors in Liverpool, Leeds, Sheffield and West Yorkshire. The negotiations have continued in Manchester with the responsibilities of the elected mayor now widening to include a Land Commission, employment programme, children's services and fire services. [2.37 & 2.38]

Combined Authorities - Two Combined Authority proposals have been submitted by local authorities in the East Midlands and the Government 'welcomes the recent publication of a West Midlands Statement of Intent for devolution'. The Government 'remains open to any further proposals from local areas for devolution of significant powers in return for a mayor', to be agreed of the Spending Review. [1.286 & 1.287]

PUBLIC SPENDING

Budget Surplus - The Government plans to achieve a surplus on its budget by 2019-20, which will require £37bn of further savings. Savings from welfare will contribute £12bn to this amount, with an additional £5bn from changes to the tax system to address imbalances and tackle avoidance and evasion. The remaining £20bn of savings will come from Departmental Expenditure Limits (DELs) and will be outlined in the autumn, following the Spending Review process. [1.45]

Spending Review - The Spending Review, due to report in the autumn will consider all elements of public spending 'in order to create a more efficient public sector, whilst continuing to prioritise growth-promoting expenditure and spending on public services for those who need them the most'. No date has yet been announced for when the Spending Review will report in autumn and it is not yet clear how many years the process will cover. [1.75]

Departmental Spending Cuts – Over the Parliament overall departmental spending will fall by an average of 1.5% per year in real terms. No year will see cuts as severe as in 2011-12 and 2012-13. According to the OBR: 'On the basis of these provisional plans, the forthcoming Spending Review looks a lot less challenging. The squeeze pencilled in for the first year of the next Spending Review period – 2016-17 – has been eased very significantly'. [*Economic and Fiscal Outlook*, 1.31]

Defence Spending - The Government will ensure the UK spends 2% of GDP a year on defence for the rest of the decade; the MoD budget will increase by 0.5% each year in real terms. [2.22 & 2.24]

NHS Spending - The NHS budget will continue to increase in real terms each year. Spending on the NHS in England will increase by £10bn per year in real terms by 2020-21. Specific funding levels for each year will be set out in the Spending Review. [2.21]

PAY AND TAXATION

Living Wage - A new 'national living wage' for all workers aged over 25 will be introduced from April 2016. The wage will start at £7.20 and will rise to 60% of median earnings by 2020, which would be £9, according to OBR forecasts. The Low Pay Commission will advise on future changes to rates. [2.94]

Personal Allowance - The income tax free allowance will increase to £11,000 from April 2016 and will rise to £12,500 by 2020. It will then continue to rise in line with the minimum wage.

There was no change to the £8,060 threshold for paying national insurance. The 40p tax rate threshold will rise from £42,385 to £43,000 from April 2016. [2.54 & 2.55]

Motoring - Fuel Duty continues to be frozen for the rest of the year. New Vehicle Excise Duty rates will be introduced with three bands and a standard charge of £140. By the end of the decade the Government will use VED income to create a 'Roads Fund', to finance the strategic roads network. [1.250]

WELFARE BENEFITS

Tax Credits – The income threshold for tax credits will be reduced from £6,420 to £3,850 and tax credits and Universal Credit will be restricted to two children, affecting those born after April 2017. [2.107]

Social Housing - Rents in the social housing sector will be reduced by 1% a year for the next four years and subsidies for social housing will be phased out. Social housing tenants in England who earn more than £30,000, or £40,000 in London, will have to pay up to the market rent. [2.44 & 2.45]

Benefit Uprating - Working-age benefits will be frozen for four years, including tax credits and local housing allowance, however, maternity pay and disability benefits exempted. Disability benefits will not be taxed or means-tested and the state pension triple lock will be protected. [2.115]

ECONOMY

GDP – GDP growth last year at the March Budget was thought to be 2.6%, but that figure has been revised to 3%; this figure now matches the OBR's prediction from December 2014. In 2015 GDP is forecast to grow by 2.4% (down 0.1% from March). GDP growth in 2016 will be 2.3%, and 2.4% in 2017, 2018 and 2019. The OBR forecasts the remaining spare capacity in the economy to be used up by mid-2018, half a year later than forecast in March 2015. [Table 1.1]

Inflation CPI inflation is forecast to be below target in 2015, returning gradually to 2.0% in 2020. [Table 1.1]

Employment - The OBR forecasts employment to be 31.2m in 2015, increasing every year to 32.1m 2020. Unemployment is forecast to be 5.4% in 2015, falling to 5.1% in 2016 and 5.2% in 2017. Thereafter, unemployment is forecast to be 5.3% in 2018 and 5.4% in 2019 and 2020. [Table 1.1]

Appendix B

AFFORDABILITY PROGRAMME V2.7 - LAST UPDATED 30 JULY 2015						
	2016/17	2017/18	2018/19	2019/20	2019/20	2020/21
	£'000	£'000	£'000	£'000	FTE	£'000
					Do not Publish	Do not Publish
INCLUDED IN MTFP v46:						
Collaboration	2,250.0	2,500.0	2,500.0	2,500.0	(40.0)	2,500.0
Transforming the Organisation	1,576.7	3,067.0	3,140.2	3,143.2	(73.5)	3,143.2
Affordability	1,206.4	3,970.8	6,209.8	8,563.3	(20.0)	10,077.7
Funding	2,222.7	1,196.1	234.1	284.7	0.0	334.7
Income	549.0	549.0	549.0	549.0	0.0	549.0
TOTAL NET MITIGATIONS INCLUDED IN MTFP:	7,804.8	11,282.9	12,633.1	15,040.2	(133.5)	16,604.6
NOT YET INCLUDED IN MTFP:						
Collaboration	0.0	0.0	1,000.0	1,000.0	(30.0)	1,000.0
Transforming the Organisation	0.0	500.0	1,750.0	1,750.0	(20.0)	1,750.0
Affordability	1,989.7	1,689.1	1,523.8	3,304.2	0.0	2,809.4
Funding	0.0	0.0	0.0	0.0	0.0	0.0
Income	0.0	774.6	1,212.3	1,212.3	0.0	1,212.3
TOTAL NET MITIGATIONS NOT YET INCLUDED IN MTFP	1,989.7	2,963.7	5,486.1	7,266.5	(50.0)	6,771.7
TOTAL NET MITIGATIONS:	9,794.5	14,246.6	18,119.2	22,306.7	(183.5)	23,376.3
GAP as at setting of 2015/16 budget (MTFP v45.3)	£9,794.5	£14,246.6	£18,119.2	£22,306.7	2,565.3	£25,801.0
Revised Gap (Surplus) After mitigations	£ -	£ -	£ -	£ -	2,381.9	£2,424.7