

## REPORT TO SOUTH YORKSHIRE POLICE AND CRIME PANEL

1.	<b>Meeting:</b>	SOUTH YORKSHIRE POLICE AND CRIME PANEL
2.	<b>Date:</b>	11 SEPTEMBER 2015
3.	<b>Title:</b>	BUDGET MONITORING: FIRST QUARTER 2015/16
4.	<b>Organisation:</b>	POLICE & CRIME COMMISSIONER

### Purpose of the Report

5. To provide information relating to the performance of budget monitoring in the first quarter of the 2015/16 financial year.

### Recommendation

6. It is recommended that the Police & Crime Panel ("the Panel") note the projected financial position on the revenue budgets relating to the Police & Crime Commissioner ("the PCC") and the Chief Constable.

### Background

7. One of the main duties of the Panel is to consider the proposed precept for a financial year. In January/February 2016 the Panel will be considering the PCC's proposed precept for 2016/17. Following discussions with the Chair, it is considered that members of the Panel would benefit from receiving information on the financial position in the current financial year as a prelude to the February 2016 decision. This will enable the Panel to have a more rounded understanding of the financial issues facing policing in South Yorkshire.
8. The PCC has a responsibility to hold the Chief Constable to account and receives from the Chief Constable budget monitoring information showing projected expenditure to the year end. This information is included in this report together with details of the projected spending on budgets that are the PCC's responsibility.
9. The PCC approved a net revenue budget of £240.128m for 2015/16. This is the amount that is financed by Government grant and Council Tax income. The precept set by the PCC for 2015/16 represented an increase of 1.95%. The level of Government grant fell by 4.7% compared to the amount for 2014/15.

## Summary position

10. The current budget monitoring position shows a forecast overspend of approximately £3.8m to the year end. This is based on expenditure to date and projected to the year end. This is summarised in the table below:

	Revised Budget 2015/16 £'000	Forecast Outturn £'000	Forecast Variation £'000
Chief Constable budget	239,226	242,595	-3,369
PCC and OPCC Budget	2,127	2,127	0
Commissioning & Partnership	4,726	4,726	0
Hillsborough Inquest costs	0	400	-400
Debt Charges & interest on balances	7,132	7,132	0
External Funding	-5,847	-5,847	0
Contribution from Reserves	-7,236	-7,236	0
<b>NET REVENUE EXPENDITURE</b>	<b>240,128</b>	<b>243,897</b>	<b>-3,769</b>

11. In terms of the most significant issues behind this projected overspend, these are as follows:
- Costs of Police Officers, Police staff and Police Pensions, forecast underspend of £6m, partially offset by the cost of severance payments forecast to amount to approximately £3m;
  - Costs associated with the investigation of child sexual exploitation allegations, forecast potential overspend of approximately £7m;
  - Provision of National Police Air Service (NPAS) costs are forecast to exceed budget by £0.7m;
  - Hillsborough Inquests costs have currently exceeded grant funding by approximately £0.4m.
12. The South Yorkshire Chief Constable and PCC are dealing with a set of challenges and difficulties that are not being experienced by any single force or PCC elsewhere in England and Wales. There are considerable uncertainties that could mean that the final outturn for 2015/16 is significantly different from that shown above. Decisions of the Home Secretary in respect of Special Grant applications submitted by the PCC will be crucial in providing a degree of certainty about funding, but these decisions will not be known until later in the year. In addition, because of the use of a "1% rule", the decisions may in some cases only have a marginal impact on the final outturn. More detail on these issues is set out in the remainder of this report.

## Chief Constable budget

### Employee costs

13. In order to achieve a balanced budget for 2015/16, the PCC approved savings amounting to £15m including £2m that were the “full year effect” of previous year’s savings. The medium term financial forecast suggested that further savings amounting to £17m will need to be made in 2016/17. This will increase if the Spending Review 2015 reductions in policing budgets of up to 8% are to be made as suggested recently by the Government.
14. With employee costs representing approximately 85% of revenue costs it is anticipated that a significant proportion of those savings will come from reductions in the numbers of Police Officers, PCSO’s and staff members. At the present time the planned approach is to reduce employee numbers by 492 for 2016/17 and to have achieved a cumulative reduction of 1,542 by March 2020. To avoid the use of reserves to fund severance/redundancy costs, it is intended to release a number of PCSOs and staff as soon as possible so as to fund costs from savings in employee costs in the current financial year.
15. There are a number of initiatives that are expected to deliver the level of savings required in employee numbers and which will form an important element of the new operating model for South Yorkshire Police (SYP) including the following:
  - District Policing Review: the operating model for SYP is being re-designed. The implementation of the model is being phased in across South Yorkshire during 2015/16. The new model will be seen as the foundation of local policing in the years to come.
  - Collaboration with Humberside Police: the PCC has approved a programme of increased collaboration that involves identifying the potential for greater collaboration and increased shared and specialist services. A programme board and collaboration programme team have been established and will be taking this forward.
16. The current financial position is as follows:
  - Police Officers: the budget strategy involved SYP reducing Officer posts by 142 in 2015/16. As a result of the timing of recruitment programmes, secondments and maternity leave arrangements there is the potential for an underspend of about £2.6m by the year end.
  - Police Community Support Officers (PCSOs): on the basis of assumptions about the timing and outcome of the redundancy process, the potential appointment of PCSOs as Officers and natural wastage, it is forecast that the underspend will amount to £0.7m.
  - Police staff: posts are being removed from the establishment as part of the budget strategy. In addition there are vacancies in a number of

departments which are not being filled pending the release of posts and the fundamental service reviews that are part of the collaboration programme. The projected outturn is for an underspend of £2.9m

- Severance/redundancy costs: it is currently forecast that severance/redundancy costs will amount to £2.6m. This is likely to change as further decisions are taken about the posts to be removed from the establishment.

#### Investigation of Child Sexual Exploitation allegations

17. Following the publication of the report into child sexual exploitation (“CSE”) by Professor Jay in August 2014, the National Crime Agency (NCA) was requested to lead an independent criminal investigation into outstanding offences of non-recent CSE. The NCA investigative work has been termed Operation Stovewood.
18. As Operation Stovewood has progressed, it has become clear that it has the potential to be the single largest CSE investigation ever undertaken in the UK. Discussions are taking place with the NCA regarding the level of resourcing requested for the ongoing investigative work. There are indications that one of the potential NCA resource options could cost approximately £6.9m this year. The costs of the Force’s CSE Team are forecast to exceed budget by about £0.1m.
19. In terms of the funding for Operation Stovewood, the PCC has submitted a Special Grant application and a decision will be made by the Policing Minister after the Parliamentary summer recess. What seems certain is that the Home Office will apply the “1% rule” to any reimbursement: the “1% rule” means that an amount equivalent to 1% of the net revenue budget is deducted from the claim meaning that the South Yorkshire Policing budget will be expected to meet the first £2.4m approximately of the CSE costs or indeed of any other Special Grant application. The Home Office has a £15m special grant budget for 2015/16 and the indications are that there are already significant calls on this budget with potentially very little remaining.
20. The overall forecast therefore presently assumes that costs of CSE activity will exceed budget by approximately £4m to the year end, including the costs of the SYP CSE team, although this may change as issues about the likely NCA costs and the potential Special Grant funding become clearer.

#### National Police Air Service (NPAS)

21. NPAS provides police forces with air support services and replaced the previous fragmented arrangements which were considered to be poor value for money. West Yorkshire Police (WYP) is the lead force for NPAS and is responsible for the delivery of the service. South Yorkshire Police joined NPAS in April 2013.
22. A review of NPAS operations was conducted to secure better value for money and to meet the threat, harm and risk deployment model adopted by the

National Constables' Council. This review has resulted in decision by the NPAS Board to establish a new operating model involving a rationalisation of bases and aircraft, and the adoption of a new funding model. The latter involves a contribution being made by each force based on assumed usage and an assumed level of income broadly equivalent to the financial contribution made in 2014/15.

23. In previous years, SYP have been provided with a service that is equivalent to 1,200 flying hours, including a "top up" of an additional 500 flying hours to meet local needs for which an additional payment of approximately £0.7m had been paid. The new NPAS financial model has included this additional SYP financial contribution within the NPAS base budget even though in service terms the "additionality" is not being provided from April 2015 and the amount of £0.7m has been removed from the SYP budget for 2015/16.
24. The PCC has made representations to WYP and expressed opposition to the inclusion of the SYP additional financial contribution into the NPAS baseline funding model. Payments to NPAS are being withheld until such time as a response has been received and the PCCs' views have been properly considered. However at the present time there is the risk that costs amounting to £0.7m will be incurred that are not budgeted for.

#### **Hillsborough Inquests Costs**

25. In accordance with a Home Office circular, the PCC has been providing financial support for the legal costs of former officers who are "interested persons" in respect of the Inquests that commenced in March 2014. These costs are in addition to those relating to the Chief Constable's legal representation.
26. The financial strategy had assumed that legal costs would be offset by Home Office Special Grant funding and would not impact on the revenue budget. The Home Secretary agreed in July 2015 to the PCC's request for Special Grant funding of £14.5m, as reimbursement of the legal costs incurred in the 2013/14 and 2014/15 financial years. The amount reimbursed was £2.3m less than the actual costs incurred because of the Home Office "1% rule" and, since this cost was not budgeted for in 2014/15, it has therefore impacted on reserves.
27. In terms of Special Grant for the reimbursement of costs incurred in 2015/16, the Home Secretary has limited the level of grant to £1m. There is the possibility of more funding being made available towards the end of the financial year once other calls on the Home Office Special Grant budget are known for certain. At this time therefore, funding exceeding £1m cannot be relied on. On the basis of invoices received from the legal firms for the first quarter of the year, including the costs of the Chief Constable's representation, these costs have already exceeded the £1m of grant funding by approximately £0.4m.
28. In view of this position the PCC has given notice to the legal firms that they need to explore alternative sources of funding for their clients' representation so as to mitigate the risks to the Inquest proceedings.

29. The overall position is further complicated by the fact that Home Secretary decisions are still awaited in respect of additional applications for legal representation (and associated payment of legal costs) from other former officers. This issue adds further uncertainty to the financial position.
30. Given the number of uncertainties, and the difficulties in accurately forecasting the level of activity that will take place from now until the end of the financial year, any estimate of the likely costs is subject to variation. At this time a conservative estimate suggests that legal costs could total approximately £7m by the end of the current financial year: i.e. £6m more than the expected £1m grant income. For the purposes of this forecast, only the shortfall to date is included in the forecast outturn position.

### Financial Reserves

31. The level of revenue reserves estimated to be available at 31 March 2016 amounts to approximately £23m as set out below: includes general reserves of approximately £12m and earmarked revenue reserves of £12m. The Insurance Reserve of approximately £11m makes up the majority of the earmarked reserves and will be needed to support any future compensation payments.

	Forecast
	Balance
	at 31/3/16
	£000
General Reserve	11,974
Earmarked Revenue Reserves	11,321
<b>TOTAL</b>	<b>23,295</b>

32. The majority of the earmarked reserve figure relates to the Insurance Reserve which is estimated at approximately £11m. This has been set aside to meet the costs of potential liabilities under current “self-insurance” arrangements. The costs of any compensation claims that may be submitted as a result of some of the issues that South Yorkshire currently faces – including CSE and Hillsborough Inquests – will have to be met from this reserve. At the present time the potential costs of claims, are unknown.
33. The forecast general reserve balance of approximately £12m at 31 March 2016 does not take account of a number of potential calls upon that reserve. The assessment of the adequacy of this reserve therefore needs to take account of the potential risks facing the PCC and the Chief Constable including the following:
  - Any overspend at the year-end would be an immediate call on reserves. The present forecast of a £3.8m overspend would equate to a reduction of almost one third in the general reserve unless action is taken to bring

expenditure in line with budget. As previously stated, decisions relating to NCA costs, Hillsborough costs and funding from the Home Office are crucial here.

- The position regarding severance/redundancy payments to staff in the Force affected by VER/VS has not yet been finalised and there may be further potential calls on reserves once these costs are known.
- Any additional costs arising from the requirement to police events such as any EDL marches or those of similar organisations, are not budgeted for and therefore reserves need to be sufficient to meet future expenditures of this nature. The level of funding from future special grant applications is likely to be limited because of the 1% rule.
- There are indications that the level of Government funding for Policing could be cut by up to 8% per annum from April 2016 as a result of the 2016/16 Finance Settlement due to be announced in December 2015. This is greater than the 5% reduction assumed in the Medium Term Financial Strategy. If this were to be the case, there are likely to be one off costs that will require funding in 2016/17 from reserves, including the potential for further severance/redundancy costs.

## **Conclusion**

34. The financial position for Policing in South Yorkshire remains uncertain, and the scale of the issues to be resolved means that the actual outturn could be very different from that currently forecast. The combined effect of funding reductions together with unprecedented legacy issues has put significant pressure on the available financial resources and has the potential to threaten the long term sustainability of police and community safety in South Yorkshire.
35. The management of reserves will be an important part of the financial strategy. In addition, the PCC will continue to apply to the Home Secretary for additional funding to reflect the unique circumstances in South Yorkshire, but the scope for significant funding appears limited due to the financial constraints on the Home Office.

Name: **Allan Rainford**

Position: **Chief Finance Officer to the Office of the Police and Crime Commissioner**

Organisation: **Office of the Police and Crime Commissioner**

Contact number: **01226 772585**