

Decision No 2013/11



REPORT TO: POLICE AND CRIME COMMISSIONER FOR LANCASHIRE

**REPORT BY: LISA KITTO
CHIEF FINANCE OFFICER**

DATE: 31 JULY 2013

TITLE: FINANCIAL OUTLOOK FOR THE POLICE AND CRIME BUDGET 2014/15 – 2017/18

Appendix A refers

EXECUTIVE SUMMARY

Following the recent spending review announcement in June 2013, the financial strategy for the Police and Crime Commissioner's budget has been updated to reflect the latest available information. This report sets out the current position for 2014/15 – 2017/18 and also sets out an approach to delivering the financial savings.

RECOMMENDATION

The Police and Crime Commissioner is asked to;

- Note the forecast position on the Police and Crime budget for Lancashire for the period 2014/15 – 2017/18 and that further savings of £37.7m, equivalent to a reduction of 13.6% on the 2013/14 budget, are required.
- Note that these savings are in addition to £35.8m that has already been delivered bringing the total level of savings required between 2011/12 and 2017/18 to £73.5m.
- Endorse the package of efficiency proposals totalling £21.7m put forward by the Chief Constable and note that further work is continuing to establish the phasing and implementation of the savings.
- Endorse the approach to identifying the further savings that are required in future years in order to deliver a balanced budget.

Decision taken by the Police and Crime Commissioner for Lancashire:

Original decision, as set out in the attached report, approved without amendment (please delete as appropriate)	YES	NO
---	------------	-----------

Original decision required to be amended and decision as detailed below:

The reasons for the amended decision are as detailed below:

Police and Crime Commissioner: Comments

DECLARATIONS OF INTEREST

The PCC is asked to consider any personal / prejudicial interests he may have to disclose in relation to the matter under consideration in accordance with the law, the Nolan Principles and the Code of Conduct.

STATEMENT OF COMPLIANCE

The recommendations are made further to legal advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation.

Signed: Police and Crime Commissioner Date:	Signed: Chief Officer: Date:
--	---

Signed: Chief Constable Date:	Signed: Chief Finance Officer: Date:
--	---

The Financial Outlook for the Police and Crime Commissioner 2014/15 – 2017/18

Background

This report looks ahead over the next four years and considers the potential scale of the financial challenge facing the Police and Crime Commissioner (PCC) for Lancashire over the period 2014/15 – 2017/18. The current projections are based on the latest information that has emerged following the announcement of the Spending Review 2013 that was made in June 2013. However at this stage the announcement has only provided an overall position for Police and Crime budgets and it must be emphasised that there remains considerable uncertainty regarding the projections of the PCC's funding for the next four years. The projections will continue to be updated to reflect further announcements and also the detailed funding figures once they emerge later in the year.

Police and Crime budgets have already been reduced significantly over recent years and in Lancashire savings of £35.8m have already been delivered over the last 3 years. The level of the financial challenge over the next four years is driven by a reduction in resources and an increase in cost. The table below sets out the impact of forecast cost increases on the budget over the next four years and shows that costs are forecast to increase by £18.8m, or 6.8%.

At the same time, funding is expected to fall. The Home Office has announced cash reductions of 3.3% in 2014/15 and 3.2% in 2015/16 after which they have stated that funding will fall in line with the current trajectory. For planning purposes we have assumed that this is 3% for the financial years 2016/17 and 2017/18. Over the 4 year period, funding is expected to reduce by £24.7m, equating to 11.4%.

Table 1 Forecast Increases in Costs

	£m	Detail
2013/14 Revenue Budget	276.5	
Add Forecast Changes to Costs;		
<ul style="list-style-type: none"> Potential Impact of Pay Award 	7.7	The forecast assumes a 1% pay award for each of the next 4 financial years. A 1% pay award costs £2m.
<ul style="list-style-type: none"> Potential impact of increased employer contributions as a result of the triennial valuation of the pension fund. 	2.3	A greater understanding of the impact of the triennial valuation will be available in September 2013. The forecast reflects a continuation of the 1% increase in contributions.
<ul style="list-style-type: none"> Impact of the introduction of the single tier pension. 	4.5	The government announced the introduction of the single tier pension with effect from 6 April 2016 on 18 March 2013. This additional cost reflects the increase in National Insurance contributions that will fall to the PCC.
<ul style="list-style-type: none"> Impact of inflation on goods and services. 	5.0	This reflects price increases on contracts. An increase of 2.5% has been assumed with the exception of fuel where a higher rate of 5% has been assumed to reflect the continuing

		higher level of inflation.
<ul style="list-style-type: none"> Impact of funding the PCC's capital programme. 	1.3	This reflects the additional financing costs required to fund the approved capital programme.
<ul style="list-style-type: none"> Impact of changes resulting from Winsor review. 	-1.8	This reflects the phasing out of the Competency Related Threshold Payments to police officers (CTRP) and changes to the on call allowance.
<ul style="list-style-type: none"> Reduction in Counter Terrorism grant. 	-0.2	This reflects a reduction in spending following a reduction in the Counter Terrorism Grant.
Total forecast increases in costs	18.8	Reflects an increase of just under 7% over the 4 year period.
Forecast Spending requirement	295.3	

Table 2 Forecast Reductions in Funding

	£m	Detail
2013/14 Budget.	276.5	
Made up of;		
<ul style="list-style-type: none"> Home Office/DCLG Council Tax 	215.9 60.6	
Forecast changes to funding;		
Home Office and DCLG funding	-24.7	Reflecting an 11% reduction in funding in central government funding.
Council Tax	5.8	This reflects an estimated increase in the number of homes paying council tax and a 2% per annum increase in council tax. A 1% increase in council tax equates to £0.6m.
Overall Impact on resources	-18.9	A net reduction of 6.8% over the four year period.
Forecast level of resources	257.6	

Overall impact on the PCC's budget

The cumulative impact of both an increase in costs and a reduction in funding means that overall there is a funding gap of £37.7m over the next 4 years. This is equivalent to a reduction of 13.6% on the 2013/14 budget. This is set out in the table below.

The Overall Position	£m
Budget Requirement to 2017/18	295.3
Forecast Resources to 2017/18	257.6
Gap	37.7

Risks within the current assumptions

Forecasting four years ahead is essential to ensure financial planning within an organisation remains strong, however there are a number of risks that need to be considered that may impact on the forecast going forward. Whilst the forecast will be updated on a regular basis to

reflect any known changes as they emerge it is important that any potential changes are recognised and these are set out below;

Inflation Risk. There is a risk that inflation could be higher than that currently assumed within the forecast. There is a strong view that in order to bring economic prosperity, inflation will increase. The current rate assumed in the forecast is 2.5% for standard inflation and 5% for energy and fuel inflation. The standard rate assumed is on the conservative side. A 1% increase in inflation will add £1.6m to the forecast over the next 4 years. If inflation is lower than assumed this will reduce pressure on the forecast.

Funding Risk. There is risk that resources will be lower than forecast. The current forecast takes account of all known announcements from both the Home Office and the Department of Communities and local Government. The Chancellor has been clear that the public sector can expect reductions of the same trajectory in future years but this is not guaranteed. Without more detail on funding for future years there is a risk that the level of funding received will be lower than that currently assumed. A 1% reduction in funding will add a further £2m per annum, or £8m over the 4 years, to the projected funding gap.

Council Tax. The forecast set out earlier assumes an increase in council tax of 2% per annum. As part of the spending review 2013 announcement made in June the Chancellor set a referendum level for council tax of 2% for 2014/15. The decision regarding council tax levels is made by the Commissioner and is subject to the views of the Police and Crime Panel. Any change in the council tax level will impact on the funding gap. A 1% change in council tax equates to £0.6m.

SECTION 2

IMPACT ON THE PCC'S FINANCIAL STRATEGY

All of the latest information has been reflected in the PCC's financial strategy and the impact on each of the next 4 financial years is set out in the table below.

Table 3 Impact on the financial strategy

	Funding Gap	Savings Identified	Savings Gap
	£m	£m	£m
2011/12 – 2013/14	35.8	35.8	
2014/15	9.1	2.8	6.3
2015/16	8.8	0.0	8.8
2016/17	12.3	0.0	12.3
2017/18	7.5	0.0	7.5
TOTAL	73.5	38.6	34.9

The table shows that a total of £35.8m savings have already been delivered between 2011/12 and 2013/14 and that a further £37.7m is required over the next 4 years bringing the overall level of savings required since 2011/12 to £73.5m. Of these the Commissioner has already announced, as part of the 2013/14 budget setting process, savings of £2.8m that relate to the full year effect of savings taken in previous budget decisions.

Approach to Identifying and Delivering Savings

To provide as much strategic direction as possible and to aid longer term planning a strategy that looks at the next 3 or 4 years is currently being developed. This longer term view enables the Commissioner and the Constabulary to plan and start to develop some savings options that take longer to deliver. As the period of austerity continues the ability to implement savings quickly becomes more difficult and a longer term approach helps with the overall management of the change programme that is required to deliver savings of this scale.

The Commissioner and the Chief Constable have been considering a number of proposals to deliver the level of savings required. As part of this process a number of organisational reviews have been carried out by the Constabulary to identify a range of efficiencies that will deliver savings in future years. This process has involved extensive consultation and challenge within the constabulary and from this a range of efficiency measures have been developed. By delivering savings through efficiencies front line services and delivery are protected as much as possible. A package of savings totalling £21.7m has been put forward by the Chief Constable and focuses on;

- Streamlining processes and centralising functions
- Reducing management layers
- Dis-establishing vacant posts
- Maximising the use of technology
- General Spend Less Approach

This package of options has been considered by the Commissioner and it is recommended that these be formally endorsed. At this stage further work needs to be done in terms of identifying which year the savings will be achieved and this will emerge later in year. The savings identified goes some way to meeting the forecast gap however there still remains an additional £13.2m to be found. Work is still continuing on how this can be delivered and officers from both the Office of the Police and crime Commissioner and the Constabulary will continue to work on proposals that will be put forward to the Commissioner later in the year.

Summary

The financial challenge is significant and delivering savings will become increasingly difficult as the current period of austerity continues. Whilst there still remains a lot of uncertainty in terms of funding in future years the planning and the work carried out to date will ensure that Lancashire is in the best place possible for these savings to be delivered.

Financial Implications

The financial implications are set out in the report. Between 2011/12 and 2017/18 savings of £73.5m are required of which £35.8m has already been delivered. The package of efficiency options together with those efficiencies already agreed for 2014/15 mean that of the remaining £37.7m a total of £24.5m has been identified. Work to identify the remaining £13.2m will be continuing over the next few months and will form part of future reports.