

Decision No. 2013/41



REPORT TO: POLICE AND CRIME COMMISSIONER FOR LANCASHIRE

REPORT BY: LISA KITTO, CHIEF FINANCE OFFICER, OFFICE OF THE POLICE AND CRIME COMMISSIONER

DATE: 19 FEBRUARY 2014

TITLE: The Police and Crime Commissioner for Lancashire's Revenue Budget and Council Tax for 2014/15 and Capital Investment Programme for 2014/15 and Future Years

Appendix A to C refer

EXECUTIVE SUMMARY

Police and Crime Commissioners are required by the Local Government Finance Act (LGFA) 1992 to set a Budget Requirement and a Council Tax Requirement for 2014/15 and to issue a precept prior to 1st March 2014. The precept is the total budget requirement less formula funding, which for 2014/15 is the sum of Police Grant and DCLG formula funding.

This report provides all of the relevant information to assist the Commissioner in confirming the Revenue Budget, the Budget Requirement, Precept and Council Tax for 2014/15.

RECOMMENDATION

The Commissioner is asked to

- Agree a council tax requirement/precept for 2014/15, and consequent Band D amount that is based on a 1.99% increase on 2013/14 levels;
- Approve a contribution from the Revenue budget of £3.333m to the earmarked Investment Fund;
- Approve a net budget requirement for 2014/15 of £266.024m and consequent council tax requirement of £62.723m and Band D council tax of £155.96 as set out in Appendix B;
- Agree, on the basis of the above and the fixed ratios between valuation bands set by the Government, the Police and Crime Commissioner's council tax for each valuation as set out in Appendix B;
- Agree the 2014/15 delegated budget for the Constabulary and the Office of the Police and Crime Commissioner.
- Approve the 2014/15 and future years Capital programme

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
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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:
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Signed: Chief Constable Date:	Signed: Chief Finance Officer: Date:
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1 Background and Advice

1.1 STATUTORY REQUIREMENTS

The Police and Crime Commissioner (PCC) for Lancashire is required under the Local Government Finance Act to set a budget requirement and a council tax requirement for 2014/15 and to issue a precept prior to 1 March 2014. The precept is the total budget requirement less the sum of revenue support grant and police grant. As part of the process Commissioners are required to consult their Police and Crime Panel on the proposed precept level and to take the recommendations of the panel into account before setting the final precept. This report sets out the;

- Revenue budget for 2014/15
- The Council tax for 2014/15
- A revised capital investment programme for 2014/15 and future years

1.2 Finance Settlement

The Police and Crime Commissioner's financial strategy for the next 4 years was framed in the context of the Chancellor's Spending Review announcement in June (SR2013) and has since been updated to reflect the 2014/15 settlement announced in February 2014. Between 2011/12 and 2017/18 it is estimated that the level of savings required to meet the reduction in government funding will be £80m of which £61m has already been identified and agreed by the Commissioner. There still however remains a need to deliver a further £19m of savings in future years.

The 2014/15 settlement announcement made by the Chancellor saw funding reduce by 4.8% compared to the initial 3.3% that had been announced in June 2013. This resulted in a further reduction in funding of £2.7m for Lancashire and was largely as a result of the Home Office decision to top slice Police and Crime budgets for national developments such as:

- the transfer of functions to the Independent Complaints Commission (IPCC) to deal with all serious and sensitive cases involving the police
- a new programme of force inspections to be carried out by Her Majesty's Inspectorate for the Constabulary (HMIC)
- a direct entry scheme at Inspector and Superintendent level
- the creation of a Police Innovation Fund to support joint working with other police forces and local authorities

This additional reduction has been factored into the 2014/15 budget proposals set out in this report.

1.3 Risks and Uncertainties

- **Counter Terrorism Grant** Allocations for the Counter Terrorism Grant have not been made and are expected later in the month. Should there be any changes in grant this will be offset by corresponding changes in the constabulary's expenditure requirements for counter terrorism.

- **Partner Funding for PCSOs** The Commissioner is committed to ringfencing police budgets that currently fund PCSOs however the overall funding available will be dependent upon the continuation of partner funding. Some funding for PCSOs is received from partners across Lancashire and is match funded by the Commissioner. Several partners have however indicated that the funding may not be available from 2014/15 and therefore the final PCSO budget available will not be known until all partners have set their budgets.

2 The 2014/15 Revenue Budget

During 2013/14 the Commissioner has recognised, in the development of his multi-year financial strategy, a number of factors that impact upon the 2014/15 revenue budget.

2.1 Cost Pressures

The 2014/15 budget has been prepared by the Commissioner, in consultation with the Chief Constable, to meet the spending requirements in 2014/15 and reflects the fact that there are a number of financial pressures that cannot be reduced. The main cost pressures are:

2.1.1 Inflation

The following assumptions regarding inflation have been made in the 2014/15 budget:

Budget Area	£m
Annual Pay Award (1%)	2.317
Energy and Fuel prices (5%)	0.274
General prices (2.5%)	0.876
TOTAL	3.467

2.1.2 Changes in Demand

Changes in demand in 2014/15 are summarised in the following table and detailed explanations are provided below:

Budget Area	£m
Additional Ill Health Retirements	2.250
Winsor Review	-0.660
National Police Improvement Agency Charges	0.144
Reduction in spend in G division to reflect reduced grant funding	-0.239
Pension Liabilities	0.900
Capital Programme	0.223
TOTAL	2.618

- **Ill Health Retirements**

Within the current budget there is provision to fund 10 ill health retirements a year. Demand has however been higher than this and reserves have been used over recent years to fund up to an additional 20 ill health retirements a year. This trend is forecast to continue and budget provision for a further 30 ill health retirements has been built in at a cost of £2.250m for 2014/15. Ill health retirements are closely monitored and reviewed by the constabulary and the

position for future years will continue to be monitored and reflected in the financial strategy on an on-going basis.

- *Winsor review*

The Winsor review of Police Remuneration and Conditions for Police Officers was announced during 2012/13. Implementation of the recommendations, in particular those relating to the payment of unsocial hours has generated additional costs and also savings, in 2014/15 the net impact on the Revenue budget is a reduction in costs of £660k

- *National Police Improvement Agency (NPIA)*

Some functions that are currently provided by the NPIA are transferring to other organisations and are to be provided on a full cost recovery basis in future. These services include the Police National Database (PND). The NPIA has written out to all PCCs advising them of the removal of the subsidy and the new charges which result in an increase of £0.144m for Lancashire.

- *Reduction in G division spending to reflect reduced grant funding*

The level of spend in G division has been reduced by £0.239m to match a reduction in Counter Terrorism grant.

- *Pension Liabilities*

Increased contributions of £0.900m have been built in to reflect the requirement for an increased contribution to the LGPS pension fund following the independent actuary's advice to meet existing and future demands.

- *Capital Programme*

The requirements of the 2014/15 capital programme have been considered and the budget reflects increased financing costs for the capital programme (£0.223m).

2.1.3 Other Changes relating to Grants

Additional grant funding for restorative justice and the victims of crime has been confirmed for 2014/15 in the amount of **£472k**. This has increased spending in 2014/15 above that reported to the PCP in January. There is a matching specific grant reported in the resources section of this report that results in a net nil impact on the overall revenue budget in 2014/15.

2.2 Reductions in Costs

In addition to the cost pressures identified above, a number of reductions in costs and efficiencies have also been identified, some of which have previously been agreed by the Commissioner to deliver savings of £20.513m between 2014/15 and 2017/18. The impact of these in 2014/15 is set out in the table below:

Budget Area	£m
Previously Agreed:	
Basic Command Unit Structures	-3.019
Specialist Crime (G) Division	-4.432
Specialist Support (H) Division	-1.343
Command and Control Unit	0.585
Business Support Services	-1.607
Corporate services	-1.627

Professional Standards	-0.174
Overheads	-1.712
	-13.329
New Efficiencies/Savings:	
Insurance	-0.096
Hardship Fund	-0.050
Office of the Police and Crime Commissioner	-0.100
Specialist Crime (G) Division	-0.062
	-0.308
TOTAL	-13.637

- **Insurance** The budget is to be reduced by £96k to reflect savings achieved following a recent re-tendering of the insurance arrangements.
- **Hardship Fund** The call of the hardship fund that was established following the implementation of the Localisation of Council Tax Benefit scheme has been substantially lower than anticipated. The current budget provision of £50k is to be removed from the budget and the 2014/15 forecast underspend of £48k is to be transferred to balances at the end of the year and used to fund any claims in future years.
- **Office of the Police and Crime Commissioner** A review of current accommodation and staffing needs has been carried out and the costs of the office are to be reduced by £100k. This is to be achieved through using shared accommodation with the County Council and from a rationalisation of posts.
- **Specialist Crime (G) Division** Further savings of £62k have been identified.

2.3 Overall Expenditure Summary

Taken together the various cost pressures identified and means of reducing costs create the position set out below;

Summary position	£m
2013/14 Base Budget	276.458
Inflation	3.467
Demand Pressures	2.618
Restorative Justice and Victims of Crime	0.472
Reductions in costs	-13.637
Full Year effect of savings agreed in previous years	-3.314
2014/15 Spending requirement	266.064

When taken into consideration this gives a total spending requirement for 2014/15 of £266.064m

2.4 The level of resources available to support the 2014/15 Revenue Budget

The revenue resources that support the Police and Crime Commissioner's 2014/15 budget are:

- Revenue grant support received from Central Government

- Specific grants from Central Government, and
- Council tax

2.4.1 Revenue Grant Support

The final police settlement announced on 5 February 2014 confirmed government revenue grant funding for Lancashire of **£203.301m**. This represents a total reduction of £9.493m from that received in 2013/14 but is in line with that reported to the Police and Crime Panel.

2.4.2 Specific Grants

The Commissioner will receive the following specific grants in 2014/15:

- Counter Terrorism grant of **£2.751m** (this remains a provisional allocation, if the level of grant changes on final allocation related spend will adjust accordingly to the grant level)
- Loan charges grant of **£0.150m**
- Restorative Justice and Victims of Crime funding **£0.472m**. This is a new grant and provides funding for the regional referral service provided by victims support and funding to deliver restorative justice in order to support the victims of crime.

2.4.3 Council Tax Resources

The council tax represents a significant source of revenue to support the police budget. Each year the 14 Unitary, Borough and City Councils determine their taxbase (the number of band D equivalent properties in the area) and the level of surplus or deficit on the Council tax Collection Fund in relation to council tax due for previous years. The level of council tax in 2014/15 reflects an increase in taxbase reported by District and Unitary councils and confirmed in final figures provided on 30 January 2014. The council tax resource in the 2013/14 base budget included the effect of the 2012/13 deficit of £0.132m. This is a non-recurrent pressure and is therefore not reflected in the 2014/15 base budget.

The Police Funding announcement makes provision for Police and Crime Commissioners to increase their 2014/15 precept by up to 2% after which a referendum would be triggered. In determining a proposed precept for 2014/15 the PCC has considered the future financial position and has taken a number of factors into consideration including;

- Council Tax Freeze Grant
- Council Tax Referendums
- Consultation Responses from the Public
- Response from the Police and Crime Panel

The Commissioner proposed an increase in the 2014/15 precept of 1.99% to the Police and Crime Panel in January. The Panel considered the Commissioner's proposal and endorsed the recommendation. The Commissioner is therefore proposing that a council tax precept for 2014/15 be increased by 1.99%.

The impact of these changes on the 2014/15 revenue budget is:

	2014/15 £m
Total Council tax resource in 2013/14 base budget	60.524

Remove non-recurrent 12/13 council tax deficit	0.132
Revised Council tax precept 2013/14	60.656
Increase in taxbase for 2014/15	0.844
1.99% increase to 2014/15 precept	1.223
Council Tax 2014/15	62.723

2.4.4 The total level of resources available for the 2014/15 budget

The total level of resources available for 2014/15 is set out in the table below:

	£m
Government funding	203.301
Specific grants: Counter Terrorism Unit grant	2.751
Loan Charges grant	0.150
Restorative justice and victims of crime	0.472
Council Tax	62.723
Resource available in 2014/15	269.397

3 The Overall Revenue Budget position for 2014/15

The impact of the budget issues reported above is set out in the table below;

	2014/15 £m
Spending Requirement 2014/15	266.064
Total Resources Available	269.397
One-Off Resources Available for Investment	3.333

There is an opportunity in 2014/15 to take advantage of one-off resources of £3.333m available as a result of delivering savings before they are required and using these to support developments and initiatives that will help deliver greater efficiencies and savings in future years. It is proposed that the one-off resources be held in an investment fund and used to fund invest to save projects that will;

- Improve productivity and visibility on the frontline
- Invest in IT equipment for officers to improve efficiency and reduce costs in the longer term

The impact of this decision has the following impact upon the 2014/15 Spending requirement and resultant Council Tax Requirement:

	£m
2014/15 Spending Requirement	269.397
Less Specific Grant funding	(3.373)
2014/15 Budget Requirement	266.024
Less Home Office Funding	(203.301)
Equals Council Tax Requirement	62.723
Divided by Tax Base	402,170.83
2014/15 Band D Council Tax	£155.96
Percentage Increase	1.99%

Attached at Appendix B is a full breakdown of the net budget requirement for 2014/15 of £266.024m and the consequent council tax for each valuation band.

4 Cash Limits

As part of the budget setting process it is necessary to set delegated cash limits for both the Office of the Police and Crime Commissioner and the Chief Constable. These are set out in the table below together with the budget for the centrally retained corporate budgets.

Cash Limits 2014/15	
	£m
Office of the Police and Crime Commissioner	1.973
Chief Constable	252.034
Corporate Budget	12.017
TOTAL	266.024

The corporate cash limit includes the costs of financing the capital programme and the financing of elements of the Local Government Pension Fund.

5 Reserves

It is illegal for the Commissioner to allow their expenditure to exceed the resources available to it, and the PCC's Chief Finance Officer (CFO), has a duty to report if it appears that this is likely to arise. A reasonable level of reserves is needed to provide an overall safety net against unforeseen circumstances. General reserves are forecast to be £12m representing 4.5% of the 2014/15 budget. In addition to this there are earmarked reserves of £13.2m that are available to fund specific issues and events that may arise during the year that includes the Investment Fund identified earlier in this report. The Chief Finance Officer continues to believe that the level of reserves is appropriate.

6 Robustness of the 2014/15 budget

As the statutory finance officer of the PCC, the CFO must advise on the robustness of the estimates upon which the PCC's budget is based. At this stage the CFO's opinion is that the

budget process has taken all practical steps to identify and make appropriate provision for the commitments to which the PCC is exposed.

7 The 2014/15 and future years Capital Programme

7.1 Background

The draft capital programme for the five years from April 2014 is attached at Appendix 'C' and reflects the current priorities within the Police and Crime budget and supports the organisational review process that has been developed in order to deliver a significant amount of revenue savings in future years. The suggested capital programme meets the needs for capital investment to maintain the infrastructure required to deliver effective policing within the County. It has been subject to considerable internal scrutiny by both the Constabulary and the Office of the Police and crime Commissioner and reflects detailed discussion on the business benefits to be delivered from the planned investment.

7.2 Determining the Capital Programme

The main elements of the capital programme are the ICT and Accommodation strategies and reflect the need for prioritised investment in these key areas which increasingly underpin the delivery of an efficient and effective police service. The other key areas of investment relate to vehicles, specialist equipment replacement in G Division and digital speed cameras.

The programme developed by the Constabulary follows the principles of affordability, prudence/sustainability, value for money, stewardship, planning and practicality found within the Prudential Code. A detailed appraisal process is followed by the Constabulary in terms of assessing requirements for capital investment and the scrutiny approach taken to determine prioritised areas of investment. The consideration of requirements over a 5 year period meets the best practice outlined by the various inspection regimes which the Office of the Police and Crime Commissioner and the Constabulary are covered by. The programme also seeks to identify and manage the related costs impacting on the revenue budgets and the level of revenue resources required for the planned level of investment. This has been built into the 2014/15 revenue budget proposals and the longer term implications have been factored into the medium term financial strategy. .

The total overall requirement for investment over the 5 years is £63.402m and is summarised as follows:-

	Carry Forward	New Starts					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Total
	£m	£m	£m	£m	£m	£m	£m
IS/IT Strategy	1.714	5.000	5.695	4.225	3.265	4.115	24.014
Accommodation Strategy	4.490	-	10.710	6.500	3.500	0.500	25.700
Vehicle replacement	-	2.200	2.200	2.200	2.200	2.200	11.000
Other Schemes	1.253	0.605	0.230	0.150	0.150	0.300	2.688
TOTAL	7.457	7.805	18.835	13.075	9.115	7.115	63.402

The value of new starts in 2014/15 of £7.805m is a reduction of £11.175m (59%) on the initial 2014/15 programme last year of £18.980m and the change is broken down as follows:

	2014/15 Initial Allocation £m	2014/15 Revised Allocation £m
IS/IT Strategy	5.630	5.000
Accommodation Strategy	10.900	0
Vehicle replacement	2.200	2.200
Other Schemes	0.250	0.605
TOTAL	18.980	7.805

The major changes to the new starts programme in 2014/15 are the project to develop police facilities at Western Division where the initial provision of £10m has been re-phased into 2015/16 and a reduction in the requirement for minor works and refurbishment within the accommodation strategy of £0.900m in 2014/15.

7.3 Financing the Capital Programme

The shape of the financing needed to support the proposed programme in 2014/15 and future years depends upon the extent of Government support for capital expenditure and upon financing decisions which the Police and Crime Commissioner can take. The Capital grant allocation for 2014/15 has been announced at £3.793m and is in line with previous expectations.

Other financing available to support expenditure arises from the sale of property which generates a capital receipt, revenue contributions and monies held within the capital funding reserve which arise from underspends in previous years and specific additional revenue contributions.

The capital programme also impacts on revenue expenditure from three main sources:

- capital financing charges and the impact of borrowing particularly for long term assets (buildings)
- the use of our own resources, and
- revenue consequences arising from capital expenditure (computer hardware/software maintenance costs and running costs of new builds)

The financing of the capital programme has been reflected in the Revenue Budget for 2014/15 and in the financial strategy for 2015/16 to 2017/18.

7.3.1 Financing of the proposed 2014/15 – 2018/19 Programme

The financing of the proposed 2014/15 to 2018/19 programme is as follows:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Total £m	%
Capital Grant	3.793	2.770	2.225	2.910	2.510	14.208	22.4
Capital Receipts	3.813	-	2.102	2.111	-	8.026	12.7
Revenue	3.236	5.640	5.623	2.530	2.530	19.559	30.8

Contributions/Capital Reserve (CFR)							
Borrowing							
Unsupported	4.420	10.425	3.125	1.564	2.075	21.609	34.1
Total Programme	15.262	18.835	13.075	9.115	7.115	63.402	100.0

It can be seen from the above table that the Police and Crime Commissioner would be making unsupported borrowing of £4.420m in 2014/15 with borrowing requirements increasing in 2015/16 and reducing in the following years mainly due to significant costs for the Development of Police Facilities in Western Division. The impact of this borrowing requirement on the Revenue budget in 2014/15 is shown in section 2.1.2. of this report.

8 Equality Impact Assessments

The Commissioner and the Constabulary have an Organisational Review Programme to deliver the required savings. As each review area is progressed an equality impact assessment is carried out to assess the impact of the proposed recommendations on service recipients and is an integral part of the process.

9 Future Years

The Commissioner has developed a multi-year financial strategy to continue the process of good financial planning which has ensured that over the current period of financial austerity, managing the reductions in government funding have been delivered in a secure and planned way. It is clear that the period of austerity will continue for an number of years and a total of £80m of savings are likely to be required over the period 2011/12 – 2017/18.

The longer term financial position is reviewed on a regular basis and further savings of £19.2m are currently forecast to be required for the period 2015/16 to 2017/18. This is a significant challenge for the Commissioner and the Constabulary and work is already underway to develop plans on how these can be achieved. The Commissioner and the Constabulary have a proven track record in their ability to identify and deliver financial savings and it is anticipated that this will continue. However as the economic position becomes more difficult it will be increasingly challenging to find savings on the scale required.

There remain some uncertainties around elements of the funding for 2014/15 and in addition to this the Home Office is to carry out a review of the funding formula that is used to calculate funding allocations to PCCs. The new formula will be introduced for the 2015/16 financial year and brings with it additional uncertainty and risk in terms of planning for future years. The position will however be closely monitored and the Commissioner's financial forecast updated on a regular basis to ensure it reflects the most up to date position.

10 Consultations

Structured telephone interviews were conducted with residents of Lancashire. The telephone survey, of 1,405 Lancashire residents, was conducted by an independent research agency. In order obtain a statistically robust and representative sample of respondents across the county the interviews were split across each of the fourteen policing districts. Additional quotas were applied to age, sex, ethnicity and disability to provide individual samples robust enough to be

statistically analysed and compared with other demographic groups, with the quotas for sampling based on the 2011 Census data for Lancashire.

The Commissioner and his office have conducted a number of roadshows that have consulted directly with members of the public on council tax proposals.

The Police and Crime panel for Lancashire has also been consulted on the precept proposals.

Close consultation on the preparation of the budget and savings proposals has been carried out with the Chief Constable.

Equality Impact Assessments have been carried out on all of the proposals in order that the impact on the residents of Lancashire can be assessed.

Implications:

Financial Implications

The financial implications are set out in the report.

Risk management

The Police and Crime Commissioner has a statutory requirement to set a precept by 1 March, and as part of the process, to consult with the Police and Crime Panel. The Police and Crime Panel has responded to the precept proposal enabling the Commissioner to set the precept before 1 March.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
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Police and Crime Commissioner for Lancashire

2014/15 Budget Requirement and Precept

- 1 The Commissioner is asked to approve the net budget requirement for 2014/15 of £266.024 million and consequent council tax requirement of £62.723 million and Band D Council Tax of £155.96 (1.99% increase from 2013/14) as follows:-

	£m
2014/15 Spending Requirement	269.397
Less Specific Grant funding	(3.373)
2014/15 Budget Requirement	266.024
Less Home Office Funding	(203.301)
Equals Council Tax Requirement	62.723
Divided by Tax Base	402,170.83
Gives 2014/15 Band D Council Tax	£155.96
Percentage Increase	1.99%

- 2 On the basis of the above and the fixed ratios between valuation bands set by the Government, the Police and Crime Commissioner for Lancashire's council tax for each valuation would be:

BAND	£
Band A	103.97
Band B	121.30
Band C	138.63
Band D	155.96
Band E	190.62
Band F	225.28
Band G	259.93
Band H	311.92

- 3 Based on each district and unitary council's proportion of the total Band D equivalent tax base of 402,170.83, the share of the total Police and Crime Commissioner for Lancashire's precept of £62,722,563 to be levied on each council would be:

£

Blackburn with Darwen	4,896,556
Blackpool	5,415,711
Burnley	3,279,839
Chorley	5,184,856
Fylde	4,388,403
Hyndburn	2,895,397
Lancaster	5,926,480
Pendle	3,459,442
Preston	5,371,418
Ribble Valley	3,336,140
Rossendale	2,841,903
South Ribble	5,234,096
West Lancashire	5,171,534
Wyre	5,320,788
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