

Decision No 2014/32



REPORT TO: POLICE AND CRIME COMMISSIONER FOR LANCASHIRE

**REPORT BY: Lisa Kitto
Chief Finance Officer**

DATE: 1 October 2014

TITLE: FINANCIAL OUTLOOK FOR THE POLICE AND CRIME BUDGET 2015/16 – 2017/18

Appendix A refers

EXECUTIVE SUMMARY

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 the period 2015/16 – 2017/18.

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 £19.6m, equivalent to a reduction of 7.4% on the 2014/15 budget, are required;
- Note that these savings are in addition to £61m that has already been delivered bringing the total level of savings required between 2011/12 and 2017/18 to £80m;
- Note that the 'Futures Group' is charged with developing savings proposals to present to the Commissioner that will meet the savings gap of £19.6m and that the process will take place over the coming months in order to develop the financial strategy for the PCC for 2015/16 to 2017/18;
- Note the further risks that could impact upon the level of savings required in future years;
- Note that additional updates will be provided to the Commissioner as further announcements in respect of funding are made by Central Government.

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

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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The Financial Outlook for the Police and Crime Commissioner 2015/16 – 2017/18

1. Background

In February 2014, the Commissioner received a report that set out the forecast savings gap for the period 2015/16 – 2017/18 which at that time was £19.132m. In line with best practice, assumptions regarding future funding and costs are reviewed on a regular basis in order to inform the budget setting process for future years. This report seeks to update the Commissioner regarding the latest position and incorporates the latest information available on the following:

- potential changes to the level of resources available to the PCC in future years
- changes to the forecast level of expenditure, and
- changes to the cost of running the business.

The previous forecast included a forecast reduction in general grant funding from government of 3.47% in 2015/16 and 3% in 2016/17 and in 2017/18. There have been no further announcements from the government on this and therefore these assumptions have not changed. However other information around specific grants and top slicing has started to emerge and these have been reflected in the latest position. As information emerges from Central Government on the future level of resources, the assumptions for 2016/17 and 2017/18 will be updated and the impact will be reported to the Commissioner.

2. Update of the medium term financial forecast

It has been recognised that a number of elements within the current medium term financial forecast are likely to change and therefore have an impact upon the future savings gap faced by the PCC and Constabulary.

2.1 Funding

There are a number of potential changes to the funding available for the PCC in future years:

Annual increase in Council Tax base

The current forecast does not include any increase in council tax receipts in future years. In recent years it is evident that there is an underlying increase in council taxbase due to on-going house building that will yield additional income for the PCC. The average increase in taxbase is 0.3% per year, it would therefore be appropriate to assume an increase in council tax receipts of £0.190m each year at this average rate.

Further top-slice for the IPCC

In allocating the Police Grant in 2014/15 the Home Office top-sliced an amount of £18m at the national level to fund the IPCC, as a result resources for Lancashire reduced by some £0.432m. It was announced that further top-slices should be expected in future years that would ultimately result in a total top-slice of £70m per year. The table below assumes that the national top-slice

will rise to £50m in 2015/16 and then to £70m in 2016/17 and shows an additional forecast impact for Lancashire of £1.220m by 2016/17.

Reduced Home Office grant @ 1%

In allocating the Police Grant in 2014/15 the Home Office 'protected' PCCs from the additional 1% cut to its Departmental Budget imposed by the Chancellor in the 2014 budget. It has been widely reported that this protection is unlikely to be repeated in 2015/16, the table above reflects the estimated impact of the 1% cut (£1.140m) being applied in 2015/16.

Council Tax specific grants

The current forecast includes specific grants in respect of Council Tax freeze in 2011/12 (£1.714m) and Council Tax support (£11.113m). Both of these grants are to be 'rolled in' to the general Police Grant in 2015/16. The specific grants are currently forecast to continue at their existing level beyond 2015/16, however it is appropriate to apply the same assumptions to this funding as for all other grant funding for 2016/17 and 2017/18 as a result of them being 'rolled in', i.e. a 3% reduction (£0.380m each year).

The potential impact of these changes is set out in the table below:

	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m
0.3% increase in Council taxbase p.a.	-0.190	-0.190	-0.190	-0.570
Further top slices for IPCC	0.750	0.470	-	1.220
Reduced Home Office grant @ 1%	1.140	-	-	1.140
Council tax specific grants reduction when rolled in to Police Grant	-	0.380	0.380	0.760
Impact of potential changes in funding	1.700	0.660	0.190	2.550

2.2 Changes to the cost of running the business

It has also been recognised that, as a result of the on-going monitoring process, a number of the costs of running the business have changed.

Inflation

Pay inflation has been adjusted to reflect the reduced numbers of staff within the organisation and any impact on pension contributions.

Reverse assumed reduction in Community Safety expenditure

The medium term forecast included an assumed reduction in spending on community safety activity to match an assumption that community safety grant would reduce in future years. The mainstreaming of the community safety grant means that this approach needs to be re-considered and has now been reversed.

PNICC/NDEU cessation of charge

Annual charges by both the Police National Information and Coordination Centre (PNICC) and the National Domestic Extremism Unit (NDEU) have ceased resulting in an annual saving.

The potential impact of these changes is set out in the table below:

	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m
Inflation (Including pay)	0.063	-0.037	-0.041	-0.015
Reverse assumed reduction in Community Safety expenditure	0.061	0.051	0.051	0.163
PNICC/NDEU cessation of charge	-0.086			-0.086
Changes to the cost of being in business	0.038	0.014	0.010	0.062

2.3 Reduction in forecast OR savings/Growth

A number of previously agreed savings have been re-assessed in view of the latest available information and in some cases the amount of saving that is considered achievable has been reduced.

Admin review (£0.116m)

The review initially identified the opportunity for income generation of (£0.052m) which on closer examination could not be realised. In addition savings within PNC (£0.064m) have now been superseded by the Command and Control Review recommendation resulting and therefore the original savings are no longer considered achievable. Savings will however emerge as part of the command and control review.

Corporate Services review (£0.016m)

A job evaluation undertaken for the Legal Services review has resulted in additional costs thereby reducing the level of savings achievable.

ICT OR3 review (£0.075m)

This review “double counted” a saving which had already been factored into an earlier review

Business Support OR (£0.245m)

There are two aspects to this change; the first relates to an adjustment required of £0.022m as the baseline used for assessing the available budget was incorrect and further investment is required to achieve the agreed staffing levels for the model to work and secondly a sum of £0.223m has been re-profiled to better reflect the period when actual savings will be achieved from the cessation of redeployment mileage.

Growth

MASH

Additional costs associated with the relocation of MASH (relocation mileage) and a redesign of the resourcing model requiring additional staffing.

Pursuit training

The PCC recently approved the use of the Transitional reserve to meet the first year costs of staff to deliver pursuit training within the Constabulary. Training will be achieved over a three year period requiring additional growth for a further two year period. The funding is removed in 2017/18 when the training requirement comes to an end.

The potential impact of these changes is set out in the table below:

	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m
Administration Organisational Review	0.116			0.116
Corporate Services Organisational Review	0.016			0.016
ICT OR3	0.075			0.075
Business Support Organisational Review	0.022			0.022
Business Support – saving re-profiled to 2018/19			0.223	0.223
MASH	0.114		-0.073	0.041
Pursuit training	0.266		-0.266	0
Reduction in forecast OR savings/Growth	0.609	-	-0.116	0.493

2.4 Further savings identified

Further savings have been identified that contribute to the meeting of the revised savings gap as follows:

Fleet management services (£0.279m)

Further work has been undertaken around the review of fleet management to identify additional savings.

Review of Health Clinical services (£0.078m)

These savings are generated as a result of a new review having been undertaken.

Contact Management – mileage (£0.184m)

Reduced redeployment mileage cost now being incurred as the number of staff transferring to the one site was lower than originally anticipated.

Non-pay inflation – change in budgetary approach (0.400m)

The medium term forecast currently includes an assumed increase in respect of inflation for all non-pay costs. It has been agreed with the constabulary that general non-pay inflation (i.e. inflation other than that on contracts or fuel) will no longer be built into the budget forecast and that the non-pay inflation for 2014/15 will also be removed. This gives an annual saving of £0.4m per annum. In addition to this it has been agreed that the allocation in 2014/15 will be removed and therefore an additional £0.4m will be achieved in 2015/16 to reflect this.

Recurring savings (£0.512m)

The budget for spend on furniture and equipment has been examined and a recurring saving of £0.410m has been identified. This reflects the required spending each year for contractual commitments and essential replacements.

An assessment has also been made of the level of compensatory grant paid to staff with an additional recurring saving of £0.102m being identified.

Procurement Savings (£0.015m)

Savings arising from the revised contract for the provision of prisoner meals

The potential impact of these changes is set out in the table below:

	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m
Fleet Management savings	-0.243	-0.018	-0.018	-0.279
Health Clinical Services review	-0.078			-0.078
Contact Management – mileage	-0.184			-0.184
Non-pay inflation – end automatic uplift	-0.800	-0.400	-0.400	-1.600
Recurring Savings – furniture and equipment	-0.410			-0.410
Recurring savings – compensatory grant	-0.102			-0.102
Procurement savings	-0.015			-0.015
Further savings identified	-1.832	-0.418	-0.418	-2.668

3. Impact on the savings gap

The table below summarises the impact that each of these factors has upon the savings gap for the period 2015/16 to 2017/18 (A breakdown is shown at Appendix 1).

	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m
Current savings gap	-0.842	11.667	8.307	19.132
Impact of potential changes in funding	1.700	0.660	0.190	2.550
Changes to the cost of being in business	0.038	0.014	0.010	0.062
Reduction in OR savings/Growth	0.609	-	-0.116	0.493
Additional savings	-1.832	-0.418	-0.418	-2.668
Forecast savings gap	-0.327	11.923	7.973	19.569

4. Managing the Gap

A 'Futures Group' has been established and is made up of officers from the constabulary and the OPCC. The group is charged with developing savings proposals to present to the Commissioner that will meet the savings gap identified above and the process will take place over the coming months in order to develop the financial strategy for the PCC for 2015/16 to 2017/18. Whilst at this stage the budget position for 2015/16 appears to be in surplus there are a number of significant risks around funding assumptions which could change the position. This will not become clearer until the Chancellor makes his funding announcement in December.

5. Further risks

In addition to the changes to the forecast shown above there are further issues that could affect the PCC budget in future years. At this point it is very difficult to predict if these issues will arise and, if they do, the level at which they would impact upon the forecast. It is important however to recognise that there is a risk that further pressure could emerge for the budget and that the strategy that is developed is able to meet these challenges if they are realised.

Assumed reduction in grant funding from Central Government

The current forecast includes an assumed reduction in government funding of 3.47% in 2015/16 and then 3% in 2016/17 and 3% in 2017/18. If the reduction in government funding is 1% greater than this assumption (i.e. 4.47% and then 4% each year) the additional pressure that would have to be met is approximately £1.9m per year (and therefore approximately £5.6m for the three year period).

The Chancellor's Autumn Statement is scheduled to take place on 3rd December 2014 which will provide an indication of future year's funding. The final settlement for the PCC will then be announced by the Home Office following the Statement date confirming the level of funding available for 2015/16 and provide a further indication of funding for 2016/17.

Innovation Fund

There has been some recent discussion amongst finance professionals that the top-slice to fund the Innovation Fund might be increased in 2015/16. A range of amounts has been discussed up to a doubling of the fund to £100m. If the top-slice nationally were doubled to £100m the impact on the PCC budget would be £1.175m.

The potential impact these issues could have on the savings gap are shown below:

	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m
Forecast savings gap	-0.327	11.923	7.973	19.569
Impact if reduction in government funding is 1% greater than current forecast	1.904	1.912	1.858	5.674
Impact if top-slice for the Innovation fund increases to £100m nationally	1.175	-	-	1.175
Potential savings gap	2.752	13.835	9.831	26.418

6. Council Tax

The current forecast savings gap assumes no increase in Council Tax bills.

The Financial Outlook 2015/16 to 2017/18

Annex 1

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Current savings gap	-0.842	11.667	8.307	19.132
Potential changes in FUNDING:				
0.3% increase in Council taxbase p.a.	-0.190	-0.190	-0.190	-0.570
Further top slices for IPCC	0.750	0.470	-	1.220
Reduced Home Office grant @ 1%	1.140	-	-	1.140
Council tax specific grants reduction when rolled in to Police Grant	-	0.380	0.380	0.760
	1.700	0.660	0.190	2.550
Changes to the costs of being in business:				
Inflation (Including pay)	0.063	-0.037	-0.041	-0.015
Reverse assumed reduction in Community Safety expenditure	0.061	0.051	0.051	0.163
PNICC/NDEU cessation of charge	-0.086			-0.086
	0.038	0.014	0.010	0.062
Reduction in forecast OR savings:				
Administration Organisational Review	0.116			0.116
Corporate Services Organisational Review	0.016			0.016
ICT OR3	0.075			0.075
Business Support Organisational Review	0.022			0.022
Business Support – saving re-profiled to 2018/19			0.223	0.223
	0.229	0	0.223	0.452
Further savings identified:				
Fleet Management savings	-0.243	-0.018	-0.018	-0.279
Health Clinical Services review	-0.078			-0.078
Contact Management – mileage	-0.184			-0.184
Non-pay inflation – end automatic uplift	-0.800	-0.400	-0.400	-1.600
Savings delivered through zero base approach – furniture and equipment	-0.410			-0.410
Savings delivered through zero base approach – compensatory grant	-0.102			-0.102
Procurement savings	-0.015			-0.015
MASH	0.114		-0.073	0.041
Pursuit training	0.266		-0.266	0
	-1.452	-0.418	-0.757	-2.627
Remaining Savings Gap	-0.327	11.923	7.973	19.569