



## POLICE & CRIME COMMISSIONER

<b>DECISION : 2016/50</b>	<b>DATE: 10 February 2017</b>
<b>TITLE: The Police and Crime Commissioner for Lancashire's Revenue Budget and Council Tax for 2017/18 and Capital Investment Programme for 2017/18 and Future Years</b> <b>Appendices A, B and C refer</b>	
<b>Report by: Steve Freeman, Chief Finance Officer, OPCC</b>	
<b>EXECUTIVE SUMMARY</b> <p>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 2017/18 and to issue a precept prior to 1st March 2017. The precept is the total budget requirement less formula funding, which for 2017/18 is the sum of Police Grant and DCLG formula funding.</p> <p>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 2017/18.</p>	
<b>RECOMMENDATION</b> <p>The Commissioner is asked to:</p> <ul style="list-style-type: none"> <li>• Agree the efficiency savings, reductions in costs, contributions to reserves and cost pressures as set out in the report;</li> <li>• Agree a council tax requirement/precept for 2017/18, and consequent Band D amount that is based on a 1.99% increase on 2016/17 levels;</li> <li>• Approve a net budget requirement for 2017/18 of £261.647m and consequent council tax requirement of £70.320m and Band D council tax of £165.45 as set out in Appendix 'A';</li> <li>• 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';</li> <li>• Agree the 2017/18 delegated budgets for the Constabulary and the Office of the Police and Crime Commissioner.</li> <li>• Approve the 2017/18 and future years Capital programme</li> </ul>	

Signature Clive Cusack  
Police and Crime Commissioner  
Date 10<sup>th</sup> February 2017

## 1. Background and Advice

- 1.1. 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 2017/18 and to issue a precept prior to 1 March 2017. The precept is the total budget requirement less the sum of DCLG formula funding 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 2017/18
  - The Council Tax for 2017/18
  - The capital investment programme for 2017/18 and future years
- 1.2. In addition the report sets out the advice of the Commissioner's Chief Finance Officer on the robustness of the budget and the adequacy of the level of reserves as required by section 25 of the Local Government Act 2003.
- 1.3. The Commissioner took a report to the Police and Crime Panel on 23<sup>rd</sup> January 2017 to set out his proposal in respect of the council tax precept for 2017/18. The Medium term Financial Strategy and 2017/18 budget set out in that report reflected the provisional Police Finance Settlement for 2017/18 and estimated level of council tax base for 2017/18.
- 1.4. It was reported to the panel that the budget figures would change on receipt of the final settlement and council tax base figures, this report reflects those final figures.

## 2. Funding position

- 2.1. The Police and Crime Commissioner's Medium Term Financial Strategy (MTFS) for the period 2017/18 to 2019/20 is framed in the context of the final financial settlement for Lancashire published on 1st February 2017.
- 2.2. In the period 2010/11 to 2017/18 core funding for Lancashire has fallen by £52.6m (23%). This includes the reduction in 2017/18 (compared to 2016/17) of £2.514m (1.3%) as announced on 1st February 2017 in the final finance settlement.

## 3. Budget Process

### *Medium Term Financial Strategy*

- 3.1. Over recent years the Commissioner, in consultation with the Chief Constable, has continued to develop the Medium Term Financial Strategy (MTFS). The MTFS is based on information provided from central government regarding future funding, estimates of future council tax receipts together with assumptions on cost pressures including inflation and demand

for services. From this, the level of savings required to deliver a balanced budget has been identified and the Commissioner and the Chief Constable are working together to develop options to drive out further efficiencies and deliver more savings in future years.

### ***Funding assumptions***

- 3.2. The Government has not provided information on the level of core Police funding to be provided beyond 2017/18 in the final settlement published on 1<sup>st</sup> February 2017, it has therefore been assumed that the rate of reduction in funding received in 2017/18 will continue each year in 2018/19 and 2019/20.
- 3.3. The Ministry of Justice have confirmed the level of funding the Commissioner will receive in 2017/18 in respect of the delivery of Victims Services (£1.732m). Specific grants for Counter Terrorism activity and loan charges have not been confirmed for 2017/18, the budget and MTFS therefore assume these grants will continue at current levels in future years.
- 3.4. The impact on the MTFS of these planning assumptions in respect of funding is as follows:

<b>Funding Assumptions in MTFS</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>
Government Core Funding	190.024	187.553	185.115
Specific grants	4.122	4.122	4.122
<b>Forecast Government Funding</b>	<b>194.146</b>	<b>191.675</b>	<b>189.237</b>

### ***The 'Funding Gap'***

- 3.5. In each year covered by the MTFS a spending requirement is identified along with the resources expected to be available to fund that spending. Where the required spending is greater than the resources available a 'funding gap' is determined which requires action to be taken to identify savings to bridge that gap.
- 3.6. The 2016/17 budget report identified a funding gap of £16.7m to 2019/20. The Commissioner and Chief Constable have continued to review the MTFS to 2019/20 and have identified a revised funding gap of £13.4m which is detailed in this report.
- 3.7. The Commissioner has approved additional savings of £6.4m in delivering this revised funding gap which means that the Commissioner and the Constabulary have identified a total amount of savings of £82.5m from 2011/12 to 2019/20 to date. To meet the outstanding funding gap a further £13.4m of savings need to be delivered. This means that by 2019/20 total savings in excess of £95m will have been delivered since 2011/12 which is the equivalent of 32% of the 2011/12 original revenue budget.

- 3.8. As is always the case, the additional level of forecast savings required in future years is dependent upon future funding announcements and financial settlements and therefore the figures quoted above are likely to change.

### ***Developing Savings Options***

- 3.9. In developing options the Commissioner and the Chief Constable look to protect front line services and drive out efficiencies wherever possible whilst maintaining service delivery. This approach together with the overall approach to managing the financial position was recently recognised as good practice by Her Majesty's Inspectorate of Constabulary (HMIC) from which Lancashire Constabulary was again rated as 'good' in the recent Police Effectiveness Efficiency and Legitimacy "Peel efficiency' inspection.

## **4. Medium Term Financial Strategy 2017/18 to 2019/20**

- 4.1. The MTFS has been updated to reflect the final funding settlement announced on 1<sup>st</sup> February 2017 and final council tax information provided by City, District and Unitary authorities on 31 January 2017 and is summarised below:

	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>Total £m</b>
<b>Resources:</b>				
Government Funding	190.024	187.553	185.115	
Specific grants	4.122	4.122	4.122	
Forecast impact of Formula Funding Review	0	-3.000	-6.000	
Council tax	71.623	71.376	72.446	
<b>Total Resources</b>	<b>265.769</b>	<b>260.051</b>	<b>255.683</b>	
Base budget requirement brought forward	266.162	265.769	260.051	
Contribution to investment reserves	1.074	-1.074	0	<b>0</b>
Budget Adjustments	-3.848	0	0	<b>-3.848</b>
Demand/Volume	3.496	-0.032	0.765	<b>4.229</b>
Inflation	2.777	2.811	3.364	<b>8.952</b>
<b>Budget Requirement</b>	<b>269.661</b>	<b>267.474</b>	<b>264.180</b>	
<b>Funding gap</b>	<b>3.892</b>	<b>7.423</b>	<b>8.497</b>	<b>19.812</b>
Savings	-3.892	-1.215	-1.285	<b>-6.392</b>
<b>Funding gap</b>	<b>-</b>	<b>6.208</b>	<b>7.212</b>	<b>13.420</b>

This forecast funding gap reflects the following:

### **Government Funding**

- 4.2. The final police grant settlement for 2017/18 was announced on 1<sup>st</sup> February 2017. Lancashire was allocated £190.024m which is a reduction of £2.514m on the funding for 2016/17. In future years it is assumed that government funding will reduce by 1.3% per annum to reflect the allocations provided with the 2017/18 settlement and the statement from the Home Secretary that funding for policing will be protected only if Commissioners increase Council Tax by the maximum amount permitted under referendum principles, which for Lancashire is currently 2% per year, to offset the reduction in government grant.
- 4.3. Specific grants in respect of the delivery of counter terrorism activity will be confirmed during 2017/18. It is assumed that any change in the level of these grants will be matched by a change in expenditure and therefore have no impact of the funding gap position.
- 4.4. The Home Office is reviewing the funding formula used to allocate funding to individual PCCs in future years and intends to implement the outcome of the new review in 2018/19. The proposal is due out for consultation in March 2017 which will provide an indication of the impact on funding for Lancashire that will result. At this stage there is little information available to provide a forecast in the MTFS however the impact could be significant so the Commissioner and Chief Constable have determined that the potential impact should be recognised in the MTFS. The impact shown in the MTFS (above) reflects the lower end of the scale of potential reductions in funding that the last (abandoned) review of the formula produced as there is no other information available upon which to base the projection.

### **Council Tax**

- 4.5. 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.
- 4.6. The MTFS reflects a proposed increase of 1.99% to the council tax charge in 2017/18 as approved by the Police and Crime Panel at its meeting on 23<sup>rd</sup> January 2017.
- 4.7. The City, Unitary and Borough Councils have confirmed the surplus on the Council tax collection fund in 2016/17 at £1.303m. The City, Unitary and Borough Councils have also confirmed final taxbase figures for 2017/18 at 425,025.94 Band D equivalent properties.
- 4.8. The forecast assumes an increase in the council tax base (i.e. the number of households that pay council tax) of 1.5% per year in 2018/19 and 2019/20 to reflect the latest trend information provided by District Councils. The forecast does not include an increase to the council tax precept in any year beyond 2017/18.
- 4.9. The amount of council tax to be received in 2017/18 is £71.623m.



### **Contribution to Investment reserves**

- 4.10. In line with the Commissioner's reserves strategy a one-off contribution of £1.074m is included in the 2017/18 Revenue Budget to continue to provide support for investment in the capital programme and the on-going change programme.

### **Budget Adjustments**

- 4.11. The following budget adjustments are included in the MTFS:

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Reverse 16/17 contributions to reserves	-3.284	-	-	-3.284
Reduce spend to meet reduction in Specific grants	-0.519	-	-	-0.519
Reduced charge - NPAS	-0.045	-	-	-0.045
<b>Total</b>	<b>-3.848</b>	<b>-</b>	<b>-</b>	<b>-3.848</b>

These reflect that:

- The revenue budget in 2016/17 included specific one-off contributions to the Commissioner's investment reserves, these contributions have therefore been reversed in 2017/18.
- Lancashire's allocation of Counter Terrorism grant has been reduced and the related spending is therefore adjusted to match the revised funding level.
- The annual charge to Lancashire from the National Police Air Service (NPAS) is reduced in 2017/18.

### **Demand/Volume**

- 4.12. The demand and volume pressures are:

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Revenue consequences of the capital programme	-0.630	0.846	1.000	1.216
Ill-health retirements	0.200	0.200	0.200	0.600
LGPF – pension revaluation	0.300	-	-	0.300
Apprenticeship levy	0.800	-	-	0.800
Reverse previous years temporary funding	-0.340	-1.529	-1.180	-3.049
Recruitment to protect frontline policing Full Year Effect	0.700	-	-	0.700
Investment in local policing	2.466	0.451	0.745	3.662
<b>Total</b>	<b>3.496</b>	<b>-0.032</b>	<b>0.765</b>	<b>4.229</b>

- **Revenue consequences of the capital programme**

This represents the impact of the changes to the Capital Programme agreed in the 2016/17 budget report and reflects changes to the costs of financing the programme in particular the forecast level of borrowing in respect of major accommodation schemes.

➤ **Ill-health retirements**

The costs associated with ill-health retirements have risen due to increased costs of injury settlement payments and injury pension payments. The number of ill-health retirements per annum is not expected to increase in future years.

➤ **Apprenticeship levy**

The Chancellor of the Exchequer, in his Autumn Statement in November 2015, announced that all employers with an annual pay bill in excess of £3m will be subject to the apprenticeship levy from April 2017/18.

➤ **Reverse funding for previous years investment**

Temporary increases in staffing agreed in previous years' budgets are reversed in the 2017/18 to 2019/20 budgets as the requirement for that staffing ends.

➤ **Recruitment of Police Officers**

The Commissioner agreed a permanent investment in the annual revenue budget to fund the recruitment of frontline police officers each year and specifically to meet the cost of their training. The budget for 2016/17 included a part year cost as the recruitment process began during the year, there is a requirement to increase the budget in 2017/18 to reflect the full year cost of this investment.

➤ **Investment in local policing**

Through the on-going monitoring of operational requirements and the Futures review of service delivery a number of areas of additional resource requirement have been identified. The Commissioner is increasing the budget to make this investment to ensure his key priority of protecting local policing can be delivered.

The key areas of investment include:

- Armed Response resources
- Safeguarding of vulnerable adults and children
- Online Child Abuse investigations
- Major fraud and money laundering investigations



### **Inflation**

4.13. The main elements of inflation included in the forecast are:

	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m
Pay	2.077	2.096	2.635	6.808
Non-pay inflation	0.700	0.715	0.729	2.144
	2.777	2.811	3.364	8.952

### **Savings**

4.14. A key element of the Commissioner's financial management strategy is the ongoing review of the organisation's activity and the identification of additional savings that can be made. This work is undertaken in conjunction with the Constabulary's 'Futures Team' and has identified further savings that will be delivered in 2017/18 and future years as follows:

	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m
Full year effect of previously agreed savings	-1.328	-0.151	-0.257	-1.736
Contain non-pay inflation in budget 17/18	-0.700	-	-	-0.700
Procurement and Contracts restructure	-0.027	-	-	-0.027
Learning and Development Forensics	-0.400	-	-0.300	-0.700
<u>Futures programme:</u>				
Review of Public Enquiry Facilities	-0.500	-0.500	-	-1.000
Review of In House Surveys	-0.020	-	-	-0.020
Review of Special Operations	-0.023	-	-	-0.023
Review of Operational Policing	-0.894	-0.564	-0.728	-2.186
<b>Total</b>	<b>-3.892</b>	<b>-1.215</b>	<b>-1.285</b>	<b>-6.392</b>

### **RISKS AND UNCERTAINTIES**

4.15. In delivering this forecast a number of risks and uncertainties were identified that were not reflected in the position shown above:

➤ ***Specific Grant allocations***

Final allocations for specific grants such as the Counter Terrorism Grant have not been made and are expected later in the financial year. Should there be any changes in grant provided for these services this will be offset by corresponding changes in expenditure requirements.

➤ ***Future levels of top-slicing***

The Commissioner's MTFS includes the impact of previously announced top-slices to the national funding level for police services. No announcements have been made, however, on the level of top-slicing that will take place

beyond 2017/18 therefore the estimated impact currently reflected in the forecast could be subject to change when future announcements are made.

➤ ***Partner Funding for PCSOs***

The Commissioner is committed to ring-fencing 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 not confirmed if funding will be available from 2017/18 and therefore the final PCSO budget available will not be known until all partners have set their budgets.

➤ ***Replacement of Airwave***

The emergency services communications network 'Airwave' is being replaced over the next four years. Lancashire Constabulary was initially amongst the first forces scheduled to transfer to the new network in 2017/18 and as a result will incur considerable capital expenditure in respect of equipment and infrastructure.

It has been made clear by the Home Office that the timetable for the implementation of the new network has been delayed and a specific implementation date has not been provided adding considerable uncertainty to the process. It is also not clear how much the transition to the new system will cost but additional contributions to reserves have been made as an attempt to mitigate some of the future costs.

➤ ***Review of the Police Funding Formula***

The Home Office intends to implement a revised funding formula in 2018/19 which will impact upon the amount of grant received by the Commissioner. The level of funding that Lancashire will receive will be entirely dependent upon the factors used to determine the new formula allocations and until more information is made available it is extremely difficult to forecast the specific impact on future years.

The previous attempt to deliver a new formula provided a range of potential outcomes for Lancashire from a loss of funding of £8.5m to a loss of funding of £25m. Clearly there is a significant risk that there could be a substantial loss of funding for Lancashire as a result of this process and the MTFS has an indicative impact at the lower end of the range shown above however until the Home Office provides a final version of the formula with specific allocations there remains a high level of uncertainty in the forecast for future years.

➤ ***Impact of cuts to Local Government funding***

Local Authorities face significant further budget reductions in future years. It is expected that this in turn will increase the demands faced by policing services particularly in relation to individuals with mental health issues. The impact of these changes is extremely difficult to forecast but as information becomes available it will be reflected in future iterations of the MTFS.

## 5. The 2017/18 Revenue Budget

In the development of the multi-year financial strategy (MTFS) the 2017/18 revenue budget is identified as follows:

### 2017/18 spending requirement

Summary position	£m
2016/17 Base Budget	266.162
Contribution to the investment reserve	1.074
Budget adjustments	-3.848
Inflation	2.777
Demand Pressures	3.496
Previously agreed savings	-3.892
<b>2017/18 Spending requirement</b>	<b>265.769</b>

### Resources available in 2017/18

5.1. The resources available to support the Police and Crime Commissioner's 2017/18 budget are:

- Revenue grant support received from Central Government
- Specific grants from Central Government, and
- Council tax

5.2. Revenue Grant Support

The final police settlement announced on 1 February 2017 confirmed government revenue grant funding for Lancashire of **£190.024m**. This represents a total reduction of £2.514m from that received in 2016/17 and is in line with that reported to the Police and Crime Panel in January 2017.

5.3. Specific Grants

The Commissioner will receive the following specific grants in 2017/18 – the Counter Terrorism grant and Loan charges grant are provisional allocations, if the level of grant changes on final allocation, related spend will adjust accordingly to the grant level:

- Counter Terrorism grant **£2.240m**
- Loan charges grant **£0.150m**
- Restorative Justice and Victims of Crime funding **£1.732m**.

The RJ and victims of crime grant has reduced by £0.008m in 2017/18 compared to 2016/17, spend on the service has been reduced to match this loss of funding.

5.4. 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 City, Unitary and Borough Councils have confirmed the surplus on the Council tax collection fund in 2016/17 at £1.303m.

The City, Unitary and Borough Councils have also confirmed final taxbase figures for 2017/18 at 425,025.94 Band D equivalent properties.

The Police Funding announcement makes provision for Police and Crime Commissioners to increase their 2017/18 precept by up to 2% after which a referendum would be triggered. In determining a proposed precept for 2017/18 the Commissioner has considered the future financial position and has taken a number of factors into consideration including;

- The government's statement that funding for policing is protected ONLY if all PCCs increase their council tax precept charge by the maximum allowed under the referendum limits
- The Council Tax Referendum limits
- Consultation Responses from the Public
- Response from the Police and Crime Panel

The Commissioner proposed an increase in the 2017/18 precept of 1.99% to the Police and Crime Panel on 23<sup>rd</sup> January 2017. The Panel considered the Commissioner's proposal and supported the proposal without further qualification or comment. The Commissioner is therefore **proposing** that the council tax precept for 2017/18 be increased by 1.99% to £165.45 per annum for a Band D property.

The amount of council tax available in 2017/18 as a result of the agreed increase in charge and the final tax base amount is:

	£m
Council Tax	70.320
2016/17 Council Tax surplus	1.303
<b>Council Tax 2017/18</b>	<b>71.623</b>

5.5. The total level of resources available for 2017/18 is set out in the table below:

	£m
Government funding	190.024
Specific grants: Counter Terrorism Unit grant	2.240
Loan Charges grant	0.150
Restorative justice and victims of crime	1.732
Council Tax	71.623
<b>Resource available in 2016/17</b>	<b>265.769</b>

- 5.6. The overall position for the 2017/18 budget therefore results in a balanced budget as summarised below:

	£000
2017/18 Spending Requirement	265,769.171
Less Specific Grant funding	-4,122.000
<b>2017/18 Net Budget Requirement</b>	<b>£261,647.171</b>
Less Government Funding	-190,023.747
Less Council tax surplus 2016/17	-1,302.882
<b>Equals Council tax requirement 2017/18</b>	<b>70,320.542</b>
Divided by Tax Base	425,025.94
2017/18 Band D Council Tax	£165.45
2016/17 Band D Council Tax	£162.22
Percentage Increase	1.99%

Attached at Appendix B is a full breakdown of the net budget requirement for 2017/18 of £261.647m and the consequent council tax for each valuation band.

## 6. Cash Limits

- 6.1. 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.

<b>Cash Limits 2017/18</b>	
	£m
Office of the Police and Crime Commissioner	1.441
Crime, Community Safety and Victims	2.566
Chief Constable	251.954
Corporate Budget	5.686
<b>TOTAL</b>	<b>261.647</b>

- 6.2. The corporate cash limit includes the costs of financing the capital programme, contributions to reserves and the financing of elements of the Local Government Pension Fund.

## 7. Investing for the future

- 7.1. In order to preserve the operational integrity and ability of the force in future years whilst delivering the savings required to meet the funding gap identified

above, the Commissioner must consider a number of proposals that will change how the service operates.

- 7.2. It is recognised that, in order to deliver savings proposals to meet the funding gap faced by the Commissioner in future years, the way the police service is delivered will need to change significantly. It is also recognised that improving the efficiency in which assets are used such as buildings, infrastructure and IT networks and equipment, is crucial if the level of service being provided is to be maintained whilst the way it is delivered changes.
- 7.3. In order to improve the efficiency of the service it has been identified that significant investment is therefore needed in these assets which is recognised in both the ICT and the Asset Management strategies.
- 7.4. These strategies identify a number of projects that will ensure frontline policing is protected and made as efficient as possible in future years. The one-off investment in these projects is provided through the Commissioner's Capital Investment Programme. This investment will help to deliver the permanent savings in the revenue budget that are required in future years to ensure that the Commissioner can provide policing services in Lancashire within the resources he has available.
- 7.5. The Commissioner, as part of his long term financial strategy, considers the investment needed to deliver the capital investment programme and has in recent years set aside specific reserves to provide the funding necessary to deliver these key investments. The following section of this report sets out the proposed investment programme and the funding that has been identified to deliver it.

## **8. The 2017/18 and future years Capital Programme**

### ***Background***

- 8.1. The draft capital programme for the five years from April 2017 is attached at Appendix 'C' and reflects the current priorities within the Police and Crime budget and supports the 'futures' 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.

### ***Determining the Capital Programme***

- 8.2. 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.

8.3. The programme 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 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 2017/18 revenue budget proposals and the longer term implications have been factored into the medium term financial strategy.

8.4. The total overall requirement for investment over the 5 years is £80.597m and is summarised as follows:

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£m	£m	£m	£m	£m	£m
IT Strategy	12.000	10.889	5.550	5.400	5.050	<b>38.889</b>
Accommodation Strategy	21.618	4.733	0.500	0.500	0.500	<b>27.851</b>
Vehicle Replacement Programme	2.357	2.600	2.800	2.800	1.800	<b>12.357</b>
Other Schemes	0.700	0.200	0.200	0.200	0.200	<b>1.500</b>
<b>Total</b>	<b>36.675</b>	<b>18.422</b>	<b>9.050</b>	<b>8.900</b>	<b>7.550</b>	<b>80.597</b>

8.5. The key elements of the IT strategy are:

- Replacement of Desktop and mobile equipment (£7.3m)
- New and replacement key IT systems (£8.7m)
- New and replacement IT infrastructure including networks and security (£21.8m)

8.6. The main element of the accommodation strategy is the construction of the new divisional headquarters in West Division at a forecast cost of £23.8m

### ***Financing the Capital Programme***

8.7. The shape of the financing needed to support the proposed programme in 2017/18 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 2017/18 has been announced at £1.1m which represents a reduction of £0.2m from that provided in 2016/17.

- 8.8. Other financing available to support expenditure arises from the sale of property which generates a capital receipt, the use of ear-marked revenue reserves, contributions from the revenue budget and monies held within the capital funding reserve which arise from underspends in previous years and specific additional revenue contributions.
- 8.9. 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)
- 8.10. The financing of the capital programme has been reflected in the Revenue Budget for 2017/18 and in the financial strategy for 2018/19 to 2021/22.
- 8.11. The financing of the proposed 2017/18 to 2021/22 programme is as follows:

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£m	£m	£m	£m	£m	£m
Capital Grant/Contributions	1.497	1.097	1.097	1.097	1.097	<b>5.885</b>
Capital Receipts	0.601	0.150	-	-	-	<b>0.751</b>
Contribution from the Revenue budget	2.519	2.519	2.519	2.519	2.519	<b>12.595</b>
Road Safety Reserve	-	-	-	-	-	-
Transition Reserves	10.515	9.978	4.989	4.839	3.489	<b>33.810</b>
Borrowing	21.543	4.678	0.445	0.445	0.445	<b>27.556</b>
<b>Total</b>	<b>36.675</b>	<b>18.422</b>	<b>9.050</b>	<b>8.900</b>	<b>7.550</b>	<b>80.597</b>

- 8.12. The financing of the capital programme reflects the forecast use of £33.8m from the Commissioner's ear-marked investment reserves. This source of funding is used for assets with a shorter life such as IT systems and equipment as it is considered a more prudent approach to use such funding in this way rather than unsupported borrowing. Borrowing will continue to be used for the financing of longer life assets such as property as this reflects an appropriate method of financing for such assets.
- 8.13. The cost of the borrowing included in the financing of the capital programme is reflected in the revenue budget requirement and MTFS shown earlier in this report.

## 9. Reserves

- 9.1. 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.

- 9.2. The Commissioner holds two types of reserve, General reserves that are available to support the revenue budget and provide security should the organisation face an unexpected issue that realises a call on its resources. The forecast level of these general reserves for 1 April 2017 is £11.9m or 4.5% of the 2017/18 revenue budget. The Chief Finance Officer considers general reserves at this level to be appropriate.
- 9.3. There are also a number of earmarked reserves that are available to support the transition process including investment in capital projects that will support the delivery of savings in the future. These reserves include the Transition Reserve and the PCC Strategic Investment Reserve.
- 9.4. In total £25.2m is currently forecast to be available in these reserves however £33.8m is required from such reserves to fund the capital investment programme to 2021/22. The Commissioner, in conjunction with the Chief Constable, anticipate that sufficient additional, contributions from the revenue budget will be made over the period of the programme to ensure this commitment is met.

## **10. Robustness of the 2017/18 budget**

- 10.1. Section 25 of the Local Government Act 2003 requires the Commissioner's Chief Finance Officer to advise the Commissioner as he is making budgetary decisions on the robustness of the assumptions underlying the budget and the adequacy of the Commissioner's reserves in the context of the financial risks to which the organisation is exposed.
- 10.2. The basis of the estimates on which the budget has been prepared, as in previous years, relies on forecasts of demand and other activity prepared by the constabulary. The forecast is kept under review as part of the budget monitoring process and actions identified to identify any financial risks arising from changes in the forecast as they occur. The main risks relate to the pace and depth of funding reductions and the ability of the organisation to deliver these within the required timeframes.
- 10.3. The resources available to the Commissioner to manage these risks consist of the various reserves held by the Commissioner, principally general funds and the transition fund. At this stage it is anticipated that general reserves will be maintained at around 4.5% of the Commissioner's budget requirement reflecting the level of financial risk that the combination of significant ongoing spending reductions and resource uncertainties creates. This should allow the Commissioner to respond to any changes that may occur in a planned way which provides stability to services and certainty to communities.
- 10.4. In addition to general reserves, the Commissioner maintains a range of earmarked reserves for specific purposes including investment in the capital

programme as identified elsewhere in this report. The level and appropriateness of earmarked reserves is kept under review to ensure that sums are only held if required, and released when not. At this stage these reserves are regarded as adequate with plans in place to invest the majority of the earmarked reserves on the capital ICT infrastructure and estates strategies that will support the future of the constabulary as it downsizes and strives to deliver high quality services.

- 10.5. 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.

### ***Risks and Uncertainties***

- 10.6. In determining the 2017/18 revenue budget and developing the Medium Term Financial Strategy a number of risks and uncertainties have been identified that could impact on the financial position of the Commissioner.

#### **➤ *Specific Grant allocations***

Final allocations for specific grants such as the Counter Terrorism Grant have not been made and are expected later in the financial year. Should there be any changes in grant provided for these services this will be offset by corresponding changes in expenditure requirements.

#### **➤ *Future levels of top-slicing***

The Commissioner's MTFS includes the impact of previously announced top-slices to the national funding level for police services. No announcements have been made, however, on the level of top-slicing that will take place beyond 2017/18 therefore the estimated impact currently reflected in the forecast could be subject to change when future announcements are made.

#### **➤ *Partner Funding for PCSOs***

The Commissioner is committed to ring-fencing 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 not confirmed if funding will be available from 2017/18 and therefore the final PCSO budget available will not be known until all partners have set their budgets.

#### **➤ *Replacement of Airwave***

The emergency services communications network 'Airwave' is being replaced over the next four years. Lancashire Constabulary was initially amongst the first forces scheduled to transfer to the new network in 2017/18 and as a result will incur considerable capital expenditure in respect of equipment and infrastructure.

It has been made clear by the Home Office that the timetable for the implementation of the new network has been delayed and a specific

implementation date has not been provided adding considerable uncertainty to the process. It is also not clear how much the transition to the new system will cost but additional contributions to reserves have been made as an attempt to mitigate some of the future costs.

➤ ***Review of the Police Funding Formula***

The Home Office intends to implement a revised funding formula in 2018/19 which will impact upon the amount of grant received by the Commissioner. The level of funding that Lancashire will receive will be entirely dependent upon the factors used to determine the new formula allocations and until more information is made available it is extremely difficult to forecast the specific impact on future years.

The previous attempt to deliver a new formula provided a range of potential outcomes for Lancashire from a loss of funding of £8.5m to a loss of funding of £25m. Clearly there is a significant risk that there could be a substantial loss of funding for Lancashire as a result of this process and the MTFS has an indicative impact at the lower end of the range shown above however until the Home Office provides a final version of the formula with specific allocations there remains a high level of uncertainty in the forecast for future years.

➤ ***Impact of cuts to Local Government funding***

Local Authorities face significant further budget reductions in future years. It is expected that this in turn will increase the demands faced by policing services particularly in relation to individuals with mental health issues. The impact of these changes is extremely difficult to forecast but as information becomes available it will be reflected in future iterations of the MTFS.

## **11. Equality Impact Assessments**

- 11.1. The Commissioner and the Constabulary have a 'Futures' 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.

## **12. Consultations**

- 12.1. The Commissioner has undertaken significant research and consultation with the people of Lancashire to ensure their needs are reflected with regards to the decision taken on the council tax precept. More than 3,900 opinions have been gathered to help inform this decision (A 37.5% increase on the number in 2016/17).
- 12.2. The different methods of consultation included:
- The telephone survey of 1,400 residents across Lancashire
  - Paper survey available via roadshows in the county
  - Online survey promoted via social media, In the Know, PCC website and local media.



- Online and paper surveys returned numbered 2,540 with 35.1% of the online/paper survey respondents being aged 65 or older.

- 12.3. 74.9% of respondents to all surveys supported increasing the council tax precept by 2% or more.  
Respondents were asked how much they were willing to pay towards policing in 2017/18 and given three options to choose from. These were:
- Freeze/keep it the same
  - Increase by 2%
  - Increase by 5%

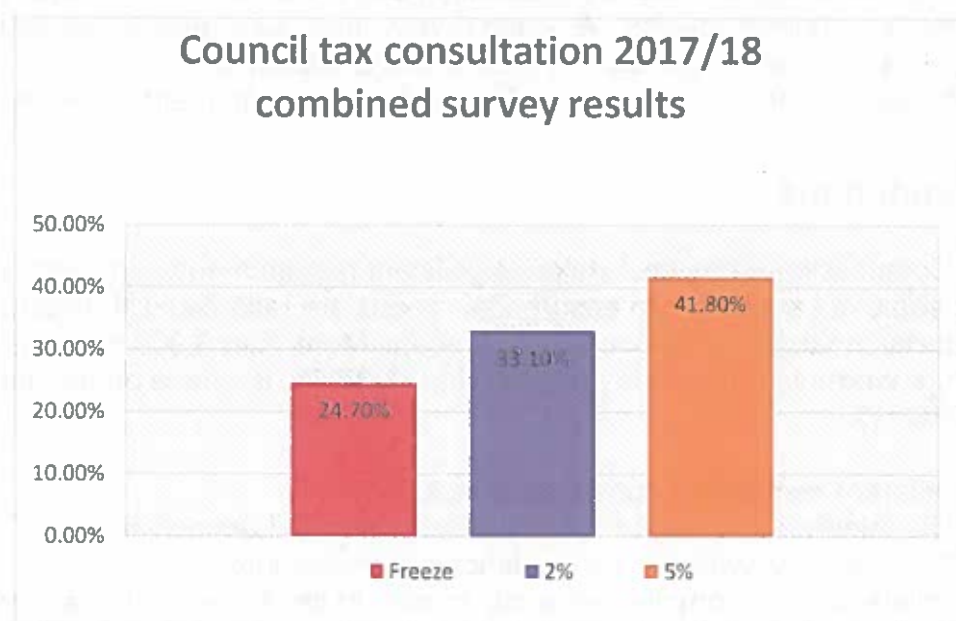
- 12.4. The combined responses were just less than 24.7% in support of a freeze, 33.1% in favour of a 2% increase and 41.8% support for a 5% increase. Slightly more supported the increase in the online survey (76.1%) than in the telephone survey (73%), although this is not statistically significant.

- 12.5. The Government continues to place a referendum threshold on council tax increases. Lancashire is just outside the list of ten local policing areas that are allowed to increase their council tax by up to £5 per year without holding a referendum.

- 12.6. However the Commissioner continues to consult on the 5% increase in order to monitor the public's genuine position on funding for police in order to demonstrate to Home Office the public's wishes in relation to funding for police.

- 12.7. It should be noted that it was made clear in the survey that any increase in council tax would not increase the number of officers and the context of the budget cuts faced by Lancashire since 2010 was also explained.

- 12.8. A breakdown of the survey outcomes is included in the graph



- 12.9. below:



12.10. The Police and Crime panel for Lancashire was consulted on, and approved, the precept proposal for 2017/18 on 23<sup>rd</sup> January 2017 and received the results of the public consultation exercise as part of that report.

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

### **13. Summary**

13.1. The Commissioner is asked to consider this report and the recommendations within it, including the approval of a 1.99% increase to the council tax precept in 2017/18.

## **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 2017, 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 2017.

## **Local Government (Access to Information) Act 1985**

### **List of Background Papers**

Paper	Date	Contact
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## Police and Crime Commissioner for Lancashire

### 2017/18 Budget Requirement and Precept

- 1 The Commissioner is asked to approve the net budget requirement for 2017/18 of £261.647m and consequent council tax requirement of £70.321m and Band D Council Tax of £165.45 (1.99% increase from 2016/17) as follows:

	£000
2017/18 Spending Requirement	265,769.171
Less Specific Grant funding	-4,122.000
<b>2017/18 Net Budget Requirement</b>	<b>£261,647.171</b>
Less Government Funding	-190,023.747
Less Council tax surplus 2016/17	-1,302.882
<b>Equals Council tax requirement 2017/18</b>	<b>70,320.542</b>
Divided by Tax Base	425,025.94
2017/18 Band D Council Tax	£165.45
2016/17 Band D Council Tax	£162.22
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	110.30
Band B	128.68
Band C	147.07
Band D	165.45
Band E	202.22
Band F	238.98
Band G	275.75
Band H	330.90

- 3 Based on each district and unitary council's proportion of the total Band D equivalent tax base of 425,025.94 the share of the total Police and Crime

Commissioner for Lancashire's precept of £70,320,542 to be levied on each council would be:

	£
Blackburn with Darwen	5,610,646
Blackpool	5,900,278
Burnley	3,735,696
Chorley	5,945,221
Fylde	4,845,038
Hyndburn	3,341,594
Lancaster	6,667,635
Pendle	3,862,976
Preston	5,934,526
Ribble Valley	3,719,481
Rossendale	3,308,669
South Ribble	5,838,333
West Lancashire	5,689,859
Wyre	5,920,590
	<hr/>
	<b>70,320,542</b>

## Capital Investment Programme 2017/18 and future years

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	Total £
<b>Endpoint Replacement/Upgrade Programme/Handheld devices</b>	<b>1,362,000</b>	<b>1,100,000</b>	<b>850,000</b>	<b>850,000</b>	<b>1,100,000</b>	<b>5,262,000</b>
Communication Room CCTV	-	120,000	-	-	-	120,000
ARLS Mapping	50,000	50,000	50,000	50,000	50,000	250,000
ARLS Telematics	90,000	1,050,000	-	-	-	1,140,000
Northgate Connect & Future Developments	1,548,000	500,000	500,000	500,000	500,000	3,548,000
Body Worn Video System	500,000	500,000	200,000	200,000	200,000	1,600,000
Replacement HR System with Fully Integrated System	377,000	50,000	50,000	50,000	50,000	577,000
Early Action Multi Agency Case Management System	400,000	75,000	75,000	75,000	75,000	700,000
Replacement PLANET Duties Planning System	350,000	-	-	-	-	350,000
Door Entry Alarms/Proximity/CCTV	75,000	75,000	75,000	75,000	75,000	375,000
Internet Based Video System (IBVS)	60,000	60,000	60,000	60,000	60,000	300,000
Business Intelligence System & Data Warehouse	86,000	50,000	20,000	20,000	20,000	196,000
Forensic Services & DMIU - LIMA purchase	100,000	-	-	-	-	100,000
ITBM Replacement	100,000	10,000	-	-	-	110,000
Chronicle (Skills Management & Armouries)	70,000	-	-	-	-	70,000
General Provision for Replacement of Systems	1,651,000	3,844,000	600,000	600,000	-	6,695,000
<b>New and Replacement Systems</b>	<b>5,457,000</b>	<b>6,384,000</b>	<b>1,630,000</b>	<b>1,630,000</b>	<b>1,030,000</b>	<b>16,131,000</b>

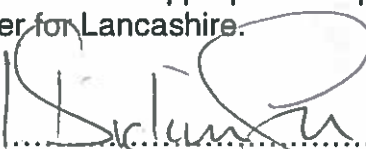
	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	Total £
Voice and Data Infrastructure Refresh	1,150,000	850,000	850,000	850,000	850,000	4,550,000
Telephony System & Infrastructure	1,060,000	-	-	-	-	1,060,000
WAN & Encryption Refresh & Network Uplift	200,000	-	-	-	-	200,000
Video Conferencing	150,000	150,000	150,000	150,000	150,000	750,000
Expansion of Wireless Capability & Internet Resilience	20,000	20,000	20,000	20,000	20,000	100,000
Microsoft Enterprise Agreement	866,000	1,000,000	1,000,000	1,000,000	1,000,000	4,866,000
SQL Licences	500,000	500,000	350,000	350,000	350,000	2,050,000
Storage Capacity Refresh	100,000	180,000	150,000	150,000	150,000	730,000
Disaster Recovery	75,000	90,000	75,000	75,000	75,000	390,000
Penetration Testing & Cyber Security	100,000	100,000	100,000	100,000	100,000	500,000
ANPR - Refurbish Original 46 Sites	865,000	250,000	150,000	-	-	1,265,000
ANPR - Replace Mobile Computer Platform in RPU Fleet	40,000	40,000	-	-	-	80,000
PSN Support of PSN Intranet	25,000	25,000	25,000	25,000	25,000	125,000
Digital Engagement	10,000	50,000	50,000	50,000	50,000	210,000
	20,000	150,000	150,000	150,000	150,000	620,000
<b>Network &amp; Security</b>	<b>5,181,000</b>	<b>3,405,000</b>	<b>3,070,000</b>	<b>2,920,000</b>	<b>2,920,000</b>	<b>17,496,000</b>
<b>Total ICT</b>	<b>12,000,000</b>	<b>10,889,000</b>	<b>5,550,000</b>	<b>5,400,000</b>	<b>5,050,000</b>	<b>38,889,000</b>



	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	Total £
Devt of Police Facilities at West Division	20,118,000	1,733,000	-	-	-	21,851,000
Minor Capital Works and Refurbishments	500,000	500,000	500,000	500,000	500,000	2,500,000
Remedial Works	500,000	-	-	-	-	500,000
Operating Base for East BCU	500,000	2,500,000	-	-	-	3,000,000
<b>Accommodation Strategy</b>	<b>21,618,000</b>	<b>4,733,000</b>	<b>500,000</b>	<b>500,000</b>	<b>500,000</b>	<b>27,851,000</b>
<b>Vehicle replacement programme</b>	<b>2,357,000</b>	<b>2,600,000</b>	<b>2,800,000</b>	<b>2,800,000</b>	<b>1,800,000</b>	<b>12,357,000</b>
HQ Crime Specialised Equipment Replacement Programme	150,000	150,000	150,000	150,000	150,000	750,000
HQ Operations Specialised Equipment Replacement Programme	550,000	50,000	50,000	50,000	50,000	750,000
<b>Total Other Schemes</b>	<b>700,000</b>	<b>200,000</b>	<b>200,000</b>	<b>200,000</b>	<b>200,000</b>	<b>1,500,000</b>
<b>TOTAL EXPENDITURE</b>	<b>36,675,000</b>	<b>18,422,000</b>	<b>9,050,000</b>	<b>8,900,000</b>	<b>7,550,000</b>	<b>80,597,000</b>

#### **4. Background Papers**

None

<b>Officer declaration</b>	<b>Date</b>
<b>LEGAL IMPLICATIONS – As above</b>	
<b>FINANCIAL IMPLICATIONS – As above</b>	
<b>EQUALITIES IMPLICATIONS – As above</b>	
<b>CONSULTATION – As above</b>	
<b>Governance &amp; Policing Lead - Office of the Police &amp; Crime Commissioner for Lancashire</b>  I have been informed about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner for Lancashire.  Signature.....  .....Date.....6.11.17.....	