



**Lancashire  
Constabulary**  
police and communities together

## JOINT MANAGEMENT BOARD

<b>ITEM : 2</b>	<b>DATE: 10 OCTOBER 2016</b>
<b>TITLE: Financial Outlook 2017/18 to 2019/20</b>	
<b>REPORT BY: Steve Freeman, Chief Finance Officer</b>	

### **Executive Summary**

This report provides an updated financial outlook for the period 2017/18 to 2019/20 and sets the scene for the further development of the Commissioner's budget for 2017/18 and financial strategy for future years.

The Commissioner will agree the 2017/18 budget and financial strategy in February 2017 and will take in to consideration the updated forecast of resources and assumptions on costs as set out in this report in setting that budget along with any updated information as it becomes available.

### **Recommendations**

The Police and Crime Commissioner is asked to:

- Note the revised assumptions set out in the report;
- Note the revised funding gap for the period 2017/18 to 2019/20 identified in the report;
- Note the risks and uncertainties identified for the period 2017/18 to 2019/20 as set out in the report.

Signature

Police and Crime Commissioner

Date

## PART I

## The Financial Outlook for the Police and Crime Commissioner 2017/18 to 2019/20

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### 1. Background

In February 2016, the Commissioner set his budget for 2016/17 and at the same time updated his Medium Term Financial Strategy (MTFS) to 2019/20. The report identified a funding gap to 2019/20 of £16.7m for which savings must be identified to ensure the budget is balanced.

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 MTFS approved in February 2016 includes a forecast reduction in general grant funding from government of 2% each year from 2017/18 to 2019/20. In the 2016/17 funding settlement a reduction in general grant was made of £1.031m. No announcement was made in respect of the level of grant funding for years beyond 2016/17 therefore the previous assumption of a cut each year of 2% has been left in place in the revised MTFS.

There have been no further announcements from the government on this and therefore these assumptions have not changed. As information emerges from Central Government on the future level of resources, the assumptions for 2017/18 and future years will be updated and the impact will be reported to the Commissioner.

The funding gap of £16.6m identified in the budget report in February 2016 is profiled as follows:

	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m
Funding gap	6.757	4.170	5.722	16.649

### 2. Update of the Medium Term Financial Strategy (MTFS)

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

#### 2.1 *Funding – Annual increase in council tax base*

The current MTFS includes a forecast increase of 0.6% in 2017/18, 0.7% in 2018/19 and 0.8% 2019/20 for the council tax base. This represents the number of Band D equivalent properties that will pay council tax each year that in turn allows the total income to be received from Council tax to be forecast for each year.

The actual increase in council tax base has averaged in excess of 1.5% for each of the last three years and intelligence collected by local billing authorities indicates that this rate of increase will continue.

It has been agreed that the forecast increase in tax base for each of the next three years should be adjusted to 1.5% each year to reflect this trend.

The impact this change in assumption has on the forecast spending gap is as follows:

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Increase tax base growth assumption to 1.5% per year	(0.610)	(0.546)	(0.481)	(1.637)

## **2.2 Changes to the cost of running the business**

### **2.2.1 Inflation**

Non-pay inflation is currently provided for at 2.5% in the MTFs. Given the historically low level of inflation coupled with all forecasts indicating this will remain the case for some time it is deemed appropriate to adjust the forecast to reflect a 2% increase on non-pay costs.

### **2.2.2 Revised forecast for the costs of capital financing**

It has been identified that the current budget for the costs of capital financing is in excess of the requirement due to reduced interest rates and the re-profiling of the capital programme. As a result the budget for such costs has been revised.

The impact of these changes on the funding gap is as follows:

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Reduce inflation applied to non-pay costs to 2%	(0.204)	(0.205)	(0.190)	(0.599)
Revise capital financing budget	(1.159)	(0.054)	0.591	(0.622)
	<b>(1.363)</b>	<b>(0.259)</b>	<b>0.401</b>	<b>(1.221)</b>

## **2.3 Increased savings**

It has been identified that additional savings have been delivered either as a result of existing proposals or as a result of changes made outside of the organisation as follows:

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Re-phase saving from redeployment mileage	(0.100)	0.100		-
Saving from bringing surveys in-house	(0.020)			(0.020)
Restructure of procurement and contracts	(0.027)			(0.027)
Reduced charge for NPAS	(0.045)			(0.045)
Restructure Special Operations	(0.023)			(0.023)
	<b>(0.215)</b>	<b>0.100</b>	<b>-</b>	<b>(0.115)</b>

## 2.4 Impact on the funding gap

The impact that the factors identified above have on the funding gap is:

	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m
<b>Current funding gap</b>	<b>6.757</b>	<b>4.170</b>	<b>5.722</b>	<b>16.649</b>
Annual increase in council tax base	(0.610)	(0.546)	(0.481)	(1.637)
Changes to the cost of running the business	(1.363)	(0.259)	0.401	(1.221)
Additional savings	(0.215)	0.100	-	(0.115)
<b>Revised funding gap</b>	<b>4.569</b>	<b>3.465</b>	<b>5.642</b>	<b>13.676co</b>

## 3. Managing the Gap

The joint OPCC and Constabulary 'Futures Group' is charged with developing savings proposals to present to the Commissioner that will meet the funding gap identified above and the process will take place over the coming months in order to develop the financial strategy for the PCC for 2017/18 to 2019/20.

## 4. 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 how likely it is that 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.

### Future levels of Funding for police services

The current forecast includes an assumed reduction in government funding of 2% per year from 2017/18 to 2019/20. There has been no information made available by the Home Office to enable this assumption to be reviewed however it should be noted that every 1% change in the level of government grant funding provided to Lancashire equates to £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 23<sup>rd</sup> November 2016 which will provide an indication of future year's funding and provide an opportunity to review this assumption further at that point.

### Changes to the Police Funding Formula calculation

The Home Secretary has expressed the desire to review the Police Funding Formula and implement a replacement in 2018/19. The funding formula is the mechanism that allocates the total amount of funding provided for policing to individual PCCs.

This will potentially have a significant impact upon the level of central government funding received by Lancashire. In the last review of the formula the reduction to Lancashire's funding ranged from £8.5m to £24.5m.

Even at the lowest end of that scale of reduction the impact is extremely significant and would require a radical reduction in the level of resources available to deliver policing services in the county.

At this stage it is uncertain if the changes will be implemented in 2018/19 and the impact on the level of funding that will be provided to Lancashire cannot be predicted to any level of reliability however it is a change that will clearly have a dramatic impact upon the MTFS and the Commissioner's budget strategy in future years if it takes place.

#### Increasing volumes in complex crime

The types of crime that the policing service must deal with are increasing in both overall numbers and in complexity, particularly in areas such as Child Sexual Exploitation, human trafficking and cybercrime.

These are resource intensive in their detection and investigation and are therefore placing an increasing pressure on the resources of the organisation which in turn translates in to increasing cost pressures.

#### Increased demand resulting from the removal of support in other parts of the public sector

As funding is reduced across the public sector the level of support for vulnerable people is reducing in particular in the mental health arena.

As this support is reduced the number of people suffering crisis is increasing and these individuals require support from the police service. This translates into a dramatic increase in the call on police resources and therefore drives an enormous amount of cost for the organisation. It has been widely reported that police forces spend only 20% of their time dealing with situations that are ultimately determined to be a crime, over 50% of police time is dealing with people suffering some form of safety or care issue.

Whilst Lancashire is pioneering the early action approach to prevent people reaching such crisis points through collaborative working with our public sector partners the day to day workload of the force demonstrates the significant pressure this issue is placing upon the constabulary and therefore its budget.

## **5. Council Tax**

The current MTFS includes no increase to council tax bills in the years 2017/18 to 2019/20.

### **1. Links to the Police and Crime Plan**

Effective management of resources is vital to enable the PCC to deliver the Police and Crime Plan

### **2. Consultation**

### **3. Implications**

#### **a. Legal**

There are no legal comments associated with this paper.

**b. Financial**

The financial implications are contained in the report

**c. Equality considerations**

There are no Equality comments associated with this paper.

**4. Background Papers**

CIPFA Treasury Management Code of Practice (2011)  
PCC for Lancashire Treasury Management Strategy

**5. Public access to information**

Information in this form is subject to the Freedom of Information Act 2000 and other legislation.

Part 1 of this form will be made available on the PCC website within 3 working days of approval. Any facts/advice/recommendations that should not be made available on request should not be included in Part 1 but instead on the separate Part 2 form.