

ACCOUNTABILITY BOARD

Meeting to be held on 15 February 2023

Financial Outlook 2023/24 to 2025/26

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EXECUTIVE SUMMARY

This report provides a financial outlook for the period 2023/24 to 2025/26 and reflects the Commissioner's budget for 2023/24.

RECOMMENDATION

The Police and Crime Commissioner is asked to:

- Note the assumptions set out in the report;
- Note the funding gap for the period 2023/24 to 2025/26 identified in the report;
- Note the risks and uncertainties as set out in the report.

The Financial Outlook for the Police and Crime Commissioner 2023/24 to 2025/26

1. Background

In setting the 2023/24 revenue budget the Commissioner has also updated his Medium-Term Financial Strategy (MTFS) to 2025/26.

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. This report sets out the latest view of the financial outlook and incorporates 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.

2. Funding

2.1. Government grants

2.1.1. Police grant

Also referred to as 'Core grant' this is the funding provided to each PCC for the delivery of policing in their area and is not ringfenced.

The amount of core grant has been confirmed to 2024/25 as part of the current Comprehensive Spending Review.

2.1.2. Pension grant

A specific grant provided from 2019/20 to meet the additional cost arising from a central government decision in respect of employer pension contributions for police officers

2.1.3. Uplift Grant

A specific grant provided once uplift allocations have been achieved (and maintained)

2.1.4. Victims Services grant

Ministry of Justice grant to support the provision of services to victims of crime

2.1.5. Counter Terrorism grant

Specific grant to support counter terror activity

2.1.6. The current assumption is that grant income (Core and specific grants) will be unchanged beyond the current Spending Review period ending in 2024/25. It is also assumed that uplift grant will 'roll in' to core grant from 2024/25 onwards.

2.1.7. This provides a forecast for government grant income as follows:

| | 2023/24 | 2024/25 | 2025/26 |
|--------------------------|----------------|----------------|----------------|
| | £m | £m | £m |
| 'Core' Grant | 231.528 | 235.233 | 235.233 |
| Uplift Grant | 6.999 | 6.999 | 6.999 |
| Pensions Grant | 3.104 | 3.104 | 3.104 |
| Victims grant | 1.755 | 1.755 | 1.755 |
| CT Grant | 1.740 | 1.740 | 1.740 |
| Government grants | 245.126 | 248.831 | 248.831 |

2.2. Council tax

2.2.1. Precept

This is the council tax charge levied by the Police and Crime Commissioner for the delivery of policing services. This is expressed as the charge for a 'Band D property' which is the measure used to calculate the total amount of council tax income each Commissioner will raise.

The Spending Review announcement by the Policing Minister stated the clear assumption that every PCC would increase their precept by £15 in 2023/24 and **£10 in 2024/25** as part of the overall funding available to policing.

As a result, the MTFs assumes that the precept will increase by £10 in 2024/25 but no increase is assumed for 2025/26.

2.2.2. Taxbase

This represents the number of properties from which council tax will be received in the County,

To enable the income from council tax to be calculated the value of the taxbase is shown as the 'number of Band D equivalent properties' and this figure is then multiplied by the Band D council tax charge for the year.

To calculate the tax base for an area, the number of dwellings in each council tax band is adjusted to take account of any discounts, premiums or exemptions. The resulting figure for each band is then multiplied by its proportion relative to Band D (from 6/9 for Band A to 18/9 for Band H) and the total across all eight bands is calculated. The tax base is used to determine the level of council tax an authority charges each dwelling.

The current assumption based on information received from the billing authorities in Lancashire is that the taxbase will **increase by 1.5%** each year.

2.2.3. Council tax surplus/deficit

The amount of council tax collected each year can vary from the amount calculated at the beginning of the year for a number of reasons. This can result in either a surplus or a deficit being realised. Council tax regulations require any surplus or deficit to be paid over in the year following its generation. In 2022/23 a surplus of £849,829 has been reported, this will

be paid over to the Commissioner in 2023/24. There is no assumed surplus or deficit in futures years within the MTFS.

2.2.4. Taking into account the assumptions above the forecast income through council tax is:

| | 2023/24 | 2024/25 | 2025/26 |
|---------------------------|----------------|----------------|----------------|
| | £m | £m | £m |
| Precept income | 115.151 | 121.596 | 123.419 |
| Surplus/Deficit | 0.850 | - | - |
| Council Tax income | 116.001 | 121.596 | 123.419 |

2.3. Total resources

2.3.1. This gives a forecast for resources of:

| | 2023/24 | 2024/25 | 2025/26 |
|-----------------------------|----------------|----------------|----------------|
| | £m | £m | £m |
| 'Core' Grant | 231.528 | 235.233 | 235.233 |
| Uplift Grant | 6.999 | 6.999 | 6.999 |
| Pensions Grant | 3.104 | 3.104 | 3.104 |
| Victims grant | 1.755 | 1.755 | 1.755 |
| CT Grant | 1.740 | 1.740 | 1.740 |
| Precept income | 115.151 | 121.595 | 123.419 |
| Council Tax Surplus/Deficit | 0.850 | - | - |
| Resources | 361.127 | 370.426 | 372.250 |

3. Expenditure

3.1. Pay

Pay represents the single most significant element of cost for the organisation and any changes have a major impact for the budget.

Costs of pay in 2023/24 reflect the pay award of 5% from September 2022 and the ongoing impact of uplift recruitment.

The MTFS assumes pay award increases of 2% in 2024/25 and future years. A 1% change in pay reflects approximately £3m of cost.

3.2. Inflation

Specific inflationary pressure for both energy and fuel is set out in the budget for 2023/24.

In addition, £2m has been identified for non-pay inflation outside of these specific areas, reflecting the general inflation assumption of 10%.

In 2024/25 and future years the MTFS forecasts general inflation at 5% and includes a pressure of £1m.

3.3. Capital financing costs

The costs associated with borrowing are forecast to increase over the MTFS period as a result of the expected level of investment in the capital programme. The forecast cost is based upon the amount in the programme for which borrowing is expected to be undertaken and the expected interest rates for the period.

3.4. Revenue contribution to the capital programme

Investment in certain capital projects reflects the short life of the asset they provide such as IT equipment or vehicles. For such assets it is more economically advantageous to fund the cost directly from the revenue budget in full rather than incur borrowing costs. The budget for this investment is to be increased by £1m in each of the years 2024/25 and 2025/26 to ensure there is sufficient resource available to deliver the investment programme.

3.5. Forecast expenditure

Reflecting the assumptions above the MTFS includes the following forecast cost pressures:

| | 2023/24 | 2024/25 | 2025/26 |
|--|----------------|----------------|----------------|
| | £m | £m | £m |
| Uplift | 4.061 | - | - |
| Pay related costs | 10.853 | 6.616 | 5.708 |
| Capital financing costs | 0.971 | 0.844 | 0.800 |
| Energy price increase | 3.600 | - | - |
| Fuel price increase | 0.500 | - | - |
| Non-pay inflation | 2.000 | 1.000 | 1.000 |
| Increase revenue contribution to the capital programme | - | 1.000 | 1.000 |
| Cost pressures | 21.985 | 9.460 | 8.508 |

4. Savings

4.1. The PCC and Chief Constable have a continuous process to identify and deliver savings to support the revenue budget.

4.2. The Constabulary develops savings proposals through its 'Business Planning' regime and presents these for agreement by the PCC as part of the annual budget setting process.

4.3. The process has delivered the following savings incorporated into the revenue budget for 2023/24:

| | £m |
|----------------------------|--------------|
| Departmental savings | 2.350 |
| Changes to operating model | 2.500 |
| Vacancy savings | 2.500 |
| Reduce establishment | 0.525 |
| Total savings | 7.875 |

4.4. This process will continue and will deliver further proposals that will meet the funding gap set out in paragraph 5.

5. Funding gap

5.1. To determine the funding gap over the MTFS period the forecast resources and cost pressures in this report are brought into the existing budget requirement to give the following:

| | 2023/24 | 2024/25 | 2025/26 |
|------------------------------------|----------------|----------------|----------------|
| | £m | £m | £m |
| Budget brought forward | 350.028 | 361.127 | 370.426 |
| Further cost pressures | 21.985 | 9.460 | 8.508 |
| Savings | -7.875 | - | - |
| Contributions to and from reserves | -3.011 | 3.011 | - |
| Spending requirement | 361.127 | 373.598 | 378.934 |
| Resources | 361.127 | 370.426 | 372.250 |
| Funding gap | 0 | 3.171 | 6.684 |

5.2. This gives a total **funding gap of £9.855m** over the current MTFS period. The PCC and Chief Constable will continue to develop savings options to meet the gap in future years.

6. Capital investment programme

6.1. The capital programme approved in the budget decision for 2023/24 is:

| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | Total |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | £m | £m | £m | £m | £m | £m |
| IT Strategy | 5.991 | 6.000 | 6.000 | 6.000 | 6.000 | 29.991 |
| Emergency Services Network (ESN) | 0.010 | 2.000 | 0 | 4.000 | 4.000 | 10.010 |
| Accommodation Strategy | 22.874 | 50.661 | 37.810 | 16.465 | 2.411 | 130.221 |
| Vehicle Replacement | 3.500 | 3.500 | 3.500 | 3.500 | 3.500 | 17.500 |
| Other Schemes | 0.840 | 0.862 | 0.721 | 1.331 | 0.543 | 4.297 |
| Total | 33.215 | 63.023 | 48.031 | 31.296 | 16.454 | 192.019 |

6.2. Each proposed project for the accommodation element of the capital programme is subject to further, final approval being provided by the Commissioner on a scheme-by-scheme basis.

6.3. The 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 borrowing.

6.4. Funding for the cost of ESN is under discussion with the Home Office. If government support is not provided the impact for Lancashire is significant requiring substantial contributions from the revenue budget to meet the cost of the scheme.

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

6.5.1. capital financing charges and the impact of borrowing particularly for long term assets (buildings)

6.5.2. the use of revenue resources to directly finance capital investment, and

6.5.3. revenue consequences arising from capital expenditure (computer hardware/software maintenance costs and running costs of new builds)

6.6. The impact of the capital programme has been reflected in the Revenue Budget for 2023/24 and in the Medium-Term Financial Strategy (MTFS) to 2025/26.

6.7. The investment programme is financed as follows:

| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | Total |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | £m | £m | £m | £m | £m | £m |
| Capital Receipts | 0 | 0 | 1.000 | 0 | 0 | 1.000 |
| Revenue Contribution | 9.975 | 10.975 | 10.975 | 10.975 | 10.975 | 53.875 |
| Borrowing | 20.780 | 47.178 | 34.970 | 14.692 | 1.340 | 118.960 |
| Funding for ESN | 0 | 2.000 | 0 | 4.000 | 4.000 | 10.000 |
| Earmarked reserves | 2.460 | 0 | 0 | 0 | 0 | 2.460 |
| Funding to be identified | 0 | 2.870 | 1.086 | 1.629 | 0.139 | 5.724 |
| Total | 33.215 | 63.023 | 48.031 | 31.296 | 16.454 | 192.019 |

6.8. The financing of the capital programme reflects the Commissioner's published Financial Strategy including the forecast use of contributions from the revenue budget. 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.

6.9. The cost of the borrowing included in the financing of the capital programme is reflected in the revenue budget requirement and MTFS.

7. Reserves

7.1. The Commissioner sets out his reserves strategy each year that explains the reserves held and their planned use in conjunction with the Medium-Term Financial Strategy.

7.2. 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 2023 is £11.454m or 3.2% of the 2023/24 revenue budget. The Chief Finance Officer considers general

reserves at this level to be appropriate and in line with the Commissioner's Reserves Strategy.

7.3. The forecast position for reserves is set out at Annex A.

7.4. 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.

7.5. The Commissioner, in conjunction with the Chief Constable, will review the capital investment strategy and the reserves strategy during 2023/24 to ensure sufficient resources are made available for the financing of the capital programme in future years.

8. Risks and uncertainties

8.1. In addition to the changes to the forecast shown above there are further issues that could affect the PCC budget in future years. These are difficult to predict in respect of likelihood and level. 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.

8.2. Inflation and pay award

8.2.1. Recent announcements about the rate of inflation and the forecast of future rates indicate that there will be significant pressure placed upon budgets in future years. The level of inflation remains uncertain and will be closely monitored as part of the continuing financial planning process.

8.2.2. In turn it is expected that this pressure will impact upon the level of pay award made to police officers and staff which will directly affect the PCC budget in future years.

8.2.3. Every 1% increase in pay costs for Lancashire equates to increased budget requirement of approximately £3m.

8.3. Future government funding

8.3.1. Recent announcements by both the Prime Minister and Chancellor have indicated that firm control over government spending in future years is necessary.

8.3.2. There is therefore significant risk in any assumption on government funding in future years that will, undoubtedly, be subject to significant pressure in future years.

8.3.3. The MTF5 therefore assumes no increase in government grants beyond 2024/25.

8.4. Additional government funding

8.4.1. The three-year funding announcement made by the Minister of Policing in December 2021, and the financial settlements subsequently provided, gives greater certainty to inform financial planning over the spending review period.

8.4.2. There continues to be a significant amount of additional funding for a number of areas including for Serious Violence, Violence Against Women and Girls and for Victims of Domestic and Sexual Abuse over the three-year funding period. Access to such funding requires a process of bidding that can be done against extremely short timescales. Successful bids can then require spending to be completed in a short space of time which can put pressure on resources and decision making.

8.4.3. The amount of funding for these area remains uncertain at this time and will be announced in the coming months.

8.5. Emergency Services Network (ESN) - Replacement of Airwave

8.5.1. The emergency services communications network 'Airwave' replacement programme has already 'slipped' by several years. There is a financial consequence of a delay in moving over to the new system that is not yet clear.

8.5.2. There is also a capital requirement for the equipment that will be required to operate on the new system that will impact upon future years' capital investment programme.

8.5.3. The financial impact of these is not yet fully known with estimated provision included in the draft capital programme based on best available information. When further information is received from the Home Office the financial forecast will be updated

8.6. Impact of the Police Pensions Remedy

8.6.1. The Government introduced changes to public sector pensions and introduced revised pension arrangements for Police Officers in 2015. As part of the implementation a series of protection measures were put in place to protect those officers within 10 years of their normal retirement date.

8.6.2. This policy was successfully challenged in the Courts and was found to be discriminatory on the basis of age. The Government has recently announced its proposals to remedy the discrimination. Whilst these proposals will take some time before they are in place, initial indications are that the cost of administering the remediation will be an additional cost on police forces and the ultimate cost of the remedy may require an increase in employer contributions of 10%.

8.6.3. This will form detailed discussion with the Government and the extent to which sufficient funding is made available will be a key element of the discussion.

9. Links to the Police and Crime Plan

9.1. All of the Commissioner's priorities are met through the effective allocation and management of the revenue budget and capital programme.

10. Consultation

10.1. The Chief Finance Officer for Lancashire Constabulary has been consulted throughout the determination of the current MTFS.

11. Implications

11.1. Legal

Contained within the report.

11.2. Financial

Contained within the report.

11.3. Equality considerations

All savings proposals contained within the report are subject to equality impact assessments forming part of the internal decision-making process that identifies them.

12. Background Papers

Annex A – Forecast reserves position

13. 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.

| | Forecast Position at 31/3/23 |
|--|---|
| | £m |
| <u>EARMARKED RESERVES</u> | |
| Reserves held for 'one-off' investment | |
| Transition Reserve | 2.356 |
| Reserves held to support operational policing | |
| Capital Financing reserve | 0.758 |
| Employee/Public Liability reserves | 0.685 |
| Protective Clothing Reserve | 0.092 |
| Vehicle Workshop Reserve | 0.008 |
| Wellbeing reserve | 0.017 |
| National Driver Offender Retraining Scheme | 0.697 |
| Operational Policing Reserve | 1.691 |
| | 3.948 |
| Proceeds of Crime Act receipts reserves | 0.875 |
| Reserves held on behalf of other organisations: | |
| Forensic Partnership reserve | 0.249 |
| Road Safety Reserves | 1.792 |
| Total Earmarked Reserves | 9.220 |
| General Reserves | 14.465 |

The Commissioner is required to review his reserves strategy each year and it is available here: <https://www.lancashire-pcc.gov.uk/transparency/financial-information/financial-strategy/> .