

## Police and Crime Panel

Meeting to be held on 27 January 2014

## Police and Crime Commissioner's Budget 2014/15

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### **EXECUTIVE SUMMARY**

This report sets out the latest financial position for the Police and Crime budgets in Lancashire and the proposals in relation to the precept.

### **RECOMMENDATION**

The Police and Crime Panel is asked to;

- Note the details of the 2014/15 police finance settlement and the overall impact on Lancashire's budget
- Consider the Commissioner's precept proposal to increase the council tax precept up to the maximum allowed as part of the referendum limits to be announced by the Government in February. Note that based on provisional limits this would see an increase of 1.99%
- make arrangements to ensure that a formal written response to the proposals is sent to the Commissioner by 8 February 2014.
- Note the availability of one-off resources of £3.1m and that these be held in an Investment Fund and used to fund invest to save projects that will:
  - improve productivity and visibility on the frontline;
  - invest in IT equipment for officers to improve efficiency and reduce costs in the longer term;
- Note the level of uncertainty around some key strands of funding for 2014/15 and that the final information will be incorporated in the budget setting report that will be presented to the Commissioner in February in order to formally set the 2014/15 budget and council tax precept.

## Introduction

The Police and Crime Commissioner has a statutory requirement to set an annual Police and Crime budget and, as part of that process, to consult with the Police and Crime Panel regarding any proposals in relation to the council tax precept. This report sets out the latest financial position for the Police and Crime budgets in Lancashire and the proposals in relation to the precept.

Included in the report is the current financial position including the changes in the level of resources, additional cost pressures, reductions in the cost base and the identification of additional savings. The report sets out;

- Strategic forecast for the revenue budget 2015/16 – 2017/18
- The revenue budget for 2014/15
- Council tax proposal for 2014/15
- Capital Investment programme 2014/15

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.

## National Funding Position

The Police and Crime Commissioner's financial strategy for the next 4 years was framed in the context of the Chancellor's announcement in June. This announcement set out details of high level funding levels for 2014/15 and 2015/16 which included a reduction in funding of 3.3% in 2014/15 and 3.2% in 2015/16. As details of funding beyond 2015/16 were not available at that time, a planning assumption that funding will reduce by 3% a year was used. This was considered reasonable given the Chancellor's previous announcements that the period of austerity is to continue for several more years.

In December 2013 the Chancellor announced the financial settlement for 2014/15 at which point it was announced that funding for 2014/15 was to reduce by 4.8%. This resulted in a further reduction in funding of £2.7m for Lancashire and was largely as a result of the Home Office decision to top slice Police and Crime budgets for national developments such as;

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

## Budget Process

Over recent months the Commissioner, in consultation with the Chief Constable, has developed a 4 year financial strategy. The strategy has been based on information provided from central government regarding funding in future years 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 have been working together to develop options to drive out further efficiencies and deliver more savings in

future years. In October 2013, a package of options that will deliver savings of £20.5m over the next 4 years was agreed by the Commissioner and steps are currently underway to implement these.

In developing options the Commissioner and the Chief Constable have looked to protect front line services as much as possible and drive out efficiencies wherever possible whilst maintaining service delivery. In total, £60.8m of savings have been agreed to date. The following table sets out where these savings have been achieved from and shows that whilst 51% of the savings have been taken out of frontline service budgets this only represents 14% of the total budget available for frontline services. Operational Support and Business Support Services have however faced greater reductions and these budgets have reduced by 39% and 30% respectively:

<b>Profile of Savings Agreed to Date</b>			
	<b>Savings Agreed (£m)</b>	<b>% of savings</b>	<b>% of service budget</b>
<b>Frontline</b>	30.7	51	14
<b>Operational Support</b>	12.8	21	39
<b>Business Support</b>	17.3	28	30
<b>Grand Total</b>	<b>60.8</b>	<b>100</b>	

The savings identified to date, whilst significant, are still not sufficient to cover the current funding gap over the next 4 years and further options totalling £19.7m will need to be developed before 2017/18. With this scale of reductions still to come it is inevitable that some future options will impact on frontline service budgets. The actual level of savings required is however dependent upon funding announcements and financial settlements. The Home Secretary has already announced that there will be further top slicing of police budgets in 2015/16 onwards for the IPCC and the Police Innovation Fund and therefore the actual level of savings required is likely to be greater than that currently forecast.

## **Revenue Resources**

The provisional police settlement was announced on 18 December. The settlement set out a funding reduction of 4.8% compared to the anticipated 3.3% in recognition of the fact that police budgets were to be top-sliced to fund national developments as set out earlier in the report. This announcement added a further £2.7m to the funding gap in Lancashire for 2014/15. The final settlement is expected to be announced in early February.

The Home Secretary also stated that further reductions in central government departmental budgets that were announced by the Chancellor in his Autumn Statement were not being passed on to police budgets in 2014/15. The impact of this in 2015/16 however was still being considered and therefore indicative funding allocations for 2015/16 were not announced. A 1% reduction in funding equates to £2m in Lancashire.

As part of the settlement the Home Office confirmed the position relating to specific grants:

### **Community Safety Grant.**

The Community Safety Grant has, from 2014/15, been rolled into the Police Main Grant. The Commissioner has used the previously ring-fenced grant to fund Community Safety Activities in conjunction with Community Safety Partnerships. The Commissioner is committed to continuing supporting community safety activities and discussions about funding requirements for 2014/15 are currently underway.

## Commissioning of Victims Services – Restorative Justice

Lancashire will receive funding of £0.472m in 2014/15 to fund the local commissioning of pre-sentence restorative justice. This funding provides a contribution for the regional referral service provided by victim support and funding to deliver restorative justice in order to support the victims of crime. Funding for future years will be made available to support ongoing commissioning arrangements,

## 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 tax based (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 council tax surplus for 2013/14 has been confirmed as £565k and represents one-off additional resource available to the PCC in 2014/15. Figures received from the District and Unitary councils have identified that the taxbase in Lancashire has increased significantly which will deliver additional resources in 2014/15 and future years. The taxbase figures received to date are provisional and will only be finalised on 31 January but the additional resource is currently forecast to be £680k on an ongoing basis and is in addition to the level of resources previously forecast. The ongoing revenue has now been reflected in the financial forecast.

## Forecast Funding Levels

The table below sets out the changes in the funding levels forecast (2014/15 – 2017/18) to that presented to the Police and Crime Panel in October 2013 and reflects the removal of the planning assumptions for council tax that had been included previously:

	£m
Previous forecast level of resources to 2017/18	257.6
Less 2% Council Tax planning assumption	(4.7)
Additional Funding Reduction	(2.7)
Additional Council Tax Base Revenue	0.7
<b>Revised Forecast Level of Resources</b>	<b>250.9</b>

## Cost Pressures

### Ill Health Retirements

Within the current budget there is provision to fund 10 ill health retirements a year. Demand has however been higher than this and reserves have been used over recent years to fund up to an additional 20 ill health retirements a year. This trend is forecast to continue and budget provision for a further 30 ill health retirements has been built in at a cost of £2.25m for 2014/15. Ill health retirements are closely monitored and reviewed by the constabulary and the position for future years will continue to be monitored and reflected in the financial strategy on an ongoing basis.

## Savings Proposals

In October 2013, the Commissioner endorsed plans by the Chief Constable to deliver savings of £20.5m over the next 4 years which placed an emphasis on delivering efficiency measures in order to protect front line services and delivery as much as possible and focus on:

- streamlining processes and centralising functions
- reducing management layers
- disestablishing vacant posts
- maximising the use of technology
- general spend less approach

A summary of the savings are set out in the table below:

Review Area	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Basic Command Unit Structures	3.019	2.384	0	0	5.403
Specialist Crime (G) Division	4.432	0.899	0.250	0.035	5.616
Specialist Support (H) Division	1.343	0.123	0.050	0	1.516
Command & Control unit	(0.585)	0.889	0.276	0	0.580
Business Support Services	1.607	0.824	0	0.223	2.654
Corporate Services	1.627	0	0.056	0	1.683
Professional Standards	0.174	0.063	0	0	0.237
Overheads	1.712	0.974	0.054	0.084	2.824
<b>Total</b>	<b>13.329</b>	<b>6.156</b>	<b>0.686</b>	<b>0.342</b>	<b>20.513</b>

## Reductions in Costs

A number of costs within the current budget can be reduced as follows;

- **Insurance** The budget is to be reduced by £96k to reflect savings achieved following a recent re-tendering of the insurance arrangements.
- **Hardship Fund** The call of the hardship fund that was established following the implementation of the Localisation of Council Tax Benefit scheme has been substantially lower than anticipated. The current budget provision of £50k is to be removed from the budget and the 2014/15 forecast underspend of £48k is to be transferred to balances at the end of the year and used to fund any claims in future years.
- **Office of the Police and Crime Commissioner** A review of current accommodation and staffing needs has been carried out and the costs of the office are to be reduced by £100k. This is to be achieved through using shared accommodation with the County Council and from a rationalisation of posts.
- **Specialist Crime (G) Division** Further savings of £62k have been identified.
- **Capital financing Charges** Overall additional provision of £400k is forecast to reflect proposed changes in the capital programme. Reductions in 2014/15 are anticipated in light of the fact that planned developments for a new police building in Accrington and a Divisional Headquarters in Blackpool have been delayed pending a review of accommodation needs as a result of the changes to the organisational structure.

The table below sets out the changes in the forecast budget requirement (2014/15 – 2017/18) to that presented to the Police and Crime Panel in October 2013 is set out in the table below;

	£m
Previous forecast budget requirements to 2017/18	295.1
Less Full Year effect of Previously Agreed savings	(4.1)
Less Savings Agreed	(20.5)
Less Reductions in Costs;	(0.3)
• Insurance	
• Hardship Fund	
• OPCC Review	
• G Division	
Capital Financing Costs	0.4
<b>Revised Forecast Level of Resources</b>	<b>270.6</b>

### Overall impact on the PCC's budget

The cumulative impact of both an increase in costs and a reduction in funding means that overall there remains a funding gap of £19.7m over the next 4 years. This is after savings of £20.8m have been achieved from the current budget process and £40m in previous years bringing the total level of savings required between 2011/12 and 2017/18 to £80.8m.

<b>The Overall Position</b>	£m
Budget Requirement to 2017/18	270.6
Forecast Resources to 2017/18	250.9
<b>Gap Remaining</b>	<b>19.7</b>

There are however a number of risks and uncertainties that will impact on the final position;

- **Finalisation of the Settlement** The final settlement will only be announced later in February and therefore the current information is based on the provisional figures that were announced on 19 December.
- **Counter Terrorism Grant** Allocations for the Counter Terrorism Grant have not been made and are expected later in the month. Should there be any changes in grant this will be offset by corresponding changes in the constabulary's expenditure requirements for counter terrorism.
- **Partner Funding for PCSOs** The Commissioner is committed to ringfencing police budgets that currently fund PCSOs however the overall funding available will be dependent upon the continuation of partner funding. Some funding for PCSOs is received from partners across Lancashire and is match funded by the Commissioner. Several partners have however indicated that the funding may not be available from 2014/15 and therefore the final PCSO budget available will not be known until all partners have set their budgets.

The profile of the current financial strategy is set out in the table below and shows the overall funding gap of £19.9m. It is however clear from the table that savings in advance of the budget requirement will be delivered in 2014/15 and consequently there is resource available for one-off investment. The fact that savings in 2014/15 is higher than is needed is as a result of the need to make some significant changes to the organisational structure and the fact that many

reviews are linked and need to be taken forward together in order to deliver the longer term savings within the required timeframe. This presents an opportunity to invest in some key priority areas.

	2014/15	2015/16	2016/17	2017/18
	£	£	£	£
Funding Gap	-2.6	2.4	11.6	8.3

## 2014/15 Budget

The 2014/15 budget requirement is set out in the table below and is based on information set out in the 4 year financial strategy:

	£m
<b>2014/15 Base Budget</b>	<b>276.458</b>
Inflation	3.467
Demand	2.618
<b>2014/15 Budget Requirement</b>	<b>282.543</b>
Less Funding Available	268.188
<b>2014/15 Funding Gap</b>	<b>14.355</b>
Less previously identified savings	-16.644
Less New Savings Identified	-0.308
<b>One Off Resources Available</b>	<b>2.597</b>

## Council Tax

As part of the budget setting process the Commissioner is required to consider whether or not to propose any changes to council tax. Limits on council tax increases are set by the Chancellor and are usually announced before or with the provisional settlement. Any proposal to increase council tax in excess of the limit set by the Chancellor would require a public referendum the costs of which would need to be met by the Commissioner. No final announcement for 2014/15 has been made although it had previously been set provisionally at 2%. A final announcement is expected in February which is after the statutory deadline for Police and Crime Commissioners to consult with their Police and Crime Panels.

In 2013/14, the Government announced greater flexibility to those police bodies that were in the lowest quartile for council. Council tax, for an average Band D property in Lancashire, is £152.92 and is currently the 11th lowest in England and is out of the 10 lowest quartile police bodies. Until the announcement is made it is not known if any additional flexibilities will be available.

There is also the possibility that the council tax referendum level may be set at a lower level than that previously announced and therefore any final decision on council tax will need to take account of any final announcements from the Chancellor.

The Government has also offered a council tax freeze grant equivalent to a 1% increase in council tax to those police bodies that freeze their council tax in 2014/15. For Lancashire this is equivalent to £0.722m. Increasing council tax by the provisional limit of 1.99% would generate

an additional £1.228m and is £0.506m more than is available from freezing council tax and accepting the freeze grant.

A series of roadshows have been held across the county to seek the views of residents on funding and council tax. In addition to this a telephone survey of 1,405 Lancashire residents was conducted by an independent research agency providing a statistically robust and representative sample of respondents with interviews split across each of the fourteen policing districts. A total of 1,836 views were gathered throughout the process.

Respondents were asked what level of council tax they would be willing to pay towards policing for 2014/15 and were provided with the following 3 options base on a cash freeze, a 2% increase and a 5% increase:

- Freeze/Keep it the same and accept a Government grant of around £600,000 per annum;
- An extra 6p per week /£3.06per year would generate an extra £1.2m per annum;
- An extra 15p per week/£7.65 per year would generate an extra £3M per annum

Overall results from the telephone survey show that three quarters (75%) of respondents were willing to pay an increased level of council tax overall with 37% willing to pay the 2% increase and 38% willing to pay the 5% increase. A quarter (25%) of respondents were not willing to pay an increased amount.

Given the strength of public support for a precept increase and the considerable gap in 2015/16 and future years it is recommended that council tax be increased up to the maximum that the referendum levels permit. Based on the current information this would mean a recommended increase in council tax of 1.99% for 2014/15 and would generate income of £1.228m which will be used to bridge the funding gap in future years.

An increase of 1.99% equates to an annual increase of £3 for a Band D property in Lancashire. In Lancashire there are a significant proportion of houses that are Band A or B and therefore the annual increase will be less than this for these households. Increasing council tax in 2014/15 will add to the one off resources that are available for investment in the service.

## **Investment programme**

There is an opportunity in 2014/15 to take advantage of the one off resources of £3.1m available as a result of delivering savings before they are required and using these to support developments and initiatives that will help the police force deliver greater efficiencies and savings in future years. It is proposed that all one-off resources be held in an Investment Fund and used to fund invest to save projects that will:

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

## **Capital Investment Programme**

A draft capital programme is currently being developed. The provisional capital programme for 2014/15 was set at £18.980m and comprises four main elements:

- IT Strategy
- Accommodation Strategy
- Vehicle replacement programme



- Other

Since then a review of the capital programme has been undertaken and some changes are emerging which will be reflected in the final capital programme which will be put to the Commissioner in February for approval.

### **Accommodation**

Within the provisional capital programme for 2014/15 was an expectation that some costs would be incurred in relation to police accommodation in Accrington and a new divisional Headquarters in Blackpool. Work on this has been delayed pending a review of accommodation needs following the implementation of the basic command unit restructure. The capital budget for accommodation will therefore be re-profiled to reflect this.

### **IT Strategy**

Additional capital investment in IT is likely to be proposed to support the business and to promote more efficient ways of working that will deliver savings in the longer term.

The revenue and funding costs of the capital programme will be assessed once they are known and will be fully reflected in the revenue budget.

### **Consultation**

Public roadshows have been held in all parts of Lancashire and these together with a telephone survey have been used to obtain views on council tax and priorities. In addition to this budget proposals have been discussed with key partners including the County, Unitary, District, Borough and City Councils in Lancashire.

### **Equality and Diversity**

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

### **Robustness of the Budget and the Adequacy of Reserves**

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.

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.

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.

In addition to general reserves, the Commissioner maintains a range of earmarked reserves for specific purposes. The most notable of these is the transition reserve which was created a number of years ago to manage the costs of downsizing the organisation. 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 and appropriate.

## **Role of the Police and Crime Panel**

Schedule 5 of the Police Reform and Social Responsibility Act (2011) states that the Commissioner must notify the Police and Crime Panel, by 1 February, of the precept which the Commissioner is proposing to issue for the financial year.

Under the requirements of the Act, Police and Crime Panels must review the proposed precept notified to it and must make a report to the Commissioner on the proposed precept. The report may include recommendations, including recommendations as to the precept that should be issued for the financial year.

The Police and Crime Panel has the power to veto the proposed precept if at least two-thirds of the persons who are members of the panel at the time when the decision is made vote in favour of making that decision. If the panel vetoes the proposed precept, the report made to the Commissioner must include a statement that the panel has vetoed it.

The Police and Crime Panel's response to the Commissioner on the precept proposal must be made by 8 February. A Commissioner is unable to set a precept until the end of the scrutiny process is reached and should the Police and Crime Panel veto the proposals, the Commissioner must submit a revised precept for consideration of the panel to which the Police and Crime Panel must also respond. A further response from the Police and Crime Panel must be received by 22 February after which the Commissioner must respond formally to the Police and Crime Panel setting out the precept for the forthcoming year.