

Police and Crime Panel

Meeting to be held on 20 January 2020

Police and Crime Commissioner's Budget 2020/21 (Appendix A refers)

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EXECUTIVE SUMMARY

This report sets out the latest forecast for the Police and Crime budgets in Lancashire for 2020/21 and the proposals in relation to the council tax precept.

RECOMMENDATION

The Police and Crime Panel is asked to;

- Note the forecast for the police finance settlement and the overall impact on Lancashire's budget;
- Note the report on the public consultation undertaken in respect of the proposed precept level;
- Consider the Commissioner's proposal to increase the council tax precept by 1.99% in 2020/21;
- Make arrangements to ensure that a formal written response to the proposals is sent to the Commissioner by 8th February 2020.
- Note the draft capital investment programme for the period 2020/21 to 2024/25 and the financing available;
- Note the proposed use of the Commissioner's reserves in 2020/21 and future years

1. Introduction

- 1.1 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 forecast for the Police and Crime budgets in Lancashire for 2020/21 and the proposals in relation to the precept.
- 1.2 As a result of the General Election in December 2019 the police finance settlement for 2020/21 has not been announced (at the time of writing this report) and the precept proposals made by the Commissioner reflect the latest forecasts in respect of the level of government grant that will be provided for 2020/21.
- 1.3 Included in the report is the current financial position that reflects the forecast changes in the level of resources, additional cost pressures, reductions in the cost base and the identification of additional savings agreed by the Commissioner since setting the budget for 2019/20. The report sets out;
 - The provisional revenue budget for 2020/21
 - The council tax proposal for 2020/21, and
 - The draft current capital investment programme for 2019/20 to 2023/24 and the financing available
- 1.4 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.

2. Background

- 2.1 This report reflects our latest forecast for the funding position for 2020/21 as we await the police financial settlement to be announced by the Home Office. It also identifies the cost pressures that have emerged, savings that have been delivered and investment that is to be made in policing in Lancashire.
- 2.2 The budget for 2020/21 reflects the latest estimate made in respect of the government grant we anticipate for the year but we recognise that the position is subject to change on receipt of the final settlement from government.

3. Funding Position 2020/21

- 3.1 Our current forecast for government grant in 2020/21 is an increase on 2019/20 level of 2%. This reflects the current, general view of PCC and Force treasurers in advance of the police finance settlement.
- 3.2 This assumption provides an increase in core grant of £3.618m giving Lancashire a total Police Grant of £200.467m for 2020/21.
- 3.3 The government has made a number of announcements in respect of 20,000 additional police officers being in place at the national level by 2023. The first tranche

of these officers is the provision of 6,000 additional officers by March 2021 including 153 additional officers in Lancashire.

- 3.4 The budget position shown in this report does NOT include the costs of the additional 153 officers and has no forecast for the income provided by government to meet these costs. It is anticipated that the cost of additional officers will be met in full by the government and will therefore have a net nil impact on the revenue budget (and therefore the precept requirement). Should funding from government not match the cost of additional officers the impact will be reflected in the revenue budget for 2020/21.

4. Revenue Budget 2020/21

Funding

4.1 *Government funding*

The government has not at the time of writing this report, issued the police finance settlement for 2020/21. In line with the current view of PCC and Force Treasurers an increase of 2% on the total government grant provided in 2019/20 has been assumed for this report giving total police grant of £200.467m in 2020/21.

4.2 *Council Tax*

It is assumed that the council taxbase in Lancashire will increased by 1.5% in 2020/21 reflecting the current trend included in our forecasts.

The latest forecast provided by District and Unitary Councils in Lancashire has identified a council tax surplus in 2019/20 of £0.879m. This will be paid to the PCC in 2020/21 and will be confirmed by authorities on 31st January 2020.

- 4.3 The table below reflects the assumptions for government grant and council tax shown above and shows the funding available in Lancashire in 2020/21 **if the council tax charge is not increased.**

	2020/21 £m
Police grant	200.467
Specific grants	3.358
Council Tax 2020/21	89.587
Council tax surplus from 2019/20	0.879
Total Resources	294.291

Pay

- 4.4 Government has awarded Police Officers and Staff a 2.5% pay increase in 2019/20 and the forecast assumes a similar increase in 2020/21. The impact of this in 2020/21 is a pressure of £6.121m.

Demand/Volume

- 4.5 A number of budgetary pressures have been identified that relate to the cost to the Constabulary of dealing with additional demand for the service and supporting the front line in meeting that increased demand:

	2020/21
	£m
Revenue consequences of the capital programme	0.467
Increased cost of injury awards for ill-health retirements	0.200
Increased cost of insurance	0.100
Increased contribution to North West ROCU (Regional Organised Crime Unit)	0.071
Full Year Effect of previously agreed commitments	0.378
Inflation on non-pay budgets	1.094
Contribution to reserves	0.948
Total	3.258

4.5.1 Revenue consequences of the capital programme

This represents the impact of the changes to the Capital Programme proposed for 2019/20 to 2023/24 upon the revenue budget and reflects changes to the costs of financing the programme in particular the forecast level of borrowing in respect of major accommodation schemes.

4.5.2 Increased cost of injury awards for ill-health retirements

The cost of additional injury awards to individuals retiring due to ill-health retirement continue to increase in value however the number of awards remains consistent. The budget has been increased to meet the increased cost faced.

4.5.3 Insurance provision

A review of the combined liability policies has indicated that the value of historic claims combined with estimates of current claims significantly outstrips the value of provision made to meet these liabilities requiring an increase in the annual provision for these costs.

4.5.4 Increased contribution to North West Regional Organised Crime Unit(NW ROCU)

The annual cost of Lancashire's membership of the North West ROCU has increased due to the impact of the police officer and police staff pay awards and increased pension costs.

4.5.5 Full year effect of previously agreed commitments

A number of commitments were agreed in setting the budget for 2019/20 that have implications for the 2020/21 revenue budget.

4.5.6 Inflation on non-staff costs

Inflation at 2% is provided for non-staff costs incurred by the organisation totalling £0.649m. Specific contract inflation costs have also been identified for the provision of Custody Health Care (£0.170m) and for the provision of Forensic science services (£0.275m).

4.5.7 Increase contribution to capital investment programme

The required capital expenditure is considered later in the report. However, it is clear that the expenditure requirements for capital are significant, due mainly to the combination of an ageing estate and the need to deliver and develop essential information technology infrastructure. When this is compared to the level of resources available, there is a clear shortfall. To safeguard and mitigate this risk the revenue budget includes an additional contribution to meet requirements in the capital investment programme for shorter life assets.

Cost reductions/Savings

- 4.6 A key element of the Commissioner's financial management strategy is the ongoing review of the organisation's activity and the identification of additional cost reductions and 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 2020/21 as follows:

	2020/21 £m
Full year effect of efficiency savings agreed in 2019/20 budget	0.562
Income from Forensic Science partnership	0.114
Total	0.676

- 4.6.1 **Full year effect of efficiency savings agreed in the 2019/20 budget**
A number of efficiency savings agreed in setting the budget for 2019/20 have an impact on the 2020/21 revenue budget.

- 4.6.2 **Forensic Academy**
Additional income will be realised through the Forensic Academy partnership.

Budget position with no council tax increase

- 4.7 The cost pressures and savings identified in 4.1 to 4.6 have the following impact on the budget for 2019/20:

	£m
Budget Requirement 2019/20	289.563
Pay Award	6.121
Demand/Volume cost pressures	3.258
Budget Requirement 2020/21	298.942
Less: Savings and cost reductions	(0.676)
Budget Requirement 2020/21	298.266
Funding 2020/21 – No increase to council tax	294.291
Funding Gap	3.975

Council Tax

- 4.8 As part of the budget setting process the Commissioner is required to consider whether or not to propose any changes to council tax. It is assumed that the government will set a limit of an increase of 1.99% without the requirement for a local referendum in the police finance settlement for 2020/21 however this will only be confirmed when the Settlement is formally announced. This assumption is in line with the latest general view of PCC and Force Treasurers.

- 4.9 **The Commissioner proposes to increase Council Tax in 2020/21 by 1.99%, that being the anticipated maximum amount allowed without conducting a referendum. This will give a council tax charge of £205.46 for a Band D property,** providing additional income of £1.783m.

Budget position with council tax increase of 1.99%

- 4.10 If the council tax precept for 2020/21 is increased by 1.99% the impact on the budget is as follows:

Budget Requirement 2019/20	£m 289.563
Pay Award	6.121
Demand/Volume cost pressures	3.258
Budget Requirement 2020/21	298.942
Less: Savings and cost reductions	(0.676)
Budget Requirement 2020/21	298.266
Funding 2020/21 – 1.99% increase to council tax	296.074
Funding Gap	2.192

The Commissioner and Chief Constable have identified the following potential savings that could meet the majority of the funding gap identified above:

	£m
Remove contribution to reserves	0.948
Remove provision for general inflation	0.649
	<u>1.597</u>

If these reductions are taken there remains a funding gap of £0.595m. The Commissioner recognises that if these options are taken as savings there may be an impact in respect of managing the revenue budget and in the financing of the capital programme. These issues will be closely monitored during the year and mitigating action taken if necessary.

The Commissioner and Chief Constable will oversee work to identify a further £0.595m of savings before agreeing the final budget to ensure a balanced position for 2020/21.

The Funding gap shown reflects the latest estimate for funding from government for 2020/21, if the announced level is different the funding gap will increase or decrease accordingly and the Commissioner will reflect this change in the 2020/21 revenue budget decision.

RISKS, OPPORTUNITIES AND UNCERTAINTIES

- 4.11 There are a number of risks, opportunities and uncertainties that will impact upon the final position for 2020/21 and the MTFs for future years:

4.11.1 Finalisation of the Settlement

The finance settlement is expected to be announced 'by mid-January' 2020 and therefore the current information is based on estimated figures.

A 2% increase in government grant is assumed giving additional income of £3.618m in 2020/21.

If the increase is at a different level the impact on the position shown above would be:

Increase in government grant	Additional/(Reduced) income	Revised funding gap
	£m	£m
0%	(3.618)	4.213
0.5%	(2.714)	3.309
1.0%	(1.809)	2.404
1.5%	(0.904)	1.499
2.0%	0	0.595
2.5%	0.904	(0.309)
3.0%	1.809	(1.214)

4.11.2 Final Council Taxbase and surplus figures

District Councils will provide final taxbase figures on 31st January 2020 that will confirm the level of council tax income for the PCC in 2020/21.

4.11.3 Police Control Room Operator Job Evaluation

The job evaluation of roles within the Police Control Room is underway and is expected to deliver a change in grade for some of the positions. The cost that will result from the evaluation process has not been finalised but is estimated to be up to £0.725m.

The cost of this process will be brought in to the budget forecast once confirmed.

4.11.4 Policing Educations Qualifications Framework (PEQF)

As part of the Policing Vision 2025 strategy a new framework for the delivery of professional training for police officers has been developed (PEQF).

The new framework applies to all officers (new recruits and existing officers) and will require a significant level of training to be provided.

The cost of providing this training is significant and for Lancashire is estimated to be in the region of £0.8m over the next three years, however some of this cost may be met from the government grant provided for the recruitment of additional officers in to the force.

Once the funding position for additional officers is confirmed in the final settlement for 2020/21 the residual impact for the revenue budget will be calculated and brought in to the revenue forecast.

4.11.5 Police Officer uplift funding

The government has announced the recruitment of an additional 6,000 police officers by March 2021 at the national level, including 153 in Lancashire.

This represents both a risk and an opportunity in respect of funding for the Commissioner.

There is a risk that the costs of an additional 153 Police Officers will not be met by additional grant from government placing a pressure on the revenue budget.

There is also an opportunity if the grant from government provides funding for support costs for the new officers that can meet some to the budget pressures identified in this report.

Until the final settlement is announced it is not clear what the potential impact will be and as previously stated it is assumed that there is a net nil impact on the 2020/21 budget at this point in time.

4.11.6 *Impact of Government policy*

Central government has introduced a number of national programmes focussed on specific areas of activity for policing. These have been funded through specific grant but confirmation of such grants is often at short notice and within strict time-bound constraint. Enabling such activity can have a wider impact on the revenue budget.

5. Medium Term Financial Strategy

- 5.1 Setting the 2020/21 revenue budget forms part of the overall Medium Term Financial Strategy (MTFS) process for the Police and Crime Commissioner. The MTFS is based on information provided from central government regarding future funding, together with professional judgement and assumptions on cost pressures including inflation and demand for services. From this, the level of savings required to deliver a balanced budget in future years is forecast and the Commissioner and the Chief Constable then work together to develop options to drive out further efficiencies and deliver the required savings in future years.
- 5.2 As identified earlier in this report the Police finance settlement for 2020/21 has not been announced therefore the MTFS reflects our latest assumptions for funding.
- 5.3 The MTFS therefore assumes a 2% grant increase in 2020/21 and no further increase to grant in subsequent years.
- 5.4 The MTFS also assumes that the council tax proposal in this report is accepted and that savings will be identified to deliver a balanced budget for 2020/21.
- 5.5 The latest MTFS is therefore as follows:

	2020/21	2021/22	2022/23	2023/24	Total
	£m	£m	£m	£m	£m
Funding	296.074	296.566	297.957	299.369	
Budget Requirement	296.074	306.141	306.270	308.814	
Funding Gap	-	9.576	8.314	9.445	27.335

- 5.6 The latest MTFS identifies a **funding gap of £27.3m to 2023/24**. This reflects that annual savings of £89m will have been delivered by the end of 2020/21.
- 5.7 The remaining funding gap of £27.3m means that **by 2023/24 potential total annual savings of more than £116m** will have been delivered since 2010/11 the equivalent of 39% of the 2011/12 budget.
- 5.8 As is always the case, the additional level of forecast savings required in future years is dependent upon future funding announcements and financial settlements. Therefore, the figures quoted above are likely to change.

Developing Savings Options

- 5.9 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 recognised as good practice by Her Majesty's Inspectorate of Constabulary (HMIC) from which Lancashire Constabulary was again rated as 'good' in the Police Effectiveness Efficiency and Legitimacy "Peel efficiency" inspection, published in November 2017.
The results of the latest efficiency inspection are expected to be published on 6 February 2020.

6. Capital Investment Programme

- 6.1 The Commissioner, as part of his Medium 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.
- 6.2 A draft capital programme is currently being developed and will be approved by the Commissioner in his budget report in February 2020. The Commissioner will also identify the funding for the capital programme as part of the decision and will consider the optimum use of the resources available to him in doing so. This will include using some of the strategic reserves that have been set aside under the Commissioner's Medium Term Financial Strategy in recent years.
- 6.3 The latest draft capital programme is set out below:

	2020/21	2021/22	2022/23	2023/24	2023/24	Total
	£m	£m	£m	£m	£m	£m
IT Strategy	6.398	2.157	4.483	5.558	3.408	22.004
Accommodation Strategy	25.389	30.430	10.850	16.650	8.800	92.119
Vehicle Replacement	3.325	2.700	3.100	4.700	4.100	17.925
Other Schemes	2.110	0.727	0.737	1.337	0.512	5.423
Total	37.222	36.014	19.170	28.245	16.820	137.471

- 6.3.1 The draft capital programme includes a number of projects delivering IT requirements including: the replacement of equipment and mobile devices, new and replacement systems, infrastructure replacement and ESN requirements
- 6.3.2 The majority of proposed spending relates to the delivery of the accommodation strategy and includes: the development of the Headquarters site, refurbishment and replacement of operational bases, public order training facilities and the refurbishment of custody suites across the estate.
- 6.3.3 The ongoing vehicle replacement programme continues and within 'other schemes' is the proposed increase in Taser provision across the force
- 6.3.4 The programme is under review and the Commissioner will agree the final programme with the Chief Constable as part of the capital and revenue budget decision in February 2020. Detail on all schemes included in the final programme will be published with that budget decision.

Financing of the capital programme

6.4 The draft investment programme is currently forecast to be funded as follows:

	2020/21	2021/22	2022/23	2023/24	2023/24	Total
	£m	£m	£m	£m	£m	£m
Capital Grant/Contributions	1.121	1.121	1.121	1.121	1.121	5.605
Capital Receipts	0.500	0.243	0	0	0	0.743
Revenue Contribution	2.600	3.716	4.658	5.658	5.658	17.317
Reserves	7.325	0.474	0	0	0	7.799
Borrowing	25.676	30.017	10.350	16.000	8.000	90.043
Financing to be identified	0	0.443	3.041	5.466	2.041	10.991
Total	37.222	36.014	19.170	28.245	16.820	137.471

6.4.1 The funding of the programme will reflect the final agreed programme and the impact of decisions made in setting the revenue budget for 2020/21.

6.4.2 The position in respect of reserves used to finance the programme reflects the latest forecast position available and is subject to change.

7. Reserves

- 7.1 The Commissioner holds two types of reserve, general reserves and earmarked reserves.
- 7.2 General reserves 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 31 March 2020 is £10.175m or 3.4% of the draft 2020/21 revenue budget.
- 7.3 General reserves at this level are considered appropriate by the Commissioner's Section 151 Officer to ensure the ability of the organisation can remain a going concern should an unexpected issue occur. This level of reserves is within the 3% to 5% range set as acceptable in the Commissioner's reserve strategy.
- 7.4 The Commissioner holds a number of earmarked reserves including those set aside for investment in the capital programme. At 31 March 2020 the reserves set aside for such investment are forecast to stand at £7.799m. The application of these reserves to fund the capital programme is shown in paragraph 6.4 and show that they will be utilised in full by 2021/22.
- 7.5 The forecast position for the Commissioner's reserves at 31 March 2020 and the reasons for holding each reserve, is as follows:

	Position at 1/4/19	Forecast Position at 31/3/20
	£m	£m
<u>EARMARKED RESERVES</u>		
Reserves held for 'one-off' investment		
Transition Reserve	14.783	7.799

Reserves held to support operational policing		
Protective Clothing Reserve	0.384	0.384
Vehicle Workshop Reserve	0.040	0.040
Wellbeing reserve	0.016	0.016
Operational Policing Reserve	1.915	0.315
	2.355	0.755
Proceeds of Crime Act receipts reserve	0.846	0.846
Reserves held on behalf of other organisations:		
Forensic Partnership reserve	0.181	0.181
Regional collaboration reserve	0.056	0.056
Road Safety Reserves	1.974	1.934
Total Earmarked Reserves	20.195	11.571
General Reserves	10.175	10.175

7.6 The Commissioner reviews his reserves strategy each year and the use of reserves to fund the capital programme will be considered as part of that review.

8. Engaging the Public on the Council Tax precept

8.1 The Commissioner is undertaking a survey with the people of Lancashire, at a statistically significant sample size, to ensure their needs are taken into consideration when setting the council tax precept. The findings of the survey will be provided at the Panel meeting on 20 January 2020. The consultation is on-going but will end before that meeting.

9. Equality and Diversity

9.1 The Commissioner and the Constabulary have a set up a Futures Programme to deliver the required savings through a series of reviews of the organisation's processes and operational arrangements. 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.

10. Robustness of the Budget and the Adequacy of Reserves

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 scale of increases in cost and demand placed on the service and the ability of the organisation to meet 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 transitional funds. At this stage it is anticipated that general reserves will be maintained at around 3.4% 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 shown in 7.5 above. The level and appropriateness of earmarked reserves is kept under review to ensure that sums are only held if required, and released when not, this will be reflected in the revised reserve strategy that will be published before 1 April 2020.

11. Role of the Police and Crime Panel

- 11.1 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 2020, of the precept which the Commissioner is proposing to issue for the financial year.
- 11.2 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.
- 11.3 The Police and Crime Panel has the power to veto the proposed precept if at least two-thirds of the panel membership (the full membership rather than those present at the meeting) 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.
- 11.4 The Police and Crime Panel's response to the Commissioner on the precept proposal must be made by 8 February 2020. 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 by the 15 February 2020 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 2020 after which the Commissioner must respond formally to the Police and Crime Panel setting out the precept for the forthcoming year.

12. Conclusion

- 12.1 The Panel are asked to consider this report and the recommendations within it.
- 12.2 The Panel are requested to provide their response to these recommendations in line with the responsibilities set out in paragraph 11 of this report.

