



REPORT TO: POLICE AND CRIME COMMISSIONER FOR LANCASHIRE

REPORT BY: LISA KITTO, CHIEF FINANCE OFFICER, OFFICE OF THE POLICE AND CRIME COMMISSIONER

DATE: 15 FEBRUARY 2013

TITLE: 2013/14 REVENUE BUDGET

Appendix A and B refers

EXECUTIVE SUMMARY

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 2013/14 and to issue a precept prior to 1st March 2013. The precept is the total budget requirement less formula funding, which for 2013/14 is the sum of Police Grant and DCLG formula funding.

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 2013/14.

RECOMMENDATION

The Commissioner is asked to

- Agree a council tax requirement/precept for 2013/14, and consequent Band D amount that is based on a 2% increase on 2012/13 levels
- approve a net budget requirement for 2013/14 of £258.733m and consequent council tax requirement of £60.656m and Band D council tax of £152.92 as set out in Appendix B.
- 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.
- Note the one-off transition grant for the localisation of council tax schemes and that this be held in general reserves to assist with meeting the financial challenges in future years.
- agree the 2013/14 delegated budget for the Constabulary and the Office of the Police and Crime Commissioner.

Decision taken by the Police and Crime Commissioner for Lancashire:

Original decision, as set out in the attached report, approved without amendment (please delete as appropriate)	YES	NO
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Original decision required to be amended and decision as detailed below:

The reasons for the amended decision are as detailed below:

Police and Crime Commissioner: Comments

DECLARATIONS OF INTEREST

The PCC is asked to consider any personal / prejudicial interests he may have to disclose in relation to the matter under consideration in accordance with the law, the Nolan Principles and the Code of Conduct.

STATEMENT OF COMPLIANCE

The recommendations are made further to legal advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation.

Signed: Police and Crime Commissioner Date:	Signed: Chief Officer: Date:
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Signed: Chief Constable Date:	Signed: Chief Finance Officer: Date:
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Background and Advice

STATUTORY REQUIREMENTS

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 2013/14 and to issue a precept prior to 1 March 2013. The precept is the total budget requirement less the sum of revenue support grant, police grant and business rates. 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.

FINANCE SETTLEMENT

The 2013/14 finance settlement set out a reduction in central government funding for the Police and Crime Commissioner for Lancashire of £3.159m which equates to 1.57% in cash terms and was in line with the Comprehensive Spending Review (CSR 10).

In the Autumn statement, that was published at the beginning of December, the Chancellor did however announce that central government funding would be reduced by a further 1% in 2013/14 with a further 1% reduction in 2014/15. The Home Office subsequently wrote out to PCCs and Chief Constables stating that PCC budgets would be protected from the 1% reduction in 2013/14 and this is reflected in the finance settlement. The funding forecast for 2014/15 therefore assumes a 2% reduction in funding. At the same time the Home Office also announced that they would be deferring the publication of 2014/15 funding allocations in view of the announcement, in the Autumn Statement, of a further reduction in the Home Office budget. Funding for 2014/15 therefore remains uncertain and the announcement that the government will publish a new CSR in the first 6 months of 2013 adds further uncertainty around future funding levels.

As part of the settlement the Neighbourhood Policing Fund which was previously received as a specific grant has been rolled into the Police Main Grant. The Neighbourhood Policing Fund is used primarily to support and fund Police Community Support Officers. The Commissioner has made a commitment to partners that where partnership funding remains to joint fund PCSOs that the funding contribution from the Commissioner will be maintained for 2013/14.

In addition to this a new Community Safety Fund grant has been received. This is a new unringfenced grant that has been created to replace numerous funding streams for drugs, crime and community safety. The Community Safety Fund will be rolled into the Police Main Grant from 2014/15. Final detail on which grants have rolled into the Community Safety Fund is still outstanding and the Home Office have been asked to provide this as soon as possible so that Commissioners can fully understand whether there are any funding issues arising from the transfer. It is unlikely that this detail will be made available before 1 March or that any impact will be significant and therefore any issues that may emerge will be managed through reserves.

Risks and Uncertainties

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.

Localisation of Council Tax Support

From April 2013 the current national scheme for council tax benefit will cease and will be replaced by a localised scheme for council tax support funded by specific grant. As part of the government's deficit recovery programme, this grant will be reduced by 10%.

The grant paid to the PCC in 2013/14 to support this scheme is £11.077m and forms part of the overall settlement. Responsibility for determining the scheme lies with the district and unitary councils however any gap between the cost of the scheme and the grant received is shared with all precepting authorities. The PCC will have to fund approximately 10% of the gap.

The government announced a £100m one-off allocation to provide support for councils to ensure that claimants on 100% support under current arrangements pay no more than 8.5% of their council tax liability. This grant is for one year only and is not sufficient to cover the additional costs of introducing schemes which meet the criteria in 2013/14. This will add to the financial burden faced by the Commissioner. Accepting the grant will place further financial pressures on the Commissioner's budget when the grant falls out in 2014/15.

The district and unitary councils have now determined their Local Council Tax Support schemes. 7 councils have agreed schemes which pass the full reduction in support to claimants and therefore do not impact upon the PCC budget.

The remaining 7 councils have agreed to accept the one year transitional grant in relation to their schemes by limiting the amount of council tax payable by a claimant who previously received 100% support to a maximum of 8.5%. The PCC will receive £115k in 2013/14 as a share of the one-year transitional grant however this is insufficient to cover the additional costs of the local schemes. The total cost of the schemes to the Commissioner's budget for 2013/14 and 2014/15 is estimated to be £0.6m in 2013/14 increasing to £0.7m in 2014/15 and this is reflected in the funding assumptions that form the basis of this report and the subsequent recommendations.

As the transitional funding is only for one year only it is proposed that this be held in reserves and used to help manage the financial challenges in future years.

Changes to Council Tax Exemptions and Discounts

The government has also announced new powers for billing authorities to vary council tax discounts and exemptions in relation to empty homes and this could potentially raise additional council tax income. The full impact of this will not be known until all billing authorities have agreed their schemes and issue their final council tax base figures but as it stands, additional income of approximately £0.8m is anticipated. This is already factored into the funding assumptions.

2013/14 BUDGET

The 2013/14 budget has been prepared by the Commissioner, in consultation with the Chief Constable, to reflect the spending requirements of the Commissioner and reflects the fact that there are a number of financial pressures that cannot be reduced. The main cost pressures are;

Inflation

The following assumptions regarding inflation have been made in the 2013/14 budget;

Budget Area	£m	Comments
Pay Award (1%)	0.9	Assumed from September 2013
Energy & Fuel (5%)	0.3	
General Prices (2.5%)	0.8	
TOTAL	2.0	

Demand Pressures

Demand pressures are summarised in the table below and more detailed explanations are provided below;

Budget Area	£m
Winsor	2.00
National Police Improvement Agency Charges	0.30
Pension Liabilities	0.30
Capital Programme	0.30
Domestic Abuse Services	0.30
Fleet Resilience	0.10
Criminal Investigation Department (CID)/Police Protection Units (PPU)	1.40
Police National Database	0.30
Council Tax Hardship Fund	0.05
Community Support Grant	0.05
TOTAL	5.10

Winsor Review

The Winsor review of Police Remuneration and Conditions for Police Officers was announced during 2012/13. Implementation of the recommendations, in particular those relating to the payment of unsocial hours, will cost a further £2m per annum. It should be noted that some of the Winsor recommendations resulted in a cost reduction but that savings of £2.7m for Special Priority Payments, were taken out of the 2011/12 budget in anticipation of the recommendation that these payments would be ceasing and are therefore not available to fund this cost.

National Police Improvement Agency (NPIA)

Some functions that are currently provided by the NPIA are transferring to other organisations and are to be provided on a full cost recovery basis in future. These services include the Police National Database (PND). The NPIA has written out to all PCCs advising them of the removal of the subsidy and the new charges which result in an increase of £0.26m for Lancashire.

Pension Liabilities

Increased contributions of £0.3m have been built in to reflect the requirement for an increased contribution to the LGPS pension fund following the independent actuary's advice to meet existing and future demands.

Capital Programme

The requirements of the 2013/14 capital programme have been considered and the budget reflects increased financing costs for the capital programme (£0.3m). The capital programme is funded by capital grant (£2.5m), capital receipts, revenue contributions and borrowing. The main elements of the capital programme include support for ICT infrastructure and a new western division HQ in Blackpool and the revenue budget takes account of the impact of the draft capital programme on the revenue budget.

Domestic Abuse

There has been a significant rise in the number of referrals to the police and to other partner agencies relating to incidents of Domestic Abuse in Lancashire. Additional funding of £2m is required across Lancashire to provide a joint commissioning fund that will secure effective provision for vulnerable victims, children and young people, change the behaviour of perpetrators, secure services for those in crisis and invest in early intervention. The Commissioner's share of this funding requirement is £314k. Other partner organisations have also been asked to contribute towards this increased provision.

Fleet

In April 2012 the Constabulary's vehicle Usage and Distribution review made recommendations including increasing the liveried fleet, in particular for Neighbourhood Policing, investment in the police fleet and management of hire cars. This additional cost (£151k) reflects the necessary investment to maintain operational resilience.

Central Intelligence Department (CID)/Public Protection Units (PPU)

A review of CID identified significant efficiencies and savings in a number of areas but these have been more than offset by the need to invest in the high risk areas affecting the most vulnerable members of our society. The additional investment (£1.372m) will be made to areas such as Child Multi-Agency Safeguarding Hubs (MASH), Dangerous and Sexual Offenders Unit (DASO) and Public Protection Units (PPUs).

Police National Database (PND)

The rollout of the national Police National Database (PND) within Lancashire has been carried out in 2012/13. Whilst there is no doubt that the PND brings significant benefits in protecting vulnerable people, the scale of the database is such that additional resources are required to deal with the current levels of demand. This is estimated to cost £0.3m.

Hardship Scheme

As part of their local council tax support scheme, each District Council has agreed a council tax support hardship scheme, designed to offer protection for those facing financial hardship as a result of becoming liable for a proportion of their council tax. Several different approaches are

being adopted by the Districts and 2 have approached the Police and Crime Commissioner for funding to support the hardship funds. the Commissioner is supportive of providing some funding for hardship schemes to those Districts that have implemented schemes that do not impact adversely on the funding available to the PCC budget. Further details are still emerging and will be the subject of further reports however it is considered prudent to make provision within the 2013/14 budget to provide some support although the level of support will be subject to further discussion. A budget of £0.05m has been set aside for this purpose and will be met from savings made within the OPCC budget.

Community Action Fund

In order to support priorities at a local level a Community Action Fund is to be created to offer small, one-off grants, to organisations carrying out activities that are linked to the Commissioner's priorities. A further report establishing the fund and the associated governance arrangements will be produced for approval by the Commissioner. Efficiencies from within the budget for the Office of the Police and Crime Commissioner have been identified in order to establish the Community Action Fund.

SAVINGS REQUIRED

As a result of the reductions in funding and the cost pressures outlined above the Commissioner is required to make significant savings in order to achieve a balanced budget. These are in addition to the £31.3m that has already been delivered in the first 2 financial years of the current Comprehensive Spending Review. A further £4.8m will be delivered in 2013/14 as a full year effect of decisions made in previous years and these have been factored into the overall 2013/14 budget. It is anticipated that additional savings of £12.9m will be required for the 2014/15 financial year with a further £9.9m in 2015/16 and 2016/17 of which £2.8m has already been identified. In total savings of £60.5m over the 6 financial years 2011/12 – 2016/17 are likely to be required representing a cash reduction of over 20% in the net budget requirement over the period.

2013/14 Budget Requirement and Funding Gap

	£m
2012/13 Base Budget	265.3
Full Year Effect of prior year one-off costs	-2.7
Full Year effect of Previous Decisions	-4.8
2012/13 Adjusted Base Budget	257.8
Transfer of NPF Grant to Police Grant	8.2
Transfer of 11/12 Council Tax Freeze grant from formula funding to specific grant	(1.7)
Council Tax Support Grant replaces Council Tax resources	(11.1)
2012/13 Base Budget following technical adjustments	253.2
Inflation	2.0
Demand	5.1
2013/14 Budget Requirement	260.3
Less Funding Available	258.7
2013/14 Funding Gap	1.6

Less New Savings Identified (See Below)	-1.6
Funding Gap Remaining 2013/14	0.0

As can be seen from the table above the funding gap for 2013/14 is £1.6m. A significant amount of work has already been carried out by the former Police Authority and Constabulary in forecasting future resources and the need to deliver savings. As a consequence of this work some of the efficiency savings that were agreed as part of the budget setting process for previous years will deliver further savings in 2013/14 of £4.752m. In addition to this the Police Authority and the Constabulary agreed to a number of additional reviews which started in 2012/13 and which will deliver savings in 2013/14. A review of the budget for the Office of the Police and Crime Commissioner has also been carried out in order to identify some further efficiencies for 2013/14. The following table sets out the details of the main efficiencies that will be applied in 2013/14;

	2013/14
	£m
Contact Management – One Site Option	0.787
Review of Management Costs	0.419
ICT Review	0.296
Council Tax Leaflet	0.018
Office of the PCC	0.100
TOTAL	1.620

Contact Management

This review will see the centralisation of the contact management service and service delivery from one site.

Management Costs

A review of management hierarchies within support services has been carried out to review and streamline the number of management posts required in the future.

ICT Review

A review of the ICT service will achieve efficiencies through more streamlined staffing arrangements and general ICT costs. This is a continuation of some reviews of the ICT service that have been carried out in previous years, savings for which have been factored into the budget in previous years.

Council Tax Leaflet

There is no longer a requirement to produce a separate council tax leaflet to be issued with all council tax bills. A council tax leaflet for the Police and Crime Commissioner will be produced but will only be made available electronically.

Office of the Police and Crime Commissioner

Efficiencies within the budget for the Office of the Police and Crime Commissioner have been identified through lower staffing costs and a general spend less approach.

PRECEPT

In determining a proposed precept for 2013/14 the PCC has taken a number of factors into consideration including;

- Council Tax Freeze Grant
- Council Tax Referendums
- Consultation Responses from the Public
- Response from the Police and Crime Panel

Council Tax Freeze Grant

Council tax freeze grant is available to those precepting authorities that either freeze or reduce their council tax precept. The grant is available for 2 years only and is equivalent to a 1% increase in council tax. Accepting the grant would not provide sufficient funding to cover the emerging cost pressures and would increase the funding gap by £0.6m in 2013/14. As the grant is for two years only, the grant funding falls out in 2015/16 and will create an additional budget pressure that will need to be managed. In total, accepting the grant will add an additional £1.3m to the funding gap over the next 3 financial years.

Council Tax Referendums

As part of the finance settlement the government set the limit that will be used to determine whether a council tax increase is excessive. For 2013/14 this was set at 2%. Any decision to increase in excess of 2% will trigger a referendum.

The government also announced that a different threshold would be set for those PCCs whose council tax was in the lower quartile. For these authorities a referendum would only be triggered if the PCC increases their basic level of council tax by more than 2% and there is a cash increase of more than £5 in the relevant basic amount. This flexibility applies to 10 PCC areas. Lancashire has the 11th lowest council tax for all PCC areas and is the 6th lowest for the shire Authorities. Had the flexibility applied to Lancashire, council tax could have increased by 3.3% before a referendum would be triggered. The Commissioner has responded to the government's consultation on the finance settlement querying the arbitrary nature and somewhat unfair approach to the cut off. It also needs to be recognised that the relatively low council tax base in Lancashire, as a result of the significant proportion of council tax payers in the lower bands, combined with the high level of reliance on grant funding, places Lancashire at a disadvantage of generating extra income from a precept increase. This adds further weight to the argument in favour of some tolerance being applied to the council tax referendum threshold in Lancashire's case.

Public Consultation

Structured telephone interviews were conducted with residents of Lancashire. The telephone survey, of 1446 Lancashire residents, was conducted by an independent research agency.

Respondents were asked about the level of council tax they pay towards policing and their views on paying increased levels to sustain or improve current services.

The question was asked in two contexts. Firstly, respondents were informed of the level of increase in council tax for policing that was required to maintain current service levels (an increase of £3.75 based on Band D household in Lancashire) and asked about their willingness to pay any increases

Respondents who were willing to pay an increased amount were then asked about potential increases they would be willing to pay, with £3.75 being the lowest and £7.50 being the highest

The majority of total survey respondents (82%) were willing to pay more than the required £3.75 needed to maintain current service levels.

Response from the Police and Crime Panel

The Commissioner's proposal to raise the precept by 2% was presented to the Police and Crime Panel on January 29. The Panel considered the proposal and have written to the Commissioner stating their agreement to the proposal. The Panel has however made a recommendation that Commissioner should look for more opportunities to develop shared services as a way of driving out further efficiencies from back office support functions. The Commissioner has acknowledged the recommendation and will be taking this forward as part of ongoing discussions on how to deliver savings in the future.

Precept Proposal

The Commissioner proposes to not accept the government's offer of a two year only council tax freeze grant and that the council tax precept for 2013/14 be increased by 2%. This equates to an annual increase of £2.99 for a Band D property in Lancashire, full details of which are set out in Appendix B. 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. Given the financial challenges ahead and the level of savings that have already been achieved, setting a council tax at a lower level would add additional financial pressure and the need to deliver further efficiencies, and potentially reductions in service.

The table below sets out the council tax precept and reflects the final confirmed taxbase and surplus/deficits on district council collection funds;

	£m
Spending Power	276.458
Less: Specific Grant Funding	(17.725)
Budget Requirement	258.733
Less Home Office Funding	(198.209)
Add Prior Year Council Tax Net Deficit	0.132
Equals Council Tax Requirement	60.656
Divided by Tax Base	396,652
Gives 2013/14 Band D Council Tax	£152.92
Percentage Increase	2%

Attached at Appendix B is a full breakdown of the net budget requirement for 2013/14 of £258.733m and the consequent council tax for each valuation band.

Cash Limits

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.

Cash Limits 2013/14	
	£m
<u>Office of the Police and Crime Commissioner</u>	2.148
<u>Chief Constable</u>	264.812
<u>Corporate Budget</u>	(8.227)
<u>TOTAL</u>	258.733

It should be noted that the corporate budget includes income of £12.791m in respect of non-ring-fenced specific grants.

RESERVES

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. General reserves are forecast to be £10.2m representing 3.8% of the 2012/13 budget. In addition to this there are earmarked reserves of £12.8m that are available to fund specific issues and events that may arise during the year. The Chief Finance Officer continues to believe that the level of reserves is appropriate.

ROBUSTNESS OF THE 2013/14 BUDGET

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.

EQUALITY IMPACT ASSESSMENT

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.

FUTURE YEARS

The Commissioner has inherited a legacy from the Police Authority and the Constabulary of good financial planning which has ensured that over the current period of financial austerity, managing the reduction in government funding of 20% has been delivered in a secure and planned way. It is clear that the period of austerity will continue beyond the current CSR period and, as set out earlier in the report, a total of £60.5m of savings are likely to be required over the period 2011/12 – 2016/17.

The longer term financial position is reviewed on a regular basis and after taking into account planned savings of £ 2.8m, savings of £10.5m in 2014/15 are likely to be required with a further £9.5m in 2015/16 and 2016/17. At £20m, this is a significant challenge for the Commissioner and the Constabulary and work is already underway to develop plans on how these can be achieved. The former Police Authority and the Constabulary have a proven track record in their ability to identify and deliver financial savings and it is anticipated that this will continue. However as the economic position becomes more difficult it will be increasingly challenging to find savings on the scale required.

There remain uncertainties around the funding for 2014/15 and in addition to this the Home Office is to carry out a review of the funding formula that is used to calculate funding allocations to PCCs. The new formula will be introduced for the 2015/16 financial year and brings with it additional uncertainty and risk in terms of planning for future years. The position will however be closely monitored and the Commissioner's financial forecast updated on a regular basis to ensure it reflects the most up to date position.

Consultations

Structured telephone interviews were conducted with residents of Lancashire. The telephone survey, of 1446 Lancashire residents, was conducted by an independent research agency.

In order to obtain a statistically robust and representative sample of respondents across the county the interviews were split across each of the fourteen policing districts. Additional quotas were applied to age, sex, ethnicity and disability to provide individual samples robust enough to be statistically analysed and compared with other demographic groups, with the quotas for sampling based on the 2011 Census data for Lancashire.

The Police and Crime panel for Lancashire has also been consulted on the precept proposals.

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

Equality Impact Assessments have been carried out on all of the proposals in order that the impact on the residents of Lancashire can be assessed.

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, and as part of the process, to consult with the Police and Crime Panel. The Police and Crime Panel must respond to the precept proposal in writing, to the PCC, by 8 February. If the panel chooses not to respond the PCP may set the proposed precept.

Police and Crime Commissioner for Lancashire

2013/14 Budget Requirement and Precept

- 1 The Commissioner is asked to approve the net budget requirement for 2013 /14 of £258.733 million and consequent council tax requirement of £60.656 million and Band D Council Tax of £152.92 (2% increase from 2012/ 13) as follows:-

	£m
Net Budget	258.733
Less:	
External resources	<u>198.209</u>
	60.524
Plus: Share of net deficits on District Councils' Collection Funds in 2012 / 13	<u>0.132</u>
Police Authority Council Tax Requirement 2012 / 13	60.656
Council Tax Base Band D equivalents	396,652
Band D Council Tax	£152.92

- 2 On the basis of the above and the fixed ratios between valuation bands set by the Government, the Police Authority's council tax for each valuation would be:

BAND	£
Band A	101.95
Band B	118.94
Band C	135.93
Band D	152.92
Band E	186.90
Band F	220.88
Band G	254.87
Band H	305.84

- 3 Based on each district and unitary council's proportion of the total Band D equivalent tax base of 396,652, the share of the total Police and Crime Commissioner for Lancashire's precept of £60,656,201 to be levied on each council would be:

	£
Blackburn with Darwen	4,673,258
Blackpool	5,267,195
Burnley	3,196,957
Chorley	5,008,148
Fylde	4,192,776
Hyndburn	2,801,352
Lancaster	5,673,352
Pendle	3,329,050
Preston	5,232,635
Ribble Valley	3,219,436
Rossendale	2,763,733
South Ribble	5,104,133
West Lancashire	5,033,941
Wyre	5,160,235
	<hr/> £60,656,201 <hr/>