

Decision No. 2015/73



REPORT TO: Police and Crime Commissioner for Lancashire

REPORT BY: Steve Freeman, Chief Finance Officer, Office of the Police and Crime Commissioner

DATE: 16 February 2016

TITLE: The Police and Crime Commissioner for Lancashire's Revenue Budget and Council Tax for 2016/17 and Capital Investment Programme for 2016/17 and Future Years

Appendices A, B and C refer

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 2016/17 and to issue a precept prior to 1st March 2016. The precept is the total budget requirement less formula funding, which for 2016/17 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 2016/17.

RECOMMENDATION

The Commissioner is asked to

- Agree the efficiency savings, reductions in costs and cost pressures as set out in the report;
- Agree a council tax requirement/precept for 2016/17, and consequent Band D amount that is based on a 1.99% increase on 2015/16 levels;
- Approve a contribution from the Revenue budget of £1.684m to the transition reserve;
- Approve a net budget requirement for 2016/17 of £261.521m and consequent council tax requirement of £67.789m and Band D council tax of £162.22 as set out in Appendix 'A';
- 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';
- Agree the 2016/17 delegated budgets for the Constabulary and the Office of the Police and Crime Commissioner.
- Approve the 2016/17 and future years Capital programme

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

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.

<p>Signed: </p> <p>Police and Crime Commissioner</p> <p>Date: 16th February 2016</p>	<p>Signed:</p> <p>Chief Officer:</p> <p>Date:</p>
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<p>Signed:</p> <p>Chief Constable</p> <p>Date:</p>	<p>Signed: </p> <p>Chief Finance Officer:</p> <p>Date: 16/2/16</p>
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1. Background and Advice

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 2016/17 and to issue a precept prior to 1 March 2016. The precept is the total budget requirement less the sum of DCLG formula funding and Police Grant. 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. This report sets out the:

- Revenue budget for 2016/17
- The Council tax for 2016/17
- A revised capital investment programme for 2016/17 and future years

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. Funding position

The Police and Crime Commissioner's Medium Term Financial Strategy (MTFS) for the period 2016/17 to 2019/20 is framed in the context of the final financial settlement for Lancashire published on 4th February 2016.

In the period 2010/11 to 2016/17 core funding for Lancashire has fallen by £50.1m (22%). This includes the reduction in 2016/17 (compared to 2015/16) of £1.031m as announced on 4th February 2016 in the final finance settlement.

3. Budget Process

3.1 *Medium Term Financial Strategy*

Over recent years the Commissioner, in consultation with the Chief Constable, has continued to develop the Medium Term Financial Strategy (MTFS). The MTFS is based on information provided from central government regarding future funding 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 are working together to develop options to drive out further efficiencies and deliver more savings in future years.

The Ministry of Justice have confirmed the level of funding the Commissioner will receive in 2016/17 in respect of the delivery of Victims Services (£1.74m). In the final settlement specific grants for Counter Terrorism activity and loan charges have not been confirmed for 2016/17.

There has been no information provided in respect of any year beyond 2016/17 so the planning assumption made in the MTFS is that these specific grants will continue at the current level. The impact on the MTFS of these planning assumptions is described in the following table:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Resources:				
Government Funding	192.537	188.686	184.913	181.214
Specific grants	4.641	4.641	4.641	4.641
Forecast Government Funding	197.178	193.327	189.554	185.855

In setting the 2015/16 revenue budget it was forecast that there was a funding gap of £19.8m between 2016/17 and 2017/18. The Commissioner has extended the MTFs to cover the period to 2019/20 and has identified a revised funding gap of £30.650m for that period to reflect the latest available information.

Savings proposals of £14.002m covering the period 2016/17 to 2019/20 have been approved by the Commissioner leaving an outstanding funding gap of £16.648m to 2019/20. Details on how this position has been reached is set out in *paragraph 4*.

This means that the Commissioner and the Constabulary have identified a total amount of savings of £75.2m from 2011/12 to 2019/20. There remains however a further £16.6m that needs to be delivered. This means that by 2019/20 total savings in excess of £91.8m will have been delivered since 2011/12 which is the equivalent of 30% of the 2011/12 original revenue budget.

As is always the case, the additional level of forecast savings required in future years is dependent upon future funding announcements and financial settlements and therefore the figures quoted above are likely to change.

3.2 Developing Savings Options

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 recently recognised as good practice by Her Majesty's Inspectorate of Constabulary (HMIC) from which Lancashire Constabulary was again rated as outstanding in the recent Police Effectiveness Efficiency and Legitimacy "Peel efficiency" inspection. Lancashire was one of only four force areas to receive an overall rating as outstanding. The following table provides an analysis of where savings have been made within the budget:

Profile of Savings Agreed to Date from 2011/12 to 2019/20			
	Savings Agreed (£m)	% of savings	% of service budget
Frontline	37.7	50	19
Operational Support	12.7	17	53
Business Support	24.8	33	43
Grand Total	75.2		

This analysis shows that whilst 50% of the savings identified have been taken out of frontline service budgets this only represents 19% of the total budget available for delivering frontline services. Operational Support and Business Support Services have however faced greater reductions and the budgets for delivering support have reduced by 53% and 44% respectively.

4. Revenue Budget 2016/17 to 2019/20

In setting the 2015/16 revenue budget it was forecast that there was a funding gap of £19.8m between 2015/16 and 2017/18. This forecast has been updated to reflect the final funding settlement for 2016/17 and the extension of the Commissioner's MTFS (Medium Term Financial Strategy) period to 2019/20, which identifies a revised gap of £16.649m. The details of this position are set out below:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Resources:					
Government Funding	192.537	188.686	184.913	181.214	
Specific grants	4.641	4.641	4.641	4.641	
Council tax	68.984	68.196	68.673	69.223	
Total Resources	266.162	261.523	258.227	255.078	
Base budget requirement brought forward	263.408	266.162	261.523	258.227	
Inflation	6.324	3.379	3.364	3.951	17.018
Demand/Volume	5.714	1.849	-1.689	-0.571	5.303
Budget Requirement	275.446	271.390	263.198	261.607	
Funding gap	9.284	9.867	4.971	6.529	30.651
Savings	-10.968	-1.426	-0.801	-0.807	-14.002
Funding gap	-1.684	8.441	4.170	5.722	16.649

This forecast gap reflects the following changes:

4.1 Government Funding

The final police grant for 2016/17 was announced on 4th February 2016. Lancashire has been allocated £192.537m which is a reduction of £1.031m on the funding for 2015/16. In future years it is assumed that government funding will reduce by 2% per annum to reflect the indicative allocations provided with the 2016/17 provisional settlement and the statement from the Home Secretary that funding will be protected only if Commissioner's increase Council Tax by 2% per year to offset the reduction in government grant.

Specific grant in respect of the delivery of counter terrorism activity will be confirmed shortly. It is assumed that any change in the level of this grant will be matched by a change in expenditure and therefore have no impact of the funding gap position.

4.2 Council Tax

The council taxbase has increased by 1.79% in 2016/17 compared to 2015/16 and the impact upon resources is reflected in the funding gap shown above. The forecast assumes further increases in the council tax base of 0.6% in 17/18, 0.7% in 18/19 and 0.8% in 19/20 to reflect the latest trend information provided by District Councils. The forecast does not include an increase to the council tax precept in any year beyond 2016/17 at this stage.

The collection fund surplus position in respect of council tax for 2015/16 has been confirmed by the Unitary and District Councils at £1.195m, this represents a one-off additional resource in 2016/17 and is also reflected in the funding gap position shown.

4.3 Inflation

The main elements of inflation included in the forecast are:

	2016/17	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m	£m
Pay	1.863	2.074	2.021	2.567	8.525
Impact of Pension changes on employer NI contributions	3.200	0	0	0	3.200
Non-pay inflation	1.261	1.305	1.343	1.384	5.293
	6.324	3.379	3.364	3.951	17.018

4.4 Demand/Volume

The demand and volume pressures are:

	2016/17	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m	£m
Revenue consequences of the capital programme	0.914	0.829	0.900	0.409	3.052
Ill-health retirements	0.250	0.200	0.200	0.200	0.850
Impact of Winsor review	-0.568	0	0	0	-0.568
Apprentices levy	0	0.800	0	0	0.800
Impact of Airwave replacement	1.600	-0.100	-1.500	0	0
Futures team	1.100	0	0	-1.100	0
Recruitment to protect frontline policing	1.400	0.700	0	0	2.100
Investment to meet high profile investigations (inc Historic CSE and major investigations)	0.905	-0.240	-0.665	0	0
Victims' services	0.104	0	0	0	0.104
Emerging issues	0.300	0	0	0	0.300
Reverse 15/16 contribution to reserves	-1.638	0	0	0	-1.638
Operational Review	1.347	-0.340	-0.624	-0.080	0.303
Total	5.714	1.849	-1.689	-0.571	5.303

4.4.1 Revenue consequences of the capital programme

This represents the impact of the increase to the Capital Programme agreed in the 2015/16 budget report 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.

4.4.2 Ill-health retirements

The costs associated with ill-health retirements have increased due to increased costs of injury settlement and injury pension payments. The number of ill-health retirements per annum is not anticipated to increase in future years.

4.4.3 Impact of the Winsor review

The review of police pay terms and conditions by Sir Tom Winsor impacted upon the revenue budget over a number of years. The reduction in cost shown in 2016/17 represents the final impact on costs of his report.

4.4.4 Apprentices levy

The Chancellor of the Exchequer, in his Autumn Statement in November 2015, announced that all employers with an annual pay bill in excess of £3m will be subject to the apprentices levy from April 2017/18.

4.4.5 Impact of Airwave replacement

The revenue budget for 2016/17 includes specific contributions to the capital programme of £1.6m in 2016/17 and £1.5m in 2017/18 in respect of the cost of replacing the Airwave emergency services communication system. This is a national project where Lancashire is one of the first forces to undertake the system replacement.

4.4.6 Futures Team

The Commissioner has agreed to provide funding for the Constabulary based 'Futures Team' which is responsible for the identification and then implementation of the transformation programme and the delivery of savings that will total almost £100m by 2019/20. The provision of this additional funding ensures that frontline policing is protected by avoiding the need to abstract officers from frontline positions to support the futures process. The change programme approach has been highlighted as best practice in the recent HMIC PEEL inspection that identified Lancashire as an outstanding force in its financial management and planning.

4.4.7 Recruitment to protect frontline policing

It has been identified that whilst the total number of officers employed by Lancashire Constabulary will need to reduce in order to deliver policing services within the available funding in future years. However, the number of officers due to leave the force over this period is forecast to considerably exceed the reduction in numbers that is required. It is therefore appropriate to recruit new officers to maintain the level of frontline policing within the forecast financial parameters. This funding provides for the additional cost of 60 new recruits per year.

4.4.8 Investment to meet high profile investigations

A number of backlogs have been identified including a significant number of historic investigations and data cleansing and transference work associated with the

implementation of new national IT systems. The funding provided is for a fixed period to ensure these backlogs are cleared allowing ongoing operational activity to take place within the annual budget.

4.4.9 Victims' services

The Ministry of Justice have confirmed an increase in specific grant funding of £0.104m in 2016/17 for the delivery of services for victims and witnesses of crime, the increase in expenditure brought in to the budget matches that increase in funding.

4.4.10 Emerging issues

A number of emerging issues have been identified including; the increase in Cyber related crime, new legislation in respect of modern slavery and equality in recruitment. The Commissioner is providing investment for staff relating to these areas to ensure that Lancashire is properly resourced to meet its obligations.

4.4.11 Operational review

Through the on-going monitoring of operational reviews undertaken in previous years a number of issues have been identified. These include the full year effect of previous proposals, the identification of additional resource requirements and the re-phasing of the delivery of previously agreed savings.

4.5 Savings

A key element of the Commissioner's financial management strategy is the ongoing review of the organisation's activity and the identification of additional savings that can be made. This work is undertaken in conjunction with the Constabulary's 'Futures Team' and in addition to the £61m of savings delivered between 2011/12 and 2015/16 the team has identified further savings that will be delivered in 2016/17 and future years as follows:

	2016/17	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m	£m
Full year effect of previously agreed savings	-0.485	-0.232	-0.220	-0.257	-1.194
Remove general inflation uplift	-0.400	-0.400	-0.400	-0.400	-1.600
Futures programme:	0	0	0	0	0
Review of Business Support	-0.712	-0.353	-0.150	-0.150	-1.365
Review of CJS	-0.136	-0.170	0	0	-0.306
Review of Operational Policing	-7.344	-0.166	0	0	-7.510
Review of Serious and Organised Crime	-1.891	-0.105	-0.031	0	-2.027
Total	-10.968	-1.426	-0.801	-0.807	-14.002

5. The 2016/17 Revenue Budget

In the development of the multi-year financial strategy shown in *paragraph 4*, the impact upon the 2016/17 revenue budget has been identified as follows:

Summary position	£m
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2015/16 Base Budget	263.408
Inflation	6.324
Demand Pressures	5.714
Previously agreed savings	-10.968
2016/17 Spending requirement	264.478

When taken into consideration this gives a total spending requirement for 2016/17 of £264.478m

5.1 The level of resources available to support the 2016/17 Revenue Budget

The revenue resources that support the Police and Crime Commissioner's 2016/17 budget are:

- Revenue grant support received from Central Government
- Specific grants from Central Government, and
- Council tax

5.1.1 Revenue Grant Support

The final police settlement announced on 4 February 2016 confirmed government revenue grant funding for Lancashire of **£192.537m**. This represents a total reduction of £1.031m from that received in 2015/16 and is in line with that reported to the Police and Crime Panel in January 2016.

5.1.2 Specific Grants

The Commissioner will receive the following specific grants in 2016/17 – the Counter Terrorism grant and Loan charges grant are provisional allocations, if the level of grant changes on final allocation, related spend will adjust accordingly to the grant level:

- Counter Terrorism grant **£2.751m**
- Loan charges grant **£0.150m**
- Restorative Justice and Victims of Crime funding **£1.740m**.

5.1.3 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 taxbase (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 City, Unitary and Borough Councils have confirmed the surplus on the Council tax collection fund in 2015/16 at £1.195m.

The level of council tax in 2016/17 reflects an increase in taxbase reported by District and Unitary councils and confirmed in final figures provided by 31 January 2016, after the Commissioner made his budget and precept report to the Police and Crime

The impact of these budget issues is set out in the table below;

	£m
Spending Requirement 2016/17	264.478
Total Resources Available	266.162
One-Off Resources Available for Investment	1.684

There is an opportunity in 2016/17 to take advantage of one-off resources of £1.684m, available as a result of the increase in council tax income in 2016/17, to support developments and initiatives that will help deliver greater efficiencies and savings in future years. It is **proposed** that the one-off resources of £1.684m be added to the transition reserve 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
- Invest in the development of the Commissioner's land and buildings as part of the Estates strategy to rationalise the property used by the organisation
- Assist the Commissioner to manage the downsizing of the organisation

Further information on proposals to use reserves to support the capital programme is set out later in the report.

The application of the additional resource as identified above will increase the 2016/17 spending requirement to £266.162m, the impact of this decision has the following impact:

	£m
2016/17 Spending Requirement	266.162
Less Specific Grant funding	-4.641
2016/17 Net Budget Requirement	261.521
Less Government Funding	-192.537
Less Council tax surplus 2015/16	-1.195
Equals Council tax requirement 2016/17	67.789
Divided by Tax Base	417,883.81
2016/17 Band D Council Tax	£162.22
2015/16 Band D Council Tax	£159.06
Percentage Increase	1.99%

Attached at Appendix B is a full breakdown of the net budget requirement for 2016/17 of £261.521m and the consequent council tax for each valuation band.

6 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 2016/17	
	£m
Office of the Police and Crime Commissioner	1.629
Community Safety and Partnerships	2.358
Chief Constable	248.649
Corporate Budget	8.885
TOTAL	261.521

The corporate cash limit includes the costs of financing the capital programme, contributions to reserves and the financing of elements of the Local Government Pension Fund.

7 Impact on the Funding Gap

It is proposed to make a one-off contribution to the transition reserve in 2016/17 to reflect the additional resource realised through council tax.

This proposal does not reduce the funding gap identified in paragraph 4 of this report, it does however change the profile of the gap as follows:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Funding Gap as shown in paragraph 4	-1.684	8.441	4.170	5.722	16.649
Contribution to transition reserve	1.684	-1.684	0	0	0.0
Revised funding gap	0.0	6.757	4.170	5.722	16.649

8 Investing for the future

In order to preserve the operational integrity and ability of the force in future years whilst delivering the savings required to meet the funding gap identified above, the Commissioner must consider a number of proposals that will change how the service operates.

It is recognised that, in order to deliver savings proposals to meet the funding gap faced by the Commissioner in future years, the way the police service is delivered will need to change significantly. It is also recognised that improving the efficiency in which assets are used such as buildings, infrastructure and IT networks and equipment, is crucial if the level of service being provided is to be maintained whilst the way it is delivered changes.

In order to improve the efficiency of the service it has been identified that significant investment is therefore needed in these assets which is recognised in both the ICT and the Asset Management strategies.

These strategies identify a number of projects that will ensure frontline policing is protected and made as efficient as possible in future years. The one-off investment

in these projects is provided through the Commissioner's Capital Investment Programme. This investment will help to deliver the permanent savings in the revenue budget that are required in future years to ensure that the Commissioner can provide policing services in Lancashire within the resources he has available.

The Commissioner, as part of his long 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.

9 The 2016/17 and future years Capital Programme

9.1 Background

The draft capital programme for the five years from April 2016 is attached at Appendix 'C' and reflects the current priorities within the Police and Crime budget and supports the 'futures' review process that has been developed in order to deliver a significant amount of revenue savings in future years. The suggested capital programme meets the needs for capital investment to maintain the infrastructure required to deliver effective policing within the County. It has been subject to considerable internal scrutiny by both the Constabulary and the Office of the Police and Crime Commissioner and reflects detailed discussion on the business benefits to be delivered from the planned investment.

9.2 Determining the Capital Programme

The main elements of the capital programme are the ICT and Accommodation strategies and reflect the need for prioritised investment in these key areas which increasingly underpin the delivery of an efficient and effective police service.

The programme follows the principles of affordability, prudence/sustainability, value for money, stewardship, planning and practicality found within the Prudential Code. A detailed appraisal process is followed in terms of assessing requirements for capital investment and the scrutiny approach taken to determine prioritised areas of investment. The consideration of requirements over a 5 year period meets the best practice outlined by the various inspection regimes which the Office of the Police and Crime Commissioner and the Constabulary are covered by. The programme also seeks to identify and manage the related costs impacting on the revenue budgets and the level of revenue resources required for the planned level of investment. This has been built into the 2016/17 revenue budget proposals and the longer term implications have been factored into the medium term financial strategy.

The total overall requirement for investment over the 5 years is £83.567m and is summarised as follows:

	2016/17	2017/18	2018/19	2019/20	2020/21	Total
	£m	£m	£m	£m	£m	£m
IT Strategy	12.751	10.080	6.160	4.565	4.290	37.846
Accommodation Strategy	12.460	14.810	1.000	0.500	0.500	29.270

Vehicle Replacement Programme	4.780	2.300	3.000	2.300	2.300	14.680
Other Schemes	0.971	0.200	0.200	0.200	0.200	1.771
Total	30.962	27.390	10.360	7.565	7.290	83.567

The key elements of the IT strategy are:

- Replacement of Desktop and mobile equipment (£7.3m)
- New and replacement key IT systems (£8.7m)
- New and replacement IT infrastructure including networks and security (£21.8m)

The main element of the accommodation strategy is the construction of the new divisional headquarters in West Division at a forecast cost of £23.8m

9.3 Financing the Capital Programme

The shape of the financing needed to support the proposed programme in 2016/17 and future years depends upon the extent of Government support for capital expenditure and upon financing decisions which the Police and Crime Commissioner can take. The Capital grant allocation for 2016/17 has been announced at £1.3m which represents a reduction of £0.85m from that provided in 2015/16.

Other 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 monies held within the capital funding reserve which arise from underspends in previous years and specific additional revenue contributions.

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

- capital financing charges and the impact of borrowing particularly for long term assets (buildings)
- the use of our own resources, and
- revenue consequences arising from capital expenditure (computer hardware/software maintenance costs and running costs of new builds)

The financing of the capital programme has been reflected in the Revenue Budget for 2016/17 and in the financial strategy for 2017/18 to 2020/21.

9.3.1 Financing of the proposed 2016/17 – 2020/21 Programme

The financing of the proposed 2016/17 to 2020/21 Programme is as follows:

	2016/17	2017/18	2018/19	2019/20	2020/21	Total
	£m	£m	£m	£m	£m	£m
Capital Grant/Contributions	1.499	1.293	1.293	1.293	1.293	6.671
Capital Receipts	6.323	1.000	0.150	0	0	7.473
Contribution from the Revenue budget	4.119	4.019	2.519	2.519	2.519	15.695

Road Safety Reserve	0.485	0	0	0	0	0.485
Transition Reserves	6.160	7.343	5.371	3.226	3.033	25.133
Borrowing	12.376	13.735	1.027	0.527	0.445	28.110
Total	30.962	27.390	10.360	7.565	7.290	83.567

In the final settlement announcement made on 4th February 2016, the Home Office confirmed capital grant allocations. Lancashire will receive £1.293m in 2016/17 which represents a £0.846m (40%) reduction from that received in 2015/16. This reduced level of grant funding has also been reflected in future years.

The financing of the capital programme reflects the forecast use of £25.133m from the Commissioner's ear-marked investment reserves. This is an increased requirement from that reported to the Police and Crime Panel in January and reflects the reduction in police capital grant from the Home office.

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.

The cost of the borrowing included in the financing of the capital programme is reflected in the revenue budget requirement and MTFS shown earlier in this report.

10 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.

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 2016 is £12.1m or 4.7% of the 2016/17 revenue budget. The Chief Finance Officer considers general reserves at this level to be appropriate.

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. These reserves include the Transition Reserve and the PCC Strategic Investment Reserve.

In total £23.2m is currently forecast to be available in these reserves (this includes the £1.684m that is available as a one-off contribution from the 2016/17 budget). However £25.133m is required from such reserves to fund the capital investment programme (as shown in paragraph 9.3.1). The Commissioner, in conjunction with the Chief Constable, anticipate that sufficient additional, contributions from the revenue budget will be made over the period of the programme to ensure this commitment is met.

11 Robustness of the 2016/17 budget

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 4.7% 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 including investment in the capital programme as identified elsewhere in this report. 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 with plans in place to invest the majority of the earmarked reserves on the capital ICT infrastructure and estates strategies that will support the future of the constabulary as it downsizes and strives to deliver high quality services.

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.

11.1 Risks and Uncertainties

In determining the 2016/17 revenue budget and developing the Medium Term Financial Strategy a number of risks and uncertainties have been identified that could impact on the financial position of the Commissioner.

- ***Specific Grant allocations*** Final allocations for specific grants such as the Counter Terrorism Grant and for the Loan Charges grant have not been made and are expected later in the month. Should there be any changes in grant provided for these services this will be offset by corresponding changes in expenditure requirements.
- ***Future levels of top-slicing*** The Commissioner's MTFS includes the impact of previously announced top-slices to the national funding level for police services. No announcements have been made, however, on the level of top-slicing that

will take place beyond 2016/17 therefore the estimated impact currently reflected in the forecast could be subject to change when future announcements are made.

- **Partner Funding for PCSOs** The Commissioner is committed to ring-fencing 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 not confirmed if funding will be available from 2016/17 and therefore the final PCSO budget available will not be known until all partners have set their budgets.
- **Replacement of Airwave** The emergency services communications network 'Airwave' is being replaced over the next four years. Lancashire Constabulary along with other forces in the region is the first scheduled to transfer to the new network in 2017/18 and as a result will incur considerable capital expenditure in respect of equipment and infrastructure. It is not clear if any funding will be made available from central government for these costs. It is also unclear how much this program will cost. At this stage £3.1m has been brought in to the capital programme to reflect the potential burden for Lancashire Constabulary along with contributions from the revenue budget identified to meet this potential cost.
- **Review of the Police Funding Formula** The Home Office intends to implement a revised funding formula in 2017/18 which will impact upon the amount of grant received by the Commissioner. The level of funding that Lancashire will receive will be entirely dependent upon the factors used to determine the new formula allocations and until more information is made available it is extremely difficult to forecast the specific impact on future years.
- **Impact of cuts to Local Government funding** Local Authorities face significant further budget reductions in future years. It is expected that this in turn will increase the demands faced by policing services particularly in relation to individuals with mental health issues. The impact of these changes is extremely difficult to forecast but as information becomes available it will be reflected in future iterations of the MTFs.

12 Equality Impact Assessments

The Commissioner and the Constabulary have a 'Futures' 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.

13 Consultations

The Commissioner has undertaken significant research and consultation with the people of Lancashire to ensure their needs are reflected with regards to the decision

taken on the council tax precept. More than 2,600 opinions have been gathered to help inform this decision.

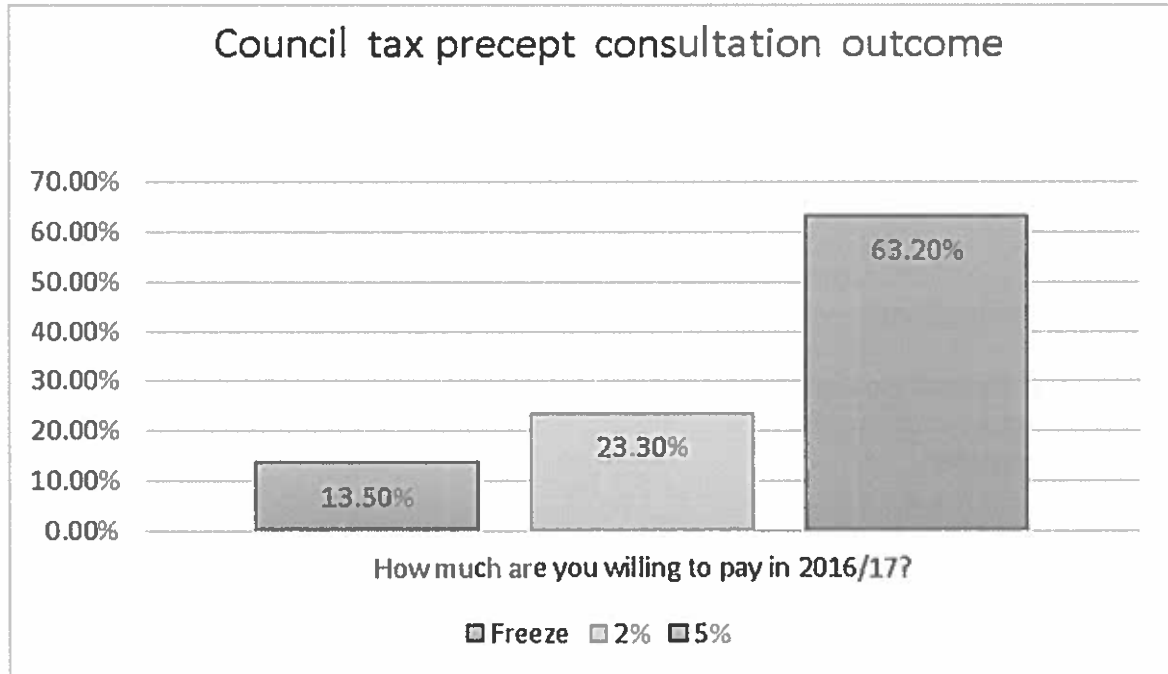
Extensive engagement with residents in Lancashire has been undertaken and two surveys have been carried out.

The first involved 1,400 people surveyed via telephone across all of the 14 districts of Lancashire (at least 100 respondents from each district were polled). This piece of work was undertaken by an independent market research company to industry standards. As well as ensuring each geographic area was covered, the survey also aimed to ensure it reflected the demography of the county in terms of the population age. Under 18s were not surveyed as they are not liable for council tax.

The second survey was conducted as part of the PCC's extensive public engagement campaign and was available via the Lancashire Police open weekend, roadshows across the county, the Commissioner's website and in every county library.

In each case respondents were asked to choose from three options. These were a precept freeze, a 2% increase and a 5% increase in their council tax payments. Respondents were also told the amount each increase would equate to and its equivalent in funding Police Officers or PCSO numbers. Respondents were also informed that any increase in council tax would not increase the number of officers and would serve only to maintain a number of officers or PCSOs equal to the amount raised.

A breakdown of the survey outcomes is included in the graph below:



The responses from the public were therefore, 13.5% in support of a freeze, 23.3% in favour of a 2% increase and 63.2% support for a 5% increase.

The Government announced a restriction on the amount that council tax can be raised without holding a referendum in the local area as part of its provisional funding settlement announcement in December 2015. However in order to gain as large a

sample of respondents as possible it is necessary to begin consultation before the settlement is announced. Hence the Commissioner decided to consult on the 5% increase to ascertain support. More respondents favour a 5% increase, but the Commissioner is unable to action this due to the referendum threshold and the significant costs that holding such a referendum would incur.

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.

14 Summary

The Commissioner is asked to consider this report and the recommendations within it, including the approval of a 1.99% increase to the council tax precept in 2016/17.

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 2016, and as part of the process, to consult with the Police and Crime Panel. The Police and Crime Panel has responded to the precept proposal enabling the Commissioner to set the precept before 1 March 2016.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper

Date

Contact

Police and Crime Commissioner for Lancashire

2016/17 Budget Requirement and Precept

- 1 The Commissioner is asked to approve the net budget requirement for 2016/17 of £261.521m and consequent council tax requirement of £67.789m and Band D Council Tax of £162.22 (1.99% increase from 2015/16) as follows:

	£m
2016/17 Spending Requirement	266.162
Less Specific Grant funding	-4.641
2016/17 Net Budget Requirement	261.521
Less Government Funding	-192.537
Less Council tax surplus 2015/16	-1.195
Equals Council tax requirement 2016/17	67.789
Divided by Tax Base	417,883.81
2016/17 Band D Council Tax	£162.22
2015/16 Band D Council Tax	£159.06
Percentage Increase	1.99%

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

BAND	£
Band A	108.15
Band B	126.17
Band C	144.20
Band D	162.22
Band E	198.27
Band F	234.32
Band G	270.37
Band H	324.44

- 3 Based on each district and unitary council's proportion of the total Band D equivalent tax base of 417,883.81, the share of the total Police and Crime

Commissioner for Lancashire's precept of £67,789,113 to be levied on each council would be:

	£
Blackburn with Darwen	5,408,694
Blackpool	5,768,868
Burnley	3,580,358
Chorley	5,707,179
Fylde	4,663,338
Hyndburn	3,096,618
Lancaster	6,440,134
Pendle	3,758,848
Preston	5,710,793
Ribble Valley	3,572,733
Rossendale	3,192,165
South Ribble	5,647,787
West Lancashire	5,518,880
Wyre	5,722,718
	<hr/> 67,789,113 <hr/>

Capital Investment Programme 2016/17 and future years

IS/IT Strategy	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	TOTAL £m
Endpoint Replacement/Upgrade Programme	1.111	0.850	1.100	0.850	0.850	4.761
Hand Held Smart Device Programme	0.350	0.200	1.500	0.300	0.200	2.550
New and Replacement Systems						
Virtual Desktop Infrastructure for Desktops/ Mobile Office/Confidential Environment	0.050	0.250	0.050	0.050	0.050	0.450
Communication Room CCTV			0.120			0.120
Mobile Data Project (ARLS) - Enhancement & New Functionality	0.050	0.025	0.025	0.025	0.025	0.150
Automatic Resource Location System (ARLS) Telematics	0.100	1.050				1.150
Digital Voice Recording - Enhancement	0.050					0.050
HOLMES Upgrade	0.046					0.046
Electronic Case Files & Custody	0.046					0.046
Sleuth System Replacement	1.400	1.400	0.250	0.200	0.200	3.450
Body Worn Video System	0.100	0.050	0.050	0.200	0.100	0.500
Replacement HR System with Fully Integrated System	0.700	0.100	0.050	0.050	0.050	0.950
Replacement CCTV in Custody Suites	0.600					0.600
Early Action Multi Agency Case Management System		0.400				0.400
Replacement PLANET Duties Planning System		0.350				0.350
Door Entry Alarms/Proximity/CCTV	0.150	0.075	0.075	0.075	0.075	0.450
Total New and Replacement Systems	3.292	3.700	0.620	0.600	0.500	8.712

	2016/17	2017/18	2018/19	2019/20	2020/21	TOTAL
	£m	£m	£m	£m	£m	£m
Network Access & Security						
Voice and Data Infrastructure Refresh	1.375	0.900	0.800	0.800	0.800	4.675
Telephony System & Infrastructure	0.890	0.300	0.015	0.015	0.015	1.235
WAN & Encryption Refresh & Network Uplift	0.552	0.200				0.752
Video Conferencing	0.151	0.050	0.050	0.050	0.050	0.351
Expansion of Wireless Capability & Internet Resilience	0.091	0.020	0.020	0.020	0.020	0.171
Microsoft Enterprise Agreement	0.825	0.825	0.825	0.825	0.825	4.125
SQL Licences	0.500	0.500	0.500	0.500	0.500	2.500
Hardware Security Modules	0.050					0.050
Data Backup/Image Storage	0.150	0.150	0.150	0.150	0.150	0.750
Disaster Recovery	0.075	0.075	0.075	0.075	0.075	0.375
CSP/PSN Penetration Testing/Remedial Improvements to New Infrastructure and Applications	0.171	0.080	0.080	0.080	0.080	0.491
ANPR - New Sites & Refurbish Existing Sites (Priority 2 and 3)	0.323					0.323
ANPR - Refurbish Original 46 Sites		0.230	0.200	0.075		0.505
ANPR - Upgrade to Windows 7	0.118					0.118
ANPR - Replace Mobile Computer Platform	0.250					0.250
CJX/PSN Transition	0.050	0.025	0.025	0.025	0.025	0.150
Replacement Intranet /Digital Storage and Management Platform	0.650	0.075	0.050	0.050	0.050	0.875
Emergency Services Network (ESN) – Airwave replacement	1.600	1.500				3.100
Contact Management Telephony/ICCS Stability	0.250					0.250
Digital Engagement	0.177	0.150	0.150	0.150	0.150	0.777
Total Network & Security	7.998	5.330	2.940	2.815	2.740	21.823
Total ICT	12.751	10.080	6.160	4.565	4.290	37.846

	2016/17	2017/18	2018/19	2019/20	2020/21	TOTAL
	£m	£m	£m	£m	£m	£m
Accommodation Strategy						
Development of Police Facilities at West Division	11.958	11.810	0.000			23.768
Minor Capital Works and Refurbishments	0.502	0.500	0.500	0.500	0.500	2.502
Operating Base for East BCU		2.500	0.500			3.000
Total Accommodation Strategy	12.460	14.810	1.000	0.500	0.500	29.270
Vehicle replacement programme						
	4.780	2.300	3.000	2.300	2.300	14.680
Other Schemes						
HQ Crime Specialised Equipment Replacement Programme	0.180	0.150	0.150	0.150	0.150	0.780
HQ Operations Specialised Equipment Replacement Programme	0.100	0.050	0.050	0.050	0.050	0.300
Digital Speed Camera Upgrade	0.485					0.485
Police Innovation Fund -Early Action	0.206					0.206
Total Other Schemes	0.971	0.200	0.200	0.200	0.200	1.771
TOTAL EXPENDITURE	30.962	27.390	10.360	7.565	7.290	83.567