

Decision No. 2014/60



REPORT TO: Police and Crime Commissioner for Lancashire

REPORT BY: Lisa Kitto, Chief Finance Officer, Office of the Police and Crime Commissioner

DATE: 16 February 2015

TITLE: The Police and Crime Commissioner for Lancashire's Revenue Budget and Council Tax for 2015/16 and Capital Investment Programme for 2015/16 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 2015/16 and to issue a precept prior to 1st March 2015. The precept is the total budget requirement less formula funding, which for 2015/16 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 2015/16.

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 2015/16, and consequent Band D amount that is based on a 1.99% increase on 2014/15 levels;
- Approve a contribution from the Revenue budget of £1.638m to the Strategic Investment Reserve;
- Approve that the one-off resource realised from the 2014/15 council tax surplus of £1.090m be set aside in the earmarked Strategic Investment Reserve;
- Approve a net budget requirement for 2015/16 of £258.871m and consequent council tax requirement of £65.303m and Band D council tax of £159.06 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 2015/16 delegated budget for the Constabulary and the Office of the Police and Crime Commissioner.
- Approve the 2015/16 and future years Capital programme and that £12.3m of reserves be committed to supporting the 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

Original decision required to be amended and decision as detailed below:

The reasons for the amended decision are as detailed below:

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Police and Crime Commissioner: Comments
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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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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 2015/16 and to issue a precept prior to 1 March 2015. 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 2015/16
- The Council tax for 2015/16
- A revised capital investment programme for 2015/16 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 2015/16 to 2017/18 is framed in the context of the Chancellor's Autumn Statement published on 3 December 2014. The Chancellor was clear that reductions in central government departmental budgets would continue to fall until 2020/21 and would do so at the same rate as for the period 2010/11 to 2014/15.

In the period 2010/11 to 2014/15 funding for Police and Crime Commissioners has fallen by 20% in real terms (15.4% cash terms). On 4th February 2015 the Home Office announced the final Police Grant allocations for 2015/16 which identified a reduction in funding for Lancashire of £9.733m (4.8%) compared to 2014/15. This is £3.1m more than was originally forecast for 2015/16 and, based on this, a total reduction of £4.4m more than originally forecasted to the period 2017/18 is now expected.

The 2015/16 allocation to Lancashire reflects the impact of a reduction in the formula grant (£7.533m) and an increase in the amount top-sliced to support specific projects and functions nationally (£2.2m).

Over the last 2 years (2014/15 and 2015/16) a total of £4.16m has been top-sliced from the Lancashire budget to support these special projects and functions at a national level. These include Police Innovation Fund, Independent Police Complaints Commission (IPCC), and Her Majesty's Inspectorate of Constabularies (HMIC) together with some top-slices in 2015/16 for Police Special Grant and Major Projects (Replacement of Airwave Communication System, Home Office Biometrics and National Police Data Programme).

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.

No information has been provided beyond 2015/16 so a planning assumption of a reduction of 3% per year to government funding in 2016/17 and 2017/18 has been used in the MTFS. This is still considered reasonable given the Chancellor's statement regarding future reductions to public spending.

In setting the 2014/15 budget, it was identified that further savings of £19.2m for the period 2015/16 to 2017/18 would be required. The Commissioner has updated this forecast to reflect the latest information available and, as a result, the gap has increased to £22.1m. This in turn, increased the overall level of savings to be delivered between 2011/12 and 2017/18 is £83.2m. Details on how this position has been reached is set out in *paragraph 4*.

As is always the case, the additional level of savings required in future years is dependent upon future funding announcements and financial settlements and therefore the figures quoted above are likely to change. However in his latest Autumn Statement the Chancellor has made it clear that the rate of reduction in funding for the Public Sector will continue at the 'current rate' until 2020/21. Should this be the case then a further reduction of £20m or more for the years from 2018/19 to 2020/21 may be anticipated. Overall the level of savings that may need to be delivered in total could be £103.2m.

3.2 *Developing Savings Options*

In developing savings 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 rated as outstanding in the recent 'Policing in Austerity – meeting the challenge' 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 2017/18			
	Savings Agreed (£m)	% of savings	% of service budget
Frontline	30.7	51	14
Operational Support	12.9	21	39
Business Support	17.5	28	30
Grand Total	61.1	100	

This analysis shows that whilst 51% of the savings identified have been taken out of frontline service budgets this only represents 14% 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 39% and 30% respectively.

4. Revenue Budget 2015/16 to 2017/18

In setting the 2014/15 revenue budget it was forecast that there was a funding gap of £19.2m between 2015/16 and 2017/18. This forecast has been updated to reflect the final funding settlement for 2015/16 which identifies a revised gap of £22.1m. The details of this position are set out below:

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Funding Gap as at February 2014	-0.8	11.7	8.3	19.2
Changes in Resources:				
Changes to government grant	3.1	1.0	0.3	4.4
Increase in Council tax base	-0.2	-0.2	-0.2	-0.6
Changes to Cost base:				
Inflation	0.5	0.4	1.0	1.9
Demand/Volume	1.2	0.3	-0.3	1.2
Reductions to cost base	-1.4	-0.4	-0.4	-2.2
Changes to Savings:				
Re-profile existing savings	0.3	-0.3		-
Reductions to previously agreed savings	0.3	-	0.2	0.5
Additional savings	-2.0	-	-	-2.0
Repayment of long term debt	-0.3	-	-	-0.3
Current Forecast gap	0.7	12.5	8.9	22.1

This forecast gap reflects the following changes:

4.1 Government Grant (£4.4m)

The final police grant for 2015/16 was announced on 4 February 2015 in which Lancashire was allocated £193.568m, a reduction of £9.733m (4.8%) on the funding for 2014/15. This was significantly greater than the indicative 3.3% reduction for 2015/6 announced by the Chancellor with the 2014/15 Settlement and equates to a further reduction of £3.1m for Lancashire in 2015/16 rising to £4.4m by 2017/18. This further reduction includes the significant impact from top-slices to the national allocation for police funding (as set out in *paragraph 2*).

4.2 Tax base (£0.6m)

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 Commissioner's financial strategy has been updated to reflect the underlying trend in the level of taxbase in Lancashire which has been increasing, on average, each year by 0.3% which is equivalent to £0.2m per annum. The forecast level of resources in the revenue budget was adjusted to reflect this anticipated increase each year.

4.3 Inflation (£1.9m)

Previously, pay increases of 1% have been assumed in the financial forecast. The latest intelligence received indicates that an increased pay offer will be made for the period 1/4/15 to 30/9/2016 to Police Staff. This has been reflected in the MTFs and, in light of this, an assumption of a 1.5% per annum pay increase for all staff thereafter has been made. This has been applied to Police Officers as well as Staff because in recent years Police Officer pay awards have been made at a similar level to those made to Police Staff.

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Additional Cost pressure - Pay Inflation	0.513	0.393	1.029	1.935

4.3 Demand/Volume (£1.2m)

Additional cost pressures due to changes in activity have been identified as part of the monitoring process in 2014/15, these changes have the following impact on the MTFs:

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
MASH	0.114		-0.073	0.041
Pursuit training	0.266		-0.266	-
National IT services	0.393			0.393
Revenue consequences of the capital programme	0.361	0.330	-0.030	0.661
Insurance	0.100			0.100
Additional Cost Pressures - Demand	1.234	0.330	-0.369	1.195

4.3.1 MASH (Multi-Agency Safeguarding Hub) (£0.41m)

The MASH is a multi-agency hub which seeks to reduce the threat to our most vulnerable by ensuring that early and effective interventions are put in place which in many cases may avoid costlier interventions such as residential child care placement. Costs have been incurred at a level greater than previously anticipated and the forecast has been adjusted to reflect the additional resourcing needed to deal with the demand for the service.

4.3.2 Pursuit training

Nationally, as a result of Coroners' recommendations following road traffic inquests, there is a need to train police officers in initial pursuit techniques. A 3 year programme has been developed by the constabulary after which the demand can be managed through the training programme. The costs of the first year have been managed within the 2014/15 budget however this is not sustainable for the remaining two years of the programme.

4.3.3 National IT services (£0.393m)

The National IT Company is responsible for the procurement of IT services provided to forces on a national basis. The charge for these services is to increase in 2015/16 from the level charged in 2014/15 by £0.393m.

4.3.4 Revenue consequences of the capital programme (£0.661m)

This represents the impact of the increase to the Capital Programme agreed in 2014/15 upon the revenue budget and reflects the additional costs of financing the programme.

4.3.5 Increase in Insurance premiums (£0.100m)

A recently completed procurement process in respect of insurance for the Commissioner and Constabulary has identified an increase in the annual premiums required in respect of on-going cover.

4.4 Reductions to Cost Base (£2.2m)

The ongoing monitoring and review process has identified changes in a number of cost forecasts previously included in the MTFs as follows:

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Remove automatic uplift for non-pay inflation	-0.800	-0.400	-0.400	-1.600
Furniture and Equipment	-0.410			-0.410
Carbon reduction levy	-0.150			-0.150
PNICC/NDEU cessation of charge	-0.086			-0.086
Reductions to cost base	-1.446	-0.400	-0.400	-2.246

4.4.1 Remove automatic uplift for non-pay inflation (£1.6m)

The strategic forecast has previously been prepared with an assumption on inflation. Inflation for non-pay expenditure is, in the main, relatively low and therefore has been removed from the forecast. Inflation on pay, fuel and where there is a contracted requirement will continue to be reflected in the MTFs. The savings in the first year are higher due to the fact that this includes an element of adjustment from previous years.

4.4.2 Furniture and equipment (£0.410m)

Adjusting the budgets for furniture and equipment in line with current spending levels.

4.4.3 Carbon Reduction levy (£0.150m)

Removal of the carbon reduction levy budget as this no longer applies to PCCs.

4.4.4 PNICC/NDEU Charge (£0.086m)

The removal of the national charge for Police National Information and Coordination Centre and National Domestic Extremism Unit (PNICC/NDEU)

4.5 Savings (£1.4m)

The ongoing monitoring and review process has identified a number of changes to the level of previously agreed savings along with a number of additional savings that can be delivered. Some of the savings cannot be made within the anticipated timeframes and therefore some re-profiling has been made. Other forecast savings are no longer considered achievable. In recognition of this and the need to make additional savings to overcome the forecast budget gap, additional efficiency savings have been identified. The table below sets out the position in relation to savings and the impact on the financial strategy:

Efficiency Savings within the financial strategy				
	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m
Savings to be re-profiled:				
Contact Management	0.276	-0.276		0.000
Changes to previously agreed savings:				
Administration OR	0.116			0.116
Corporate Services OR	0.071			0.071
ICT OR3	0.075			0.075
Business Support OR	-0.037	0.044	0.223	0.230
HQ Crime review	0.065	-0.050	-0.050	-0.035
G Division review	0.059			0.059
Changes (Reduction) in previously agreed savings	0.349	-0.006	0.173	0.516
Additional savings identified:				
Staff terms and conditions	-0.535		0.042	-0.493
HR/Payroll review	-0.455			-0.455
Forensic/DNA services	-0.300			-0.300
Fleet Management	-0.243	-0.018	-0.018	-0.279
Force collaborations	-0.227			-0.227
Health – Clinical Services	-0.078			-0.078
The Office of the PCC – staff cost savings	-0.070			-0.070
Procurement	-0.041			-0.041
ICT – Airwave costs	-0.017			-0.017
Additional Savings	-1.966	-0.018	0.024	-1.960
Net Change (Increase) in savings	-1.341	-0.300	0.197	-1.444

The **additional savings** identified reflect the process whereby all costs are examined and reduced wherever possible. This process has identified a further £2m of savings by 2017/18 the most significant of which are:

4.5.1 Staff terms and conditions (£0.493m)

The following areas have been reviewed and where reductions in cost have been identified, revenue budgets have been respectively reduced:

- Standby Allowance (£0.137m)
- Car Mileage allowances (£0.184m)
- Compensatory grant (£0.102m)
- Essential Car User allowance (£0.070m)

4.5.2 HR/Payroll (£0.455m)

A review of HR and Payroll functions including streamlining of processes.

4.5.3 Forensic/DNA services (£0.300m)

Savings as a result of operational efficiencies within the services.

4.5.4 Fleet Management (£0.279m)

Efficiencies as a result of changes to processes within the fleet management service.

4.5.4 Force collaborations (£0.227m)

Collaborations with other forces including: Underwater search; Motorway policing; Regional Crime Unit and the Public Protection Unit have been reviewed and efficiency savings identified.

4.5.5 Health – Clinical Services (£0.078m)

The organisational review of the Clinical Services function has identified efficiency savings

4.5.6 Office of the Police and Crime Commissioner (£0.070m)

Reduction in the cost of running the OPCC as a result of a staffing restructure and other efficiencies.

4.5.7 Procurement (£0.041m)

Savings realised through the review of budgets held for contractual purchases – savings in contract costs removed from revenue budgets where appropriate.

4.5.8 ICT – Airwave costs (£0.017m)

A saving of a support post has been realised following a review of the management of the Airwave communications contract

4.6 Repayment of Debt (£0.3m)

A long term debt incurred by the Police Authority on its creation in 1995 transferred over to the Commissioner from Lancashire Police Authority as part of the transition arrangements in November 2012. This debt is currently being repaid at an annual cost of £0.300m from the revenue budget. As at 31 March

2015, the amount of debt remaining is £1.5m. The commissioner currently holds some reserves and the debt is therefore to be repaid early, at no additional cost, thereby reducing the pressure on the revenue budget by £0.3m per annum.

5. The 2015/16 Revenue Budget

In the development of the multi-year financial strategy shown in *paragraph 4*, the impact upon the 2015/16 revenue budget has been identified as follows:

5.1 Cost Pressures

Inflation

Budget Area	£m
Pay inflation	2.602
Energy and Fuel prices	0.288
Contractual price increases	0.107
TOTAL	2.997

Changes in Volume and Demand

Budget Area	£m
Revenue consequences of the capital programme	0.738
National IT services	0.393
Multi Agency Safeguarding Hub (MASH)	0.114
Pursuit Training	0.266
Services for Victims	1.164
Insurance Premiums	0.100
TOTAL	2.775

5.2 Reductions in Costs

The revenue budget for 2015/16 includes the full year effect of reductions in cost and savings that were agreed within the 2014/15 budget as follows:

5.2.1 *Previously agreed savings*

Previously Agreed Savings:	£m
Command and Control Unit	-0.889
Criminal Justice Service Review	-0.070
ICT Review	-0.143
Scientific Support Review	-0.014
Intelligence Review	-0.019
Basic Command Unit Review	-2.399
G Division HQ Crime	-0.899
H Division HQ Operations	-0.123
Business Support Review	-0.824
Professional Standards Review	-0.108
Overheads Review	-0.973
Total	-6.461

5.2.2 Previously identified reductions in cost

Previously identified reductions in cost:	£m
Previously identified reductions in cost:	
Reduction in the forecast number of Ill-Health retirements	-0.750
Full year effect of Winsor review of national Terms and conditions	-0.568
Reverse contribution to reserves in 2014/15 budget	-3.333
Total	-4.651

- Ill-Health retirements (£0.750m)*

The 2014/15 budget provided funding for 40 ill health retirements a year, it was forecast that the number of such retirements would reduce by 10 per year in 2015/16 and the following 2 years. The impact of the reduced forecast for the number of Ill Health retirements is a reduction in the budget in 2015/16 of £0.750m.
- Winsor review (£0.568m)*

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 has generated additional costs and also savings, in 2015/16 the net impact on the Revenue budget is a reduction in costs of £0.568m.
- Reverse contribution to reserves (£3.333m)*

The 2014/15 budget set aside a contribution to the investment reserve of £3.333m that was then reversed in 2015/16 representing a reduction in cost.

5.2.3 New efficiency savings

As part of the on-going budget monitoring and scrutiny process undertaken by the Commissioner and Chief Constable throughout the year a number of new savings have been identified and are detailed in *paragraph 4*, the impact of these in 2015/16 is shown below:

New savings:	£m
Staff terms and conditions	-0.535
HR/Payroll review	-0.455
Forensic/DNA services	-0.300
Reduction in loan repayments	-0.300
Fleet Management	-0.243
Force collaborations	-0.227
Health – Clinical Services	-0.078
The Office of the PCC – staff cost savings	-0.070
Procurement	-0.041
ICT – Airwave costs	-0.017
Total	-2.266

5.2.4 Reductions in costs

The budget monitoring process has also identified a number of reductions in cost shown in *paragraph 4* that can be taken out of the revenue budget in 2015/16:

New reductions in cost:	£m
Reduce Furniture and equipment budgets	-0.410
Carbon Levy no longer applicable	-0.150
The removal of the national charge for Police National Information and Coordination Centre and National Domestic Extremism Unit (PNICC/NDEU)	-0.086
Total – new savings/reductions in cost	-0.646

5.3 Overall Expenditure Summary

Taken together the various cost pressures identified and means of reducing costs create the position set out below;

Summary position	£m
2014/15 Base Budget	269.397
Inflation	2.997
Demand Pressures	2.775
Previously agreed savings	(6.461)
Reductions in previously agreed savings	0.625
Previously identified reductions in cost	(4.651)
New savings	(2.266)
New reductions in cost	(0.646)
2015/16 Spending requirement	261.770

When taken into consideration this gives a total spending requirement for 2015/16 of £261.770m

5.4 The level of resources available to support the 2015/16 Revenue Budget

The revenue resources that support the Police and Crime Commissioner's 2015/16 budget are:

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

5.4.1 Revenue Grant Support

The final police settlement announced on 4 February 2015 confirmed government revenue grant funding for Lancashire of **£193.568m**. This represents a total

reduction of £9.733m from that received in 2014/15 but is in line with that reported to the Police and Crime Panel.

5.4.2 Specific Grants

The Commissioner will receive the following specific grants in 2015/16 – 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 **£1.636m.**

5.4.3 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 2014/15 at £1.090m.

The level of council tax in 2015/16 reflects an increase in taxbase reported by District and Unitary councils and confirmed in final figures provided on 30 January 2015, after the Commissioner made his budget and precept report to the Police and Crime Panel. The increase in taxbase in 2015/16 confirmed by the Unitary, Borough and City Councils provides additional resource of £1.333m which is £1.143m higher than the previously forecast increase of £0.190m. The increase in taxbase is due to the number of new properties built during 2014/15, the number of empty properties that have been brought back into occupied use during the year and an increase in the expected rate of collection being forecast by the City, Unitary and Borough Councils. The increase in the tax base has been reflected in the financial strategy.

The Police Funding announcement makes provision for Police and Crime Commissioners to increase their 2015/16 precept by up to 2% after which a referendum would be triggered. In determining a proposed precept for 2015/16 the PCC has considered the future financial position and 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

The Commissioner proposed an increase in the 2015/16 precept of 1.99% to the Police and Crime Panel in January. The Panel considered the Commissioner's proposal and supported the proposal without further qualification or comment. The

Commissioner is therefore **proposing** that the council tax precept for 2015/16 be increased by 1.99% realising additional resource of £1.247m in 2015/16.

The impact of these changes on the 2015/16 revenue budget is:

	2015/16 £m
Total Council tax resource in 2014/15 base budget	62.723
Increase in taxbase for 2015/16	1.333
1.99% increase to 2015/16 precept	1.247
Council Tax 2015/16	65.303

5.4.4 The total level of resources available for the 2015/16 budget

The total level of resources available for 2015/16 is set out in the table below:

	£m
Government funding	193.568
Specific grants: Counter Terrorism Unit grant	2.751
Loan Charges grant	0.150
Restorative justice and victims of crime	1.636
Council Tax	65.303
Resource available in 2014/15	263.408

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

	2015/16 £m
Spending Requirement 2015/16	261.770
Total Resources Available	263.408
One-Off Resources Available for Investment	1.638

There is an opportunity in 2015/16 to take advantage of one-off resources of £1.638m, available as a result of the increase in council tax income in 2015/16, 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 £1.638m be added to the strategic investment 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 impact of this decision has the following impact upon the 2015/16 Spending requirement and resultant Council Tax Requirement:

	£m
2015/16 Spending Requirement	263.408
Less Specific Grant funding	(4.537)
2014/15 Net Budget Requirement	258.871
Less Government Funding	(193.568)
Equals Council Tax Requirement	65.303
Divided by Tax Base	410,555.30
2015/16 Band D Council Tax	£159.06
2014/15 Band D Council Tax	£155.96
Percentage Increase	1.99%

Attached at Appendix B is a full breakdown of the net budget requirement for 2015/16 of £258.871m 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 2015/16	
	£m
Office of the Police and Crime Commissioner	1.422
Community Safety and Partnerships	2.288
Chief Constable	248.708
Corporate Budget	6.453
TOTAL	258.871

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 Future Years

The additional resources provided by the increase in council taxbase and from the 1.99% increase to the council tax rate in 2015/16 has the following impact on the funding gap to 2017/18:

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Funding Gap as shown in paragraph 4	0.7	12.5	8.9	22.1
Changes in Council Tax resources:				
Increase in council taxbase above forecast	-1.1			-1.1
1.99% increase in council tax	-1.2			-1.2
Revised funding gap	-1.6	12.5	8.9	19.8

The additional council tax income means that there is a one-off resource available in 2015/16 of £1.6m (as set out in paragraph 5.4.4) although there still remains a funding gap between 2015/16 and 2017/18 of £19.8m.

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 proposed investments include:

- The replacement of IT systems that ensure policing services can continue to be delivered in a secure and sustainable way (£8m)
- The introduction of mobile devices that enable officers to spend as much time as possible providing policing services to the public away from desks (£7m)

- Reconfiguration of the accommodation used by the constabulary in order to ensure it is used as efficiently and cost effectively as possible (£3.0m)

The one-off investment in these projects is usually 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 level of new resources available for capital is not sufficient to meet the scale of investment envisaged and therefore options for funding the investment programme needs to be considered. The Commissioner has, as part of his long term financial strategy, set aside £12.3m of specific reserves to provide one off investment funding for proposals within the capital programme that will assist the constabulary to deliver services in a secure and sustainable way. It is proposed that up to £25m may be required over the next few years for investments in projects including the following:

	£m
Mobile handheld smart devices	6.8
Electronic case files and custody	2.0
Replacement of the Sleuth system	4.8
Single front end search facility	0.3
Replacement HR systems	1.3
Digital Engagement	0.6
Specialised Equipment replacement	0.3
Core equipment replacement programme	2.5
Operating Base for East Basic Command Unit	3.0
	21.6

9 The 2015/16 and future years Capital Programme

9.1 Background

The draft capital programme for the five years from April 2015 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 developed by the Constabulary 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 by the Constabulary 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 2015/16 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 £79.935m and is summarised as follows:-

	Carry Forward	New Starts					Total
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	
	£m	£m	£m	£m	£m	£m	
IS/IT Strategy	0.652	9.920	8.960	6.830	6.310	5.800	38.472
Accommodation Strategy	2.400	4.500	15.000	3.000	1.500	0.500	26.900
Vehicle replacement	1.331	2.200	2.200	2.200	2.200	2.200	12.331
Other Schemes	1.002	0.280	0.200	0.200	0.350	0.200	2.232
TOTAL	5.385	16.900	26.360	12.230	10.360	8.700	79.935

The value of new starts in 2015/16 of £16.900m is a reduction of £1.935m (10.27%) on the initial 2015/16 programme last year of £18.835m and the change is broken down as follows:

	2015/16 Initial Allocation £m	2015/16 Revised Allocation £m
IS/IT Strategy	5.695	9.920
Accommodation Strategy	10.710	4.500
Vehicle replacement	2.200	2.200
Other Schemes	0.230	0.280
TOTAL	18.835	16.900

The major changes to the new starts programme in 2015/16 are:

- The project to develop police facilities at Western Division where £7m of provision in the initial allocation for 2015/16 has been re-phased into 2016/17 with work expected to commence in late 2015. The reason for the re-phasing is

the length of time required to complete site investigations as part of the procurement process for the land that will be used for the development.

- The allocation of £1.0m for the development of the operating base for the East Basic Command Unit (BCU) (Total cost £3m)
- The addition of a number of new ICT programs including:
 - The mobile hand held device program (£1.440m in 2015/16, total cost £6.800m)
 - Electronic Case Files and custody system (£1.400m in 2015/16, total cost £2.000)
 - Single front-end search facility (£0.300m)
 - Replacement HR and Payroll systems (£0.250m in 2015/16, total cost £1.250m)
 - The digital engagement program (£0.250m in 2015/16, total cost £1.050m)
 - ANPR New sites and refurbishment program (£0.890m)

9.3 Financing the Capital Programme

The shape of the financing needed to support the proposed programme in 2015/16 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 2015/16 has been announced at £2.1m which represents a reduction of £0.5m from that provided in 2014/15.

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 2015/16 and in the financial strategy for 2016/17 to 2017/18.

9.3.1 Financing of the proposed 2015/16 – 2019/20 Programme

The financing of the proposed 2015/16 to 2019/20 programme is as follows:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m	%
Capital Grant	3.222	2.164	2.100	2.100	2.100	11.686	14.6
Capital Receipts	2.942	1.008	1.350	0	0	5.300	6.6
Revenue							
Contributions/Capital Reserve (CFR)	9.721	8.726	6.280	4.193	2.551	31.471	39.4
Borrowing	6.400	14.462	2.500	4.067	4.049	31.478	39.4
Total Programme	22.285	26.36	12.230	10.360	8.700	79.935	

The financing of the capital programme reflects the use of £12.3m from the Commissioner's ear-marked investment reserves (This includes the £1.638m that is available as a one-off opportunity from the 2015/16 budget). This source of funding is used for assets with a shorter life such as IT systems and equipment as it is considered a more prudent approach to use such funding in this way rather than unsupported borrowing. Borrowing will continue to be used for the financing of longer life assets such as property as this reflects an appropriate method of financing for such assets.

The revenue costs of the borrowing included in the financing of the capital programme are reflected in the revenue budget requirement 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 Chief Finance Officer consider general reserves at this level to be appropriate.

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 2015 is £12.5m or 4.8% of the 2015/16 revenue budget.

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 Transitional Reserve, Investment Fund and the PCC Strategic Investment Reserve. In total £23.2m is forecast to be available in these reserves of which £12.3m is set aside to fund the capital investment programme (as shown in paragraph 9.3.1).

11 Robustness of the 2014/15 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.

11.1 Risks and Uncertainties

- **Specific Grants** Final allocations for the Counter Terrorism Grant and Restorative Justice and Victims of Crime funding 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 relevant expenditure requirements.
- **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 2015/16 and therefore the final PCSO budget available will not be known until all partners have set their budgets.
- **Future levels of top-slicing** The Commissioner's MTFS includes the impact of forecasted increases to existing top-slices to the national funding level for police services. No announcements have been made on the level of top-slicing that will take place beyond 2015/16 therefore the estimated impact currently reflected in the forecast could be subject to change when future announcements are made.
- **The extension of Austerity** The Chancellor of the Exchequer has stated that reductions to public spending will continue to 2020 and the Opposition have indicated that reductions made to spending will not be reversed however there is no firm indication of the level of reduction that will emerge beyond 2017/18. As information emerges in future years the MTFS will be updated to reflect the latest available information.

12 Equality Impact Assessments

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.

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 2,400 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 1,407 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. 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 promoted under the headline - How much are you willing to pay towards policing in 2015/16?

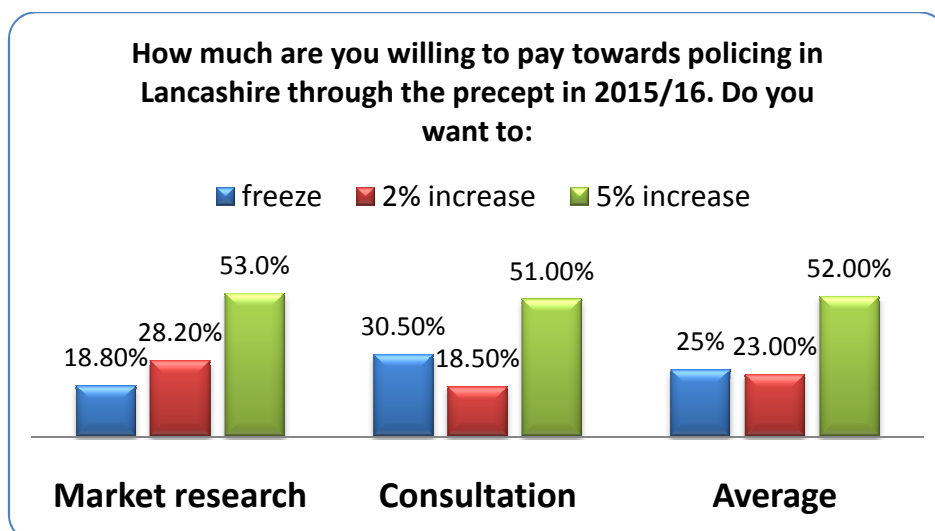
This survey was featured in all local press and radio and was heavily promoted on social media throughout December. This featured an opt-in survey to be completed either online or via a leaflet which was available at several libraries and at all 24 Police Public Enquiry Desks throughout Lancashire. Leaflets were handed out at events the Commissioner attended throughout December including four roadshows in shopping centres throughout the county. This approach encouraged a large response rate of more than 1,000 compared to 400 responses gathered last year through face to face events demonstrating a significant growth in engagement through digital channels with majority of our responses coming online.

In each case respondents were asked to choose from three options. These included a precept freeze, a 2% or 6p per week increase and a 5% or 15p per week increase in their council tax payments. Respondents were also told how much a raise of these amounts would equate to and its equivalent in funding Police Officers or PCSO numbers. They were also told that a freeze in council tax was likely to attract a council tax freeze grant from Government.

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

Overall findings:

- Independent market research: 82.2% - supported an increase with 52.9% favouring an increase of 5%
- Opt-in survey: 69.4% favoured an increase with 51% favouring an increase of 5%.
- Regarding a council tax freeze the market research indicated 18.5% support compared to 30.5% in the opt-in survey.
- Over the 2 surveys a total of 75% of participants are in favour of an increase of 2% or more compared to 25% wanting to freeze the council tax.



The Commissioner and his office have conducted a number of roadshows that have consulted directly with members of the public on council tax proposals.

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 2015, 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 2015.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
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Police and Crime Commissioner for Lancashire

2015/16 Budget Requirement and Precept

- 1 The Commissioner is asked to approve the net budget requirement for 2015/16 of £258.871m and consequent council tax requirement of £65.303m and Band D Council Tax of £159.06 (1.99% increase from 2014/15) as follows:

	£m
2015/16 Spending Requirement	263.408
Less Specific Grant funding	(4.537)
2014/15 Net Budget Requirement	258.871
Less Government Funding	(193.568)
Equals Council Tax Requirement	65.303
Divided by Tax Base	410,555.30
2015/16 Band D Council Tax	£159.06
2014/15 Band D Council Tax	£155.96
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	106.04
Band B	123.71
Band C	141.39
Band D	159.06
Band E	194.41
Band F	229.75
Band G	265.10
Band H	318.12

- 3 Based on each district and unitary council's proportion of the total Band D equivalent tax base of 410,555.30, the share of the total Police and Crime Commissioner for Lancashire's precept of £65,302,926 to be levied on each council would be:

	£
Blackburn with Darwen	5,257,394
Blackpool	5,545,786
Burnley	3,440,468
Chorley	5,488,241
Fylde	4,497,422
Hyndburn	2,997,327
Lancaster	6,123,810
Pendle	3,597,508
Preston	5,508,089
Ribble Valley	3,452,079
Rossendale	3,070,319
South Ribble	5,480,331
West Lancashire	5,342,442
Wyre	5,501,710
	<hr/> 65,302,926 <hr/>

Capital Investment Programme 2015/16 to 2019/20

	2014/15 Carried forward	2015/16	2016/17	2017/18	2018/19	2019/20	TOTAL
	£m	£m	£m	£m	£m	£m	£m
IS/IT Strategy							
Desktop, Mobile Office, Endpoint Replacement/Upgrade Programme		0.700	0.900	0.700	0.850	0.700	3.850
Mobile Handheld Smart Device Programme (NEW)		1.440	1.340	1.340	1.340	1.340	6.800
New and Replacement Systems							
Virtual Desktop Infrastructure for Desktops/ Mobile Office/Confidential Environment		0.450	0.360	0.050	0.050	0.050	0.960
Communication Room CCTV					0.120		0.120
HOLMES 3		0.050		0.530			0.580
Electronic Case Files & Custody (NEW)	0.000	1.400	0.600				2.000
Sleuth System Replacement (NEW)			1.200	1.200	1.200	1.200	4.800
Single Front End Search Facility (NEW)		0.300					0.300
Replacement HR System with Fully Integrated System (NEW)		0.150	1.000				1.150
Replacement Mileage and Expenses System (NEW)		0.100					0.100
Body Worn Video System	-0.018	0.240		0.150	0.240		0.612
Total New and Replacement Systems	-0.018	2.690	3.160	1.930	1.610	1.250	10.622
Network Access & Security							
Voice and Data Infrastructure Refresh	0.000	1.250	1.100	0.900	0.800	0.800	4.850
Telephony System & Infrastructure	0.300	0.300	0.300				0.900
WAN & Encryption Refresh & Network Uplift		0.300	0.300				0.600
Video Conferencing	0.000	0.075	0.050	0.050	0.050	0.050	0.275
Expansion of Wireless Capability & Internet Resilience		0.080	0.050				0.130
Microsoft Enterprise Agreement		0.825	0.825	0.825	0.825	0.825	4.125

	2014/15 Carried forward £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	TOTAL £m
Network Access & Security (cont.)							
SQL Licences		0.330	0.330	0.330	0.330	0.330	1.650
Hardware Security Modules			0.050				0.050
Data Backup/Image Storage	0.000	0.200	0.150	0.150	0.150	0.150	0.800
Disaster Recovery		0.200	0.075	0.075	0.075	0.075	0.500
CSP/PSN Penetration Testing/Remedial Improvements to New Infrastructure and Applications		0.120	0.080	0.080	0.080	0.080	0.440
ANPR - New Sites & Refurbish Existing Sites (Priority 2 and 3) (NEW)	0.370	0.890					1.260
ANPR - Data Storage Capacity Increase		0.200					0.200
ANPR - Replace Mobile Computer Platform				0.250			0.250
CJX/PSN Transition	0.000	0.070	0.050				0.120
Digital Engagement (NEW)	0.000	0.250	0.200	0.200	0.200	0.200	1.050
Total Network & Security	0.670	5.090	3.560	2.860	2.510	2.510	17.200
Total ICT	0.652	9.920	8.960	6.830	6.310	5.800	38.472
Accommodation Strategy							
Development of Police Facilities at Western Division	1.900	3.000	13.000	2.000	1.000		20.900
Lift in HQ Main Building							0.000
Minor Capital Works and Refurbishments	0.000	0.500	0.500	0.500	0.500	0.500	2.500
Accommodation at Accrington	0.500						0.500
Operating Base for East BCU (NEW)		1.000	1.500	0.500			3.000
Total Accommodation Strategy	2.400	4.500	15.000	3.000	1.500	0.500	26.900

	2014/15 Carried forward £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	TOTAL £m
Vehicle replacement programme	1.331	2.200	2.200	2.200	2.200	2.200	12.331
Other Schemes							
HQ Crime Specialised Equipment Replacement Programme		0.150	0.150	0.150	0.150	0.150	0.750
HQ Operations Specialised Equipment Replacement Programme (NEW)		0.050	0.050	0.050	0.050	0.050	0.250
Digital Speed Camera Upgrade	1.002						1.002
Replacement CCTV in Custody Suites					0.150		0.150
Upgrade Firearms Range		0.080					0.080
Total Other Schemes	1.002	0.280	0.200	0.200	0.350	0.200	2.232
TOTAL EXPENDITURE	5.385	16.900	26.360	12.230	10.360	8.700	79.935