

## Police and Crime Panel

Meeting to be held on 25 January 2016

### Police and Crime Commissioner's Budget 2016/17 (Appendix A refers)

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#### **EXECUTIVE SUMMARY**

This report sets out the latest financial position for the Police and Crime budgets in Lancashire for 2016/17 and the proposals in relation to the precept.

#### **RECOMMENDATION**

The Police and Crime Panel is asked to;

- Note the details of the 2016/17 police finance settlement and the overall impact on Lancashire's budget;
- Note the report on the public consultation undertaken in respect of the proposed precept level;
- Consider the Commissioner's proposal to increase the council tax precept by 1.99% in 2016/17;
- Make arrangements to ensure that a formal written response to the proposals is sent to the Commissioner by 8 February 2016.
- Note the proposed capital investment programme for 2016/17 and future years;
- Note the proposed use of the Commissioner's reserves in 2016/17 and future years

## 1. Introduction

- 1.1 The Police and Crime Commissioner has a statutory requirement to set an annual Police and Crime budget and, as part of that process, to consult with the Police and Crime Panel regarding any proposals in relation to the council tax precept. This report sets out the latest financial position for the Police and Crime budgets in Lancashire for 2016/17 and the proposals in relation to the precept.
- 1.2 Included in the report is the current financial position that reflects the changes in the level of resources, additional cost pressures, reductions in the cost base and the identification of additional savings. The report sets out;
- The Medium Term Financial Strategy (MTFS) that covers the 4 year period from 2016/17 – 2019/20
  - The revenue budget for 2016/17
  - The Council tax proposal for 2016/17
  - The proposed capital investment programme for 2016/17 and future years
  - The Commissioner's reserves strategy
- 1.3 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

- 2.1 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 provisional financial settlement for Lancashire published on 17<sup>th</sup> December 2015.
- 2.2 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 by government on 17th December 2015 in the provisional finance settlement.

## 3. Budget Process

### *Medium Term Financial Strategy*

- 3.1 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.
- 3.2 Within the provisional settlement no specific force level information on grant funding has been provided beyond 2016/17 however, indicative figures at the national level

have been provided for the period that identify total funding to remain constant assuming a 2% increase each year in Council Tax is implemented. It is also clear that government funding will reduce each year as council tax receipts increase. There is also some uncertainty around the allocation of funding at individual force level and the extent of further top-slicing. At this stage it is therefore assumed in the MTFs that government funding will reduce by 2% per year from 2017/18 to 2019/20 as follows:

|                                    | 2016/17<br>£m  | 2017/18<br>£m  | 2018/19<br>£m  | 2019/20<br>£m  |
|------------------------------------|----------------|----------------|----------------|----------------|
| Resources:                         |                |                |                |                |
| Government Funding                 | 192.537        | 188.686        | 184.913        | 181.214        |
| Specific grants                    | 4.537          | 4.537          | 4.537          | 4.537          |
| <b>Forecast Government Funding</b> | <b>197.074</b> | <b>193.223</b> | <b>189.450</b> | <b>185.751</b> |

- 3.3 In the 2015/16 budget report presented to the panel in January 2015 the panel were advised that further savings of £19.8m up to 2017/18 were required.
- 3.4 The Commissioner has extended the MTFs to cover the period to 2019/20 and has identified a revised funding gap of £32.724m for that period to reflect the latest available information.
- 3.5 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 £18.722m to 2019/20.
- 3.6 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 £18.7m that needs to be delivered. This means that by 2019/20 total savings in excess of £93.9m will have been delivered since 2011/12 which is the equivalent of 31% of the 2011/12 original revenue budget.
- 3.7 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.

### ***Developing Savings Options***

- 3.8 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:

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

3.9 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. Forecast Position**

Previously it was forecast that there was a funding gap of £19.8m between 2016/17 and 2017/18. This has now increased to £32.724m by 2019/20 and the details are set out below;

|   | <b>2016/17<br/>£m</b> | <b>2017/18<br/>£m</b> | <b>2018/19<br/>£m</b> | <b>2019/20<br/>£m</b> | <b>Total<br/>£m</b> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|
| Resources:                              |                       |                       |                       |                       |                     |
| Government Funding                      | 192.537               | 188.686               | 184.913               | 181.214               |                     |
| Specific grants                         | 4.537                 | 4.537                 | 4.537                 | 4.537                 |                     |
| Council tax                             | 65.695                | 66.090                | 66.551                | 67.085                |                     |
| <b>Total Resources</b>                  | <b>262.769</b>        | <b>259.313</b>        | <b>256.001</b>        | <b>252.836</b>        |                     |
| Base budget requirement brought forward | 263.408               | 262.769               | 259.313               | 256.001               |                     |
| Inflation                               | 6.324                 | 3.363                 | 3.343                 | 3.923                 | <b>16.953</b>       |
| Demand/Volume                           | 5.610                 | 1.849                 | -1.689                | -0.571                | <b>5.199</b>        |
| <b>Budget Requirement</b>               | <b>275.342</b>        | <b>267.981</b>        | <b>260.967</b>        | <b>259.353</b>        |                     |
| <b>Funding gap</b>                      | <b>12.573</b>         | <b>8.668</b>          | <b>4.965</b>          | <b>6.518</b>          | <b>32.724</b>       |
| Savings                                 | -10.968               | -1.426                | -0.801                | -0.807                | <b>-14.002</b>      |
| <b>Funding gap</b>                      | <b>1.605</b>          | <b>7.242</b>          | <b>4.164</b>          | <b>5.711</b>          | <b>18.722</b>       |

#### **Government Funding**

4.1 The provisional police grant for 2016/17 was announced on 17 December 2015. 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.

4.2 Specific grants in respect of the provision of services to the victims and witnesses of crime and in respect of the delivery of counter terrorism activity will be confirmed shortly. It is assumed that any change in the level of these grants will be matched by a change in expenditure and therefore have no impact of the funding gap position.

**Council Tax**

4.3 The forecast assumes an increase in the council tax base of 0.6% in 16/17, 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 at this stage.

4.4 The collection fund surplus/deficit position in respect of council tax for 2015/16 and the final taxbase position for 2016/17 will be confirmed by the Unitary and District Councils on 31 January 2016. The final amount of council tax to be received will therefore be confirmed in the budget report to the Commissioner in February 2016.

**Inflation**

4.5 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        | 2.058        | 2.000        | 2.539        | 8.460         |
| 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         |
|  | <b>6.324</b> | <b>3.363</b> | <b>3.343</b> | <b>3.923</b> | <b>16.953</b> |

**Demand/Volume**

4.6 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            |
| 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        |
| <b>Total</b>   | <b>5.610</b> | <b>1.849</b> | <b>-1.689</b> | <b>-0.571</b> | <b>5.199</b> |

### ***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.

### ***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.

### ***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.

### ***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.

### ***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.

### ***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 savings programme 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 extract 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.

### ***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.

### ***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.

### ***Emerging issues***

A number of enraging 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.

### ***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.

### ***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 £63m 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:

|   | <b>2016/17</b> | <b>2017/18</b> | <b>2018/19</b> | <b>2019/20</b> | <b>Total</b>   |
|---|----------------|----------------|----------------|----------------|----------------|
|   | <b>£m</b>      | <b>£m</b>      | <b>£m</b>      | <b>£m</b>      | <b>£m</b>      |
| 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         |
| <b>Total</b>                                  | <b>-10.968</b> | <b>-1.426</b>  | <b>-0.801</b>  | <b>-0.807</b>  | <b>-14.002</b> |

## **RISKS AND UNCERTAINTIES**

There are however a number of risks and uncertainties that will impact on the final position that are not reflected in the forecast position shown in this report;

- ***Finalisation of the Settlement*** The final settlement is anticipated to be announced on 3 February 2016 and therefore the current information is based on the provisional figures that were announced on 17 December 2015.
- ***Specific Grant allocations*** Final allocations for specific grants such as the Counter Terrorism Grant and for the provision of Victims' Services 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 is the first force 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.

## 5. Investing for the future

- 5.1 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.



- 5.2 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.
- 5.3 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.
- 5.4 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.
- 5.5 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.

### **Capital Investment Programme**

- 5.6 A draft capital programme is currently being developed and will be approved by the Commissioner in his budget report in February 2016. The Commissioner will also identify the funding for the capital programme as part of the decision and will consider the optimum use of the resources available to him in doing so. This will include using some of the strategic reserves that have been set aside.
- 5.7 The current draft capital programme is set out below:

|                               | 2016/17       | 2017/18       | 2018/19       | 2019/20      | 2020/21      | <b>Total</b>  |
|-------------------------------|---------------|---------------|---------------|--------------|--------------|---------------|
|                               | £m            | £m            | £m            | £m           | £m           | <b>£m</b>     |
| IT Strategy                   | 12.750        | 10.080        | 6.160         | 4.565        | 4.290        | <b>37.846</b> |
| Accommodation Strategy        | 12.460        | 14.810        | 1.000         | 0.500        | 0.500        | <b>29,270</b> |
| Vehicle Replacement Programme | 4.780         | 2.300         | 3.000         | 2.300        | 2.300        | <b>14.680</b> |
| Other Schemes                 | 0.970         | 0.200         | 0.200         | 0.200        | 0.200        | <b>1.771</b>  |
| <b>Total</b>                  | <b>30.960</b> | <b>27.390</b> | <b>10.360</b> | <b>7.565</b> | <b>7.290</b> | <b>83.567</b> |

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

- 5.8 The investment programme will be funded as follows:

|                                      | 2016/17       | 2017/18       | 2018/19       | 2019/20      | 2020/21      | <b>Total</b>  |
|--------------------------------------|---------------|---------------|---------------|--------------|--------------|---------------|
|                                      | £m            | £m            | £m            | £m           | £m           | £m            |
| Capital Grant/Contributions          | 2.345         | 2.139         | 2.139         | 2.139        | 2.139        | <b>10.901</b> |
| Capital Receipts                     | 6.323         | 1.000         | 0.150         | -            | -            | <b>7.473</b>  |
| Contribution from the Revenue budget | 4.119         | 4.019         | 2.519         | 2.519        | 2.519        | <b>15.695</b> |
| Road Safety Reserve                  | 0.485         | -             | -             | -            | -            | <b>0.485</b>  |
| Transition Reserves                  | 5.313         | 6.497         | 4.525         | 2.380        | 2.188        | <b>20.903</b> |
| Borrowing                            | 12.376        | 13.735        | 1.027         | 0.527        | 0.445        | <b>28.110</b> |
| <b>Total</b>                         | <b>30.961</b> | <b>27.390</b> | <b>10.360</b> | <b>7.565</b> | <b>7.291</b> | <b>83.567</b> |

5.9 Capital grant allocations for 2016/17 will be confirmed in February 2016 therefore the amount included in the table above remains an estimate. The borrowing shown reflects the accommodation strategy and assumes that construction of the new headquarters in West Division will begin during 2016/17.

5.10 It is clear that a significant amount of the investment being made in future years will be from the Commissioner's reserves which reflects the strategy that was reported to the Panel in January 2015. This funding has been made available as a result of the financial planning that has been in place in recent years that has set aside savings that have been delivered ahead of schedule into reserves. This has been done specifically to fund the future investment needed to enable the constabulary to transition into a re-shaped service that maintains services to the citizens of Lancashire within a significantly reduced level of funding.

### Reserves

5.11 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 £12.416m or 4.7% of the 2016/17 revenue budget.

5.12 General reserves at this level are considered appropriate by the Commissioner's Section 151 Officer to ensure the ability of the organisation can remain a going concern should an unexpected issue occur.

5.13 There are also a number of earmarked reserves for specific purposes that are forecast to total £28.232m at the beginning of 2016/17 and are detailed in the table below:

| Earmarked Reserves                                | 2016/17 |   |
|---|---------|---|
|   | £m      |   |
| PoCA reserves                                     | 1.346   | Receipts from the proceeds of crime earmarked for specific grant allocations  |
| Operational Policing reserves                     | 3.235   | Held to meet specific operational requirements including costs from major incidents not funded from main police grant |
| Road Safety Reserve                               | 2.069   | Held on behalf of the Lancashire Road Safety Partnership  |
| Reserves to Support Organisational Transformation | 21.582  | Available to meet costs of transforming the organisation including investment in the                                  |

|              |               |                   |
|--------------|---------------|-------------------|
|              |               | Capital programme |
| <b>Total</b> | <b>28.232</b> |                   |

- 5.14 Earmarked reserves include a number that are available specifically to support the transformation process that the Commissioner and Constabulary face in the coming years:

|  |               |
|--|---------------|
|  | 2016/17       |
|  | £m            |
| Transition reserve                       | 17.845        |
| PCC Strategic Investment reserve         | 3.737         |
| <b>Reserves available for transition</b> | <b>21.582</b> |

These reserves are set aside to contribute to the funding of the capital programme and to meet some of the costs of the downsizing of the organisation in future years, the impact of which on the available reserves is detailed below

|   | 2016/17       | 2017/18      | 2018/19      | 2019/20       |
|---|---------------|--------------|--------------|---------------|
|   | £m            | £m           | £m           | £m            |
| Available reserves brought forward          | 21.582        | 14.769       | 7.772        | 2.747         |
| Funding required for the capital programme: |               |              |              |               |
| Forecast costs of voluntary redundancies    | -1.500        | -0.500       | -0.500       | -0.500        |
| Available reserves carry forward            | <b>14.769</b> | <b>7.772</b> | <b>2.747</b> | <b>-0.133</b> |

- 5.15 This analysis shows that by 2019/20 the available earmarked reserves will be utilised in full to fund the investment identified in the capital programme and the costs of downsizing the organisation in respect of voluntary redundancies. These commitments will remain under scrutiny during this period and where they can be reduced the necessary action will be undertaken. The commissioner will also seek to bring further contributions in to the earmarked reserves when possible.
- 5.16 It is clear, however, that the Commissioner's reserves are fully committed by 2019/20 and are therefore not available to support the revenue budget in that period.

## 6. Setting the 2016/17 Budget

- 6.1 The 2016/17 budget requirement is set out in the table below and is based on information set out in the 3 year financial strategy position shown earlier in the report:

|                                   |                |
|-----------------------------------|----------------|
|                                   | <b>£m</b>      |
| <b>2015/16 Budget</b>             | <b>263.408</b> |
| Inflation                         | 6.324          |
| Volume and demand changes         | 5.610          |
| <b>2016/17 Budget Requirement</b> | <b>275.342</b> |
| Less Funding Available            | 262.769        |
| <b>2016/17 Funding Gap</b>        | <b>12.573</b>  |

Savings

-10.968

**Remaining Funding gap 2016/17**

**1.605**

Therefore, once all of the above proposals are taken into account there remains a funding gap of £1.605m for the 2016/17 revenue budget.

## 7. Council Tax

- 7.1 As part of the budget setting process the Commissioner is required to consider whether or not to propose any changes to council tax. It has been announced by DCLG that any proposal to increase Council Tax by 2% or more must be approved by a local referendum. It has also been confirmed that there will not be a Council Tax freeze grant available in 2016/17 for Commissioners that do not increase their precept.
- 7.2 The Commissioner proposes to increase Council Tax in 2016/17 by 1.99% which would give a council tax of £162.22 for a Band D property and provide additional income of £1.305m.
- 7.3 Increasing Council tax by 1.99% in 2016/17 would reduce the level of savings required by 2019/20 to £17.417m as set out in the following table:

|  | 2016/17<br>£m | 2017/18<br>£m | 2018/19<br>£m | 2019/20<br>£m | Total<br>£m   |
|--|---------------|---------------|---------------|---------------|---------------|
| Current Forecast gap before Council Tax increase | 1.605         | 7.242         | 4.164         | 5.711         | 18.722        |
| Impact of 1.99% Council Tax increase             | 1.305         |               |               |               | 1.305         |
| <b>Revised Funding Gap</b>                       | <b>0.300</b>  | <b>7.242</b>  | <b>4.164</b>  | <b>5.711</b>  | <b>17.417</b> |

The Commissioner will examine the budget proposals above and identify further savings to meet the remaining funding gap of £0.3m identified above for 2016/17. These will be confirmed as part of the decision to approve the final 2016/17 revenue budget.

The Futures team are identifying further proposals to meet the savings gap in future years that will be considered by the Commissioner over the next 12 months as part of the ongoing financial planning process.

### Engaging the Public on the Council Tax precept

- 7.4 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. Further details of the consultation and market research are available at appendix 'A' to this report. The telephone research undertaken independently of the office to market research industry standards, asked 1,400 people (100 in each of the 14 district areas) if they wanted to freeze the precept, increase it by 2% or increase it by 5%. The result was 91.2% support for an increase of 2% or more. A sample of this size has a confidence level of +/-3%. Face to face engagement continued until Saturday, January 16 and these results are included in the appendix.

## **8. Equality and Diversity**

- 8.1 The Commissioner and the Constabulary have set up a Futures Programme to deliver the required savings through a series of reviews of the organisation's processes and operational arrangements. As each review area is progressed an equality impact assessment is carried out to assess the impact of the proposed recommendations on service recipients and is an integral part of the process.

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

- 9.1 Section 25 of the Local Government Act 2003 requires the Commissioner's Chief Finance Officer to advise the Commissioner as he is making budgetary decisions on the robustness of the assumptions underlying the budget and the adequacy of the Commissioner's reserves in the context of the financial risks to which the organisation is exposed.
- 9.2 The basis of the estimates on which the budget has been prepared, as in previous years, relies on forecasts of demand and other activity prepared by the constabulary. The forecast is kept under review as part of the budget monitoring process and actions identified to identify any financial risks arising from changes in the forecast as they occur. The main risks relate to the pace and depth of funding reductions and the ability of the organisation to deliver these within the required timeframes.
- 9.3 The resources available to the Commissioner to manage these risks consist of the various reserves held by the Commissioner, principally general funds and the 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.
- 9.4 In addition to general reserves, the Commissioner maintains a range of earmarked reserves for specific purposes shown in 5.13 above. The level and appropriateness of earmarked reserves is kept under review to ensure that sums are only held if required, and released when not. 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.

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

- 10.1 Schedule 5 of the Police Reform and Social Responsibility Act (2011) states that the Commissioner must notify the Police and Crime Panel, by 1 February, of the precept which the Commissioner is proposing to issue for the financial year.
- 10.2 Under the requirements of the Act, Police and Crime Panels must review the proposed precept notified to it and must make a report to the Commissioner on the proposed precept. The report may include recommendations, including recommendations as to the precept that should be issued for the financial year.

- 10.3 The Police and Crime Panel has the power to veto the proposed precept if at least two-thirds of the persons who are members of the panel at the time when the decision is made vote in favour of making that decision. If the panel vetoes the proposed precept, the report made to the Commissioner must include a statement that the panel has vetoed it.
- 10.4 The Police and Crime Panel's response to the Commissioner on the precept proposal must be made by 8 February 2016. A Commissioner is unable to set a precept until the end of the scrutiny process is reached and should the Police and Crime Panel veto the proposals, the Commissioner must submit a revised precept for consideration of the panel to which the Police and Crime Panel must also respond. A further response from the Police and Crime Panel must be received by 22 February 2016 after which the Commissioner must respond formally to the Police and Crime Panel setting out the precept for the forthcoming year.

## **11. Conclusion**

- 11.1 The Panel are asked to consider this report and the recommendations within it.
- 11.2 The Panel are requested to provide their response to these recommendations in line with the responsibilities set out in paragraph 10 of this report.

## CONSULTING THE PUBLIC ON THE POLICE PRECEPT

### 1. BACKGROUND:

- 1.1. Panel will be aware of the requirement of the Police and Crime Commissioner to consult the public and stakeholders on the council tax precept.
- 1.2. This report updates members on the outcome of that consultation that has helped inform the Commissioner's proposal for a 1.99% increase on precept for 2016/17.
- 1.3. The consultation also asked residents and stakeholders for their views on policing and crime priorities and those findings are also included in this report. These responses will help to shape the outcome of the budget setting process for 2016/17 and future police and crime plan development.
- 1.4. Panel is asked to note the outcome of the consultation.

### 2. CONSULTATION ACTIVITY:

- 2.1. Consultation across Lancashire has been undertaken to inform the Commissioner's decision on setting the new council tax precept levels for 2016/17.
- 2.2. This has taken place through a number of different methods each designed to gain the largest response of any consultation in Lancashire.
- 2.3. In all 2,685 responses have been analysed which represents almost a 12% increase on last year's numbers and represents 0.2% of the population with a confidence level of +/-3%.
- 2.4. This compares favourably with recent consultations undertaken by elected bodies across Lancashire in the last year which are currently available to view and are published in the table below:
- 2.5.

| Authority                     | Consultation topic  | Number of representations |
|-------------------------------|---------------------|---------------------------|
| Lancashire County Council     | Budget 2015/16      | 1,549                     |
| Blackburn with Darwen Council | Local plan          | 231                       |
| Blackpool Council             | Budget 2015         | 143                       |
| Wyre Council                  | Neighbourhood plan  | 755                       |
| Preston City Council          | CCTV and ASB review | 385                       |
| Chorley Council               | Budget 2015/16      | 607                       |

- 2.6. The different methods of consultation included:
  1. A telephone survey of 1,400 residents across Lancashire - 100 in each district - which was conducted to market research standards by an independent agency
  2. Paper survey available via the Lancashire Police HQ open weekend, roadshows across the county and county libraries
  3. Online survey promoted via social media, In the Know, Lancashire Chronicle, PCC website and local media.
- 2.7. The telephone survey is representative of the Lancashire population in terms of age, ethnicity, and disability. The self-selecting nature of the paper and online surveys mean they are less likely to be totally representative of the Lancashire population, however responses were received from people representing all local communities, age ranges and individuals who considered themselves to have a disability.

### 3. SURVEY OUTCOMES:

- 3.1 Panel members are asked to note that 86.5% of respondents to all surveys supported increasing the council tax precept by 2% or more, which is an increase on last year of more than 4%.

Respondents were asked how much they were willing to pay towards policing in 2016/17 and given three options to choose from. These were:

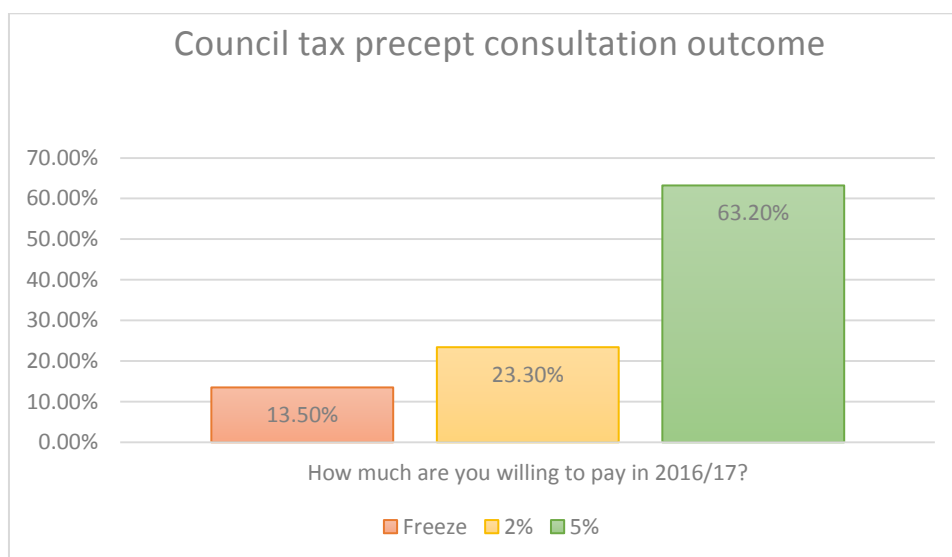
- Freeze/keep it the same
- Increase by 2%
- Increase by 5%

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

3.2 Panel will be aware that in December, Government placed a restriction on the amount council tax can be raised without holding a referendum in the local area. 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.

3.3 The survey made it clear that any increase in council tax would not increase the number of officers and would serve only to maintain a specific number of officers or PCSOs that is equal to the amount raised. It also explained the context of the budget cuts faced by Lancashire since 2010.

3.4 The outcome of the consultation is show in the table below:



3.5 The districts most supportive of an increase in the precept with 90% or more support were:

- Ribble Valley
- Rossendale
- Lancaster
- Preston
- Wyre
- Pendle

3.6 The lowest level of support for the increase was in Blackpool where support was still more than three to one in favour of an increase at 76.1%.

3.7 Respondents were also asked to rank a number of policing and crime priorities in order to help inform the budget process. The table below represents their top priorities in descending order.



### Top police and crime priorities

