


**POLICE AND CRIME COMMISSIONER (PCC) FOR LINCOLNSHIRE
REQUEST FOR DECISION**

REF: 008 - 2015
DATE: 24 February 2015

SUBJECT		BUDGET REPORT
REPORT BY	CHIEF FINANCE OFFICER	
CONTACT OFFICER	Julie Flint, Chief Finance Officer Telephone 01522 947222	
EXECUTIVE SUMMARY AND PURPOSE OF REPORT		
<p>To propose :</p> <ul style="list-style-type: none"> • A revenue budget and council tax precept for 2015/16 • A provisional revenue forecast for 2016/17 & 2017/18 • A capital programme for 2015/16 and 2016/17 – 2017/18. <p>The proposals will support delivery of the Police and Crime Plan and are consistent with the Commissioner’s Financial Strategy.</p>		
RECOMMENDATIONS	<p>The Police and Crime Commissioner is asked to :</p> <ol style="list-style-type: none"> 1. note the views of the Police and Crime Panel on council tax, summarised at paragraph 2.5 of the report ; 2. note the Chief Finance Officer’s statement on robustness of estimates and adequacy of reserves in section 9 of the report; 3. approve the council tax for 2015/16 as set out in Table A and Appendix A ; 4. approve the revenue budget for 2015/16 and provisional revenue forecasts for 2016/17-2017/18 as set out in Appendix B ; 5. approve the capital programme and its funding for 2015/16 and 2016/17 – 2017/18 as set out in Table E. 	

POLICE AND CRIME COMMISSIONER FOR LINCOLNSHIRE	
I hereby approve the recommendation above, having considered the content of this report.	
Signature: 	Date: 24/02/15

A. NON-CONFIDENTIAL FACTS AND ADVICE TO THE PCC

A1. INTRODUCTION AND BACKGROUND

1. Police Grant Settlement

- 1.1 The Government announced the proposed final Police Grant Settlement for 2015/16 on 4th February 2015 and it received parliamentary approval on 10th February 2015. Police Grant is the main source of government funding for local policing bodies. There will be a substantial cash reduction in Lincolnshire's Police Grant in 2015/16 in common with all English local policing bodies.
- 1.2 The Settlement confirmed a 3.5% cash reduction in overall police funding for 2014/15 as expected. However, Police Grant to Police and Crime Commissioners (PCCs) will be reduced by 5.1%. The reduction for Lincolnshire is £3.2million.
- 1.3 Indicative grant allocations for 2016/17 have not been published. Future years are specifically excluded from this announcement and it is unlikely that any further information will be received until after the election and a review of their spending plans by the incoming Government. The medium term financial plan (MTFP) includes provision for an ongoing 4% cash cut per annum in Police Grant over the years 2016/17 and 2017/18.
- 1.4 A Victims' Services Grant has been confirmed and Lincolnshire's allocation will be £0.802m in 2015/16.
- 1.5 Other grants will continue as expected.

2. Council Tax

- 2.1 Details of the council tax base have been received from Lincolnshire district councils. These show a 1.85% increase in the tax base in 2015/16. There is also a surplus on council tax collection funds: the Police and Crime Commissioner's share of this surplus is £0.718m.
- 2.2 The government announced details of its Council Tax Freeze Scheme 2015/16 on 18 December 2014. Any Police and Crime Commissioner who freezes or reduces their council tax in 2015/16 will receive a grant equivalent to a 1% increase in the council tax. This grant will also be paid in 2016/17.
- 2.3 The government has set the threshold for council tax increases at which a local referendum would be triggered at 2%. The Commissioner does not wish to trigger a local referendum. The potential Council Tax Freeze Grant would transfer some costs from local to national taxpayers: it would also reduce the funding available for police and crime services both in 2015/16 and on a longer term basis. Given that the Commissioner's priority is to maintain the number of police officers it is recommended that the council tax be increased by 1.95% just below the maximum permitted threshold for council tax increases. The budget proposals for 2016/17 – 2017/18 also assume a 2% increase in council tax.
- 2.4 The details of the council tax requirement are set out in Appendix A and the impact on Lincolnshire council tax payers is summarised in Table A below.

Table A: Council Tax

PROPERTY BAND	ANNUAL AMOUNT 2014/15	ANNUAL AMOUNT 2015/16	INCREASE OVER 2014/15	ANNUAL INCREASE OVER 2014/15	WEEKLY INCREASE OVER 2014/15
	£	£	%	£	£
Band A	129.24	131.76	1.95	2.52	0.05
Band B	150.78	153.72	1.95	2.94	0.06
Band C	172.32	175.68	1.95	3.36	0.06
Band D	193.86	197.64	1.95	3.78	0.07
Band E	236.94	241.56	1.95	4.62	0.09
Band F	280.02	285.48	1.95	5.46	0.11
Band G	323.10	329.40	1.95	6.30	0.12
Band H	387.72	395.28	1.95	7.56	0.15

- 2.5 The Lincolnshire Police and Crime Panel met on 6 February to consider the proposed council tax increase. The Panel members voted unanimously at the meeting to accept the proposed 1.95% increase to the policing element of the council tax.
- 2.6 Locally, Lincolnshire County Council (LCC) provides financial support (£1.5m in 2014/15) to help fund Police Community Support Officers (PCSOs) in the county. A contribution of £1.2m for PCSOs in 2015/16 and the following 2 years has been assumed.
- 2.7 Total income is projected to reduce over the next three years as shown in Table B below. There is a 0.8% reduction in 2015/16 despite the increase in council tax.

Table B: Total Income

INCOME FROM GRANTS AND COUNCIL TAX	2014/15 £M	2015/16 £M	2016/17 £M	2017/18 £M
Police Grant	62.246	59.065	56.675	54.380
Victims' Services Grant	0.231	0.802	0.772	0.772
Council Tax Compensation Grant	1.058	1.058	1.058	1.058
Council Tax Support Grant	5.775	5.775	5.775	5.775
LCC PCSO funding	1.500	1.200	1.200	1.200
Council tax	41.172	43.180	43.524	44.612
Total income	111.982	111.080	109.004	107.797

3. Revenue expenditure

- 3.1 The MTFP is based upon annual council tax increases of 2% per annum. Nevertheless, the MTFP indicates an increasing budget gap of £4.3m in 2016/17 and £7.1m in 2017/18. To achieve financial balance beyond 2015/16, it is clear that, without a more equitable slice of the national police grant, or substantial precept rises in future years, Lincolnshire would see significant degradation of

service from 2016 onwards. That would undoubtedly take the form of fewer PCSOs, police officers and the staff who support them.

- 3.2 Overall revenue budget forecasts are summarised in Table C and Table D below and set out at Appendix B.

Table C: Revenue Budget Totals

REVENUE EXPENDITURE	2014/15 £M	2015/16 £M	2016/17 £M	2017/18 £M
Police and Crime Commissioner direct expenditure	28.545	27.565	27.411	28.151
Joint services	1.712	1.759	1.825	1.864
Chief Constable	81.725	81.756	84.062	84.833
Total expenditure	111.982	111.080	113.298	114.848
Budget deficit	-	-	4.294	7.051

- 3.3 Budget changes are summarised in Table D and shown by service area in Appendix C.

Table D: Summary of Budget Changes

BUDGET CHANGES	2015/16	2016/17 £M	2017/18 £M
Base budget	111.982	111.080	113.298
Cost pressures	1.547	3.010	1.679
Savings	(2.479)	(0.792)	(0.129)
Total expenditure	111.080	113.298	114.848

4. PCC direct expenditure

- 4.1 The budget proposals include provision for victim's services expenditure in line with the grant.
- 4.2 Provision for community safety grants and contributions has been reduced by £0.3 million as part of the budget reduction targets.
- 4.3 The budget for strategic partnership contract payments is set in line with the agreed annual schedule of payments and projected increases for contract price indexation.
- 4.4 At the last triennial valuation in 2013, the Fund's actuary advised that the share of the Fund deficit could be removed over a period of 20 years by increasing the current employer contribution rate of 19.9% to a contribution rate of 25.8%. The minimum required contribution that was required by the actuary from April 2014 was the current employer contribution rate of 19.9% plus the following supplementary contributions:

2014/15	£0.196m	equivalent rate	20.9%
2015/16	£0.407m		21.9%
2016/17	£0.634m		22.9%

- 4.5 It is proposed to make these minimum contributions. The contribution rate is likely to increase after 2016/17 and this is reflected in the medium term planning assumptions.
- 4.6 Capital financing charges usually present a cost pressure as borrowing to fund capital spending creates additional annual repayment and interest costs. However, it is proposed to significantly reduce the capital financing charges budget to reflect:
- proposed reductions in the capital programme;
 - use of capital receipts from asset sales;
 - active treasury management to minimise interest costs.
- 5. Joint services**
- 5.1 The Finance budget is increased to allow for increasing insurance costs following a competitive tender.
- 6. Chief Constable**
- 6.1 The Chief Constable's budget makes provision for 1,100 police officers and 149 PCSOs in both 2015/16 and 2016/17 – 2017/18. Police staff numbers have also been budgeted to maintain current levels of staff over the period of the plan.
- 6.2 Despite significant cost pressures the overall budget is maintained at £81.7 million in 2015/16.
- 6.3 Cost pressures add about 2% to the total budget in 2015/16. The main pressures are:
- Police Officer Bank Holiday Overtime (£0.240m)
 - Police Officer Pay reduction in average rate and pay increments and awards (-£0.783m)
 - Increased Police Staff employee and related costs including pay awards (£0.910m)
 - Increased ICT charges including Home Office charges and contractual changes (£0.119m)
 - Increased Airwaves costs (£0.120m)
 - Costs associated with the Mobile Data Project (£0.427m)
 - Increased costs from establishing Regional Collaborative arrangements (£0.405m)
 - Increased Fleet Operating costs (£0.110m)
 - Increased energy costs (£0.045m).
- 6.4 Savings of nearly £1.6m or 1.9% are proposed. The main savings in 2015/16 are:
- Monitored and managed budgets (£0.583m)
 - Increased income from Police staff recharges and earned income (£0.080m)
 - Savings on Regional Collaborative arrangements (£0.115m)
 - Review of running cost budgets across the Force (£0.529m).
- 6.5 The budget for 2016/17 allows for cost pressures of just over £2.4m at this stage. The main cost increase is for the removal of the National Insurance rebate for contracted out pension schemes announced by the Government which together with provision for pay awards for police officers and other staff amounts to £2.2 million.

7. Capital programme

- 7.1 The capital programme for 2015/16 to 2017/18 and its funding is summarised in Table E below.
- 7.2 The programme makes provision for capital spending on building maintenance and small building improvement projects. Provision is also made for vehicle replacement requirements.
- 7.3 In addition, substantial provision is made for projects which will improve performance and productivity, along with a refresh of ICT hardware and software in 2017/18.

Table E: Capital Programme

CAPITAL PROGRAMMES	2014/15 £M	2015/16 £M	2016/17 £M	2017/18 £M
Building maintenance and improvements	1.503	1.800	1.500	1.500
Vehicle replacement	0.600	0.750	1.000	1.000
Business transformation	0.880	-	-	-
ICT projects	-	1.000	0.500	0.500
ICT refresh	-	-	-	1.755
Airwave replacement	0.242	-	-	-
Body worn cameras	0.411	-	-	-
Mobile data	0.750	-	-	-
ANPR ¹	0.300	-	-	-
LRSP ² cameras	0.420	-	-	-
Discreet building	0.196	-	-	-
Innovation fund schemes	0.209	0.189	-	-
Police sector network	0.230	-	-	-
Total	5.741	3.739	3.000	4.755
Funding :				
Borrowing	1.530	2.794	2.244	3.999
Grants	2.750	0.756	0.756	0.756
Other sources	1.461	0.189	-	-
Total	5.741	3.739	3.000	4.755

8. Medium Term Financial Plan

- 8.1 Forecasting beyond 2015/16 is difficult particularly as a General Election is scheduled for 2015. Current overall forecasts are set out in Table F below:

¹ Automatic Number Plate Recognition

² Lincolnshire Road Safety Partnership

Table F: Medium Term Financial Plan

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Police Grant	62.2	59.1	56.7	54.4
Council tax	41.2	43.2	43.5	44.6
Other income	8.6	8.8	8.8	8.8
Total income	112.0	111.1	109.0	107.8
Expenditure	112.0	111.1	113.3	114.9
Forecast deficit	0	0	4.3	7.1

8.2 Forecasting assumptions are based on the following:

- Police Grant forecasts for 2016/17 and 2017/18 are based on the Chancellor's fiscal assumptions for government department current expenditure. They assume annual reductions of 5% for police services will be above the average reduction for all government departments. There is therefore a considerable degree of estimating error in the forecasts for 2016/17 and 2017/18. This has been equated to a 4% cash cut in these years.
- The impact of the government's Police Funding review is assumed to be neutral although the aim is to improve Lincolnshire's grant position.
- Council Tax is assumed to increase by 2% per annum.
- Expenditure forecasts are based on retaining 1,100 police officers and 149 PCSOs.
- Costs are forecast to increase as a result of pay awards and price increases e.g. energy price increases.
- An increase in employer's national insurance contributions would be a major cost pressure in 2016/17: this is estimated to cost £1.7m. This could be offset if the government returned the increased tax revenue to the police service through increasing Police Grant.

9. Chief Finance Officer's report under section 25 of the Local Government Act 2003

- 9.1 The purpose of this section of the report is to provide the Commissioner with information on the robustness of the estimates and the adequacy of reserves, so authoritative advice is available when the budget decision is made.
- 9.2 The Commissioner is required to decide each year how much should be raised from council tax. This decision is based upon a budget that sets out estimates of spending plans.
- 9.3 The decision on the level of the council tax is taken before the year begins and it cannot be changed during the year, so allowance for risks and uncertainties that might increase expenditure above that planned, must be made by:
- making prudent allowance in the estimates, and in addition;
 - ensuring that there are adequate reserves to draw on if the estimates turn out to be insufficient.
- 9.4 Section 25 of the Local Government Act 2003 requires that the Chief Financial Officer reports to the PCC as part of the consideration of the budget and council tax. The report must deal with the robustness of the estimates and the adequacy of

the reserves allowed for in the budget proposals. Section 25 also requires the PCC to have regard to the report in making the decision.

Robustness of Estimates

- 9.5 This report provides details of the revenue budget proposals for 2015/16 together with provisional budgets for 2016/17 and 2017/18. The budget proposals presented herein are based upon delivering the PCC's Police and Crime Plan, including maintaining the current level of police officer numbers in Lincolnshire.
- 9.6 I am of the view that detailed estimates for 2015/16 have been prepared on a realistic basis and that the savings incorporated in the budget are deliverable. It will be important to maintain strong financial control as budgets are reduced and to secure the planned savings of £2.5m in 2015/16.

Medium Term Financial Plan

- 9.7 Provisional service budgets are proposed for 2016/17 and 2017/18. The government has yet to set grant allocations for those years. Estimates have been based on prudent assumptions. There remains a risk that grant income will be lower than assumed. Grant allocations for 2015/16 were lower than expected due to changes announced in the provisional Settlement: Lincolnshire's allocation was some £0.7m less than projected.
- 9.8 The position for settlements in the period 2016/17 to 2017/18 is more uncertain with the 2015 General Election and subsequent spending review by the incoming Government.
- 9.9 There is also uncertainty on the government's future intentions in relation to the limitation of council tax increases.
- 9.10 On current assumptions, substantial budget deficits are forecast for 2016/17 and 2017/18. The forecast deficit rises to around 10% of the total budget. This is based on maintaining the existing number of police officers, PCSOs and Police Staff.
- 9.11 Police officer salary costs comprise half of the total budget. Other costs have been reduced substantially over recent years including the savings achieved on back office services through establishing a strategic partnership.
- 9.12 It is clear that, without a more equitable slice of the national police grant, or substantial precept rises in future years, Lincolnshire would see significant degradation of service from 2016 onwards. That would undoubtedly take the form of fewer PCSOs, police officers and the staff who support them. The challenge will be to maintain performance by improving the productivity and effectiveness of police officers e.g. through providing them with improved ICT.
- 9.13 The Police Transformation Programme is already underway and described in the Value for Money Plan 2015/16 will be a key part of this.
- 9.14 Achieving a fairer share of government funding for Lincolnshire will be critical to maintaining acceptable levels of policing.
- 9.15 Success in these areas will be essential to address the difficult financial challenges ahead. The Commissioner and the Chief Constable will wish to give high priority to developing these areas and ensuring that real progress is made.

Reserves

- 9.16 In November 2008, CIPFA³ issued updated Guidance on Local Authority Reserves and Balances (LAAP 77). CIPFA's Guidance makes clear that the adequacy of reserves should be assessed in the context of its strategic, operational and financial risks.
- 9.17 The Financial Strategy requires that "general reserves will be maintained around the mid- point of a target range based on the financial risk assessment in respect of residual financial risks."
- 9.18 The current financial risk assessment indicates that general reserves should be maintained at around 5% of total annual expenditure. The amount for 2015/16 is £5.2m. The level of general reserves at 31 March 2014 was £5.663m. There are no plans to use any of the general reserve in 2014/15, 2015/16 or 2016/17 – 2017/18. The unbalanced budgets in the period 2016/17 – 2017/18 will necessitate a review of the Reserves policy if a significant change in funding is not forthcoming. I am however satisfied that at the current time the level of reserves is both adequate and appropriate.

A2. LINKS TO POLICE AND CRIME PLAN AND PCC'S STRATEGIES/PRIORITIES

The revenue budget and capital programme are the financial expression of the Police and Crime Plan and the Commissioner's strategies and is consistent with his Financial Strategy.

B. FINANCIAL CONSIDERATIONS

These have been included in the main report above.

C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

The Police and Crime Commissioner is required to set a balanced budget, determine the rate of council tax and issue a precept in accordance with the Local Government Finance Act 1992 and the Police Act 1996.

D. PERSONNEL AND EQUALITIES ISSUES

There are no direct personnel, equal opportunities or diversity issues arising from this report.

E. REVIEW ARRANGEMENTS

The revenue budget and capital programme will be monitored monthly at Resource Governance meetings.

³ Chartered Institute of Public Finance and Accountancy

F. RISK MANAGEMENT

The risk of a shortfall in funding resulting in severe financial difficulties for the Police and Crime Commissioner and the Police Force is highlighted in both the PCC and Force risk registers. Particular areas of risk around funding levels and spending assumptions are highlighted in the report.

G. PUBLIC ACCESS TO INFORMATION





Information in this form along with any supporting material is subject to the Freedom of Information Act 2000 and other legislation. Part 1 of this form will be made available on the PCC's website within one working day of approval. However, if release by that date would compromise the implementation of the decision being approved, publication may be deferred. An explanation for any deferment must be provided below, together with a date for publication.

Is the publication of this form to be deferred? No

Any facts/advice/recommendations that should not be made automatically available on request should not be included in Part 1 but instead on the separate part 2 form.

Is there a part 2 form? No

ORIGINATING OFFICER DECLARATION

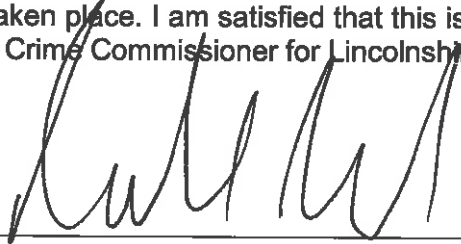
	Initial to confirm
Originating Officer: The Chief Finance Officer recommends this proposal for the reasons outlined above.	
The CC's Chief Finance Officer has been consulted on this proposal	
Monitoring Officer: The PCC's Monitoring Officer has been consulted on this proposal	
Chief Constable: The Chief Constable has been consulted on this proposal	

OFFICER APPROVAL

Chief Executive

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. Consultation outlined above has also taken place. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner for Lincolnshire.

Signature:



Date: 24/2/15

COUNCIL TAX REQUIREMENT 2015/16

A. BUDGET & COUNCIL TAX REQUIREMENT 2015/16		£	£	
TOTAL BUDGET			111,080,489.18	
LESS: Lincolnshire County Council Victim Services		1,200,000.00 802,000.00	2,002,000.00	
BUDGET REQUIREMENT			109,078,489.18	
Police Specific Grant		59,064,939.00		
Council Tax Support Grant		5,774,887.00		
Council Tax Freeze Grant		1,058,666.00	65,898,492.00	
POLICE AND CRIME COMMISSIONER PRECEPT			43,179,997.18	
LESS: District Council Collection Fund Surplus			718,446.42	
COUNCIL TAX REQUIREMENT			42,461,550.76	
B. PCC ELEMENT OF COUNCIL TAX BY PROPERTY BAND		Proportion of Band D	Council Tax £	
Band A		6/9	131.76	
Band B		7/9	153.72	
Band C		8/9	175.68	
Band D		9/9	197.64	
Band E		11/9	241.56	
Band F		13/9	285.48	
Band G		15/9	329.40	
Band H		18/9	395.28	
C. PRECEPTS ON DISTRICT COUNCILS	No. of Band D Equivalent Properties	Council Tax Requirement £	Collection Fund Surplus £	LPA Precept £
Lincoln City	22,569.21	4,460,578.66	77,306.00	4,537,884.66
Boston B.C.	17,772.38	3,512,533.18	23,455.00	3,535,988.18
East Lindsey D.C.	41,257.00	8,154,033.48	193,067.00	8,347,100.48
West Lindsey D.C.	28,224.11	5,578,213.10	91,592.00	5,669,805.10
North Kesteven D.C.	34,500.00	6,818,580.00	32,909.00	6,851,489.00
South Kesteven D.C.	44,753.20	8,845,022.45	221,172.42	9,066,194.87
South Holland D.C.	25,767.00	5,092,589.88	78,945.00	5,171,534.88
TOTAL	214,842.90	42,461,550.76	718,446.42	43,179,997.18

APPENDIX B

	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017/18 £000's
POLICE AND CRIME COMMISSIONER - INCOME				
Police Grant	(62,246)	(59,065)	(56,675)	(54,380)
Victim's Services Grant	(231)	(802)	(772)	(772)
Council Tax Compensation Grant	(1,058)	(1,058)	(1,058)	(1,058)
Council Tax Support Grant	(5,775)	(5,775)	(5,775)	(5,775)
LCC PCSO funding	(1,500)	(1,200)	(1,200)	(1,200)
Council tax	(41,172)	(43,180)	(43,524)	(44,612)
Total income	(111,982)	(111,080)	(109,004)	(107,797)
POLICE AND CRIME COMMISSIONER - EXPENDITURE				
Police and Crime Commissioner's Office	721	696	721	732
Community safety grants and contributions	1,114	814	814	814
Victim's services expenditure	231	802	772	772
Strategic partnership contract payments	23,074	22,140	21,999	22,328
Historic pension costs	196	407	634	884
Capital financing charges	3,309	2,781	2,521	2,671
Investment income	(100)	(75)	(50)	(50)
Total PCC Direct Expenditure	28,545	27,565	27,411	28,151
CHIEF CONSTABLE				
Police officer salaries	56,315	55,772	57,263	57,687
Police staff	7,791	8,036	8,450	8,532
PCSOs	4,322	4,485	4,801	4,856
Crime overtime and non staff costs	1,544	1,304	1,304	1,304
Operations overtime and non staff costs	578	497	497	497
Local Policing overtime and non staff costs - East	297	327	327	327
Local Policing overtime and non staff costs - West	475	399	399	399
LRSP - expenditure	149	149	149	149
LRSP - income	(846)	(936)	(936)	(936)
Major incidents	600	600	600	600
Regional collaboration	2,051	2,563	2,434	2,305
Seconded officers - expenditure	959	593	593	593
Seconded officers - income	(970)	(598)	(598)	(598)
Police officer ill health and injury benefit costs	1,365	1,245	1,245	1,245
Monitored and managed - premises costs	2,524	2,349	2,396	2,447
Monitored and managed - vehicle costs	1,487	1,465	1,528	1,594
Monitored and managed - HR and training costs	423	381	381	381
Monitored and managed - ICT costs	2,179	2,779	2,808	2,808
Monitored and managed - other costs	432	309	309	309
Strategic Development	115	72	72	72
Legal Services	141	141	141	141
Volunteers	112	101	176	401
Professional standards	12	9	9	9
Central costs	706	631	631	628
Police staff recharges and earned income	(1,021)	(1,062)	(1,062)	(1,062)
Mutual aid	(150)	(50)	(50)	(50)
Contingency	135	195	195	195
Total Chief Constable	81,725	81,756	84,062	84,833
JOINT SERVICES				
Corporate Finance	731	793	821	852
Communications	549	550	572	577
Commercial Partnership Team	432	416	432	435
Total joint services	1,712	1,759	1,825	1,864
OVERALL BUDGET DEFICIT			4,294	7,051

