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Cumbria Office of the Police and Crime Commissioner

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Budget 2019/20 and Financial Forecasts 2020/21 to 2022/23

Report of the Joint Chief Finance Officer

1. Purpose of the Report

1.1 The purpose of this report is to recommend to the Commissioner for approval the revenue and capital budget for 2019/20 and the level of council tax to support the budget. The report also provides provisional estimates for the three years to 2022/23, ensuring budget decisions are taken in the context of the medium term financial forecast.

2. Introduction

2.1 It is a legal requirement for the Police and Crime Commissioner to annually set a balanced budget and to allocate funds to the Chief Constable to secure the maintenance of the Police Force for Cumbria. In doing this the budget takes into account forecasts of the income anticipated to be available to the Cumbria police area and expenditure that is expected to be incurred in delivering the functions of the Commissioner and the priorities of the Police and Crime Plan. This report presents the Commissioner's revenue budget plans to meet these requirements.

2.2 This budget report is the second report in a series of papers that provide financial and other information to support the budget setting process. In January more detailed financial and contextual information has been provided to the Police and Crime Panel. Accompanying the budget report on this agenda is a report covering the capital strategy and programme, treasury management strategy, Prudential Indicators and the policy on Minimum Revenue Provision (MRP). These reports support the due diligence in respect of the affordability of the capital programme and the revenue implications of that expenditure. The agenda includes the Joint Chief Finance Officer's statutory report on the robustness of the budget and a reserves strategy. The full suite of financial reports is available on the Commissioner's website.

3. Summary Budget and Precept

- 3.1 The table below sets out a summary of the consolidated budget setting out the plans for income and expenditure based on the 2019/20 government financial settlement for policing bodies. **Appendix A** sets out the budget for the Commissioner and the budget for the Chief Constable.

Medium Term Budget 2019 - 2023	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s
Police Pay - Police Officer Pay & Allowances	59,085	63,980	65,538	67,463	68,946
Police Pay - Contribution to Pension Fund A/c	22,574	22,915	24,923	26,506	21,215
Police Pay - Ill Health & Injury Pensions	944	1,211	1,235	1,260	1,286
PCSO Pay	3,131	2,738	2,828	2,850	2,908
Staff Pay	21,264	23,106	23,595	24,197	25,048
Other Employee Costs	1,165	1,346	1,373	1,392	1,419
Premises Costs	4,047	4,312	4,271	4,373	4,478
Transport Costs	2,176	2,297	2,366	2,437	2,511
Supplies & Services	9,949	10,644	10,700	10,897	11,115
Third Party Expenditure	2,108	2,192	2,259	2,320	2,369
LGPS Past Service Costs	493	503	515	526	537
Insurances/Management of Change	657	706	718	739	755
Commissioned Services	2,246	2,245	2,245	2,245	2,245
Accounting and Financing Costs	11,553	7,376	4,831	6,255	6,375
Contributions to Reserves Revenue	113	183	96	96	96
Total Expenditure	141,505	145,754	147,493	153,556	151,303
Funded by					
Home Office Pension Top Up Grant	(22,574)	(22,915)	(24,923)	(26,506)	(21,215)
Additional Pensions Grant	0	(1,200)	(1,200)	(1,200)	(1,200)
Other Grants & Contributions	(6,961)	(6,773)	(6,788)	(6,803)	(6,818)
Sales, Fees, Charges & Rents	(4,784)	(5,211)	(4,845)	(4,791)	(4,887)
Interest/Investment Income	(75)	(165)	(140)	(115)	(115)
Revenue Reserves Drawdown	(12)	(1,586)	(276)	(123)	(29)
Capital Reserves Drawdown	(8,472)	(4,162)	0	(1,575)	(1,699)
Formula Grant	(58,710)	(59,943)	(59,943)	(59,943)	(59,943)
Council Tax Income	(39,917)	(43,799)	(46,408)	(48,829)	(51,284)
Total Income/Funding	(141,505)	(145,754)	(144,523)	(149,885)	(147,190)
Net Savings Requirement	0	0	2,970	3,671	4,113

- 3.2 The table shows estimated expenditure based on the budget proposed by and agreed with Cumbria Constabulary. It also includes expenditure for services that will be commissioned with wider partners and the Constabulary in support of the priorities within the Police and Crime Plan. The budget plan provides estimated funding of £145.754m in 2019/20 to support an equivalent level of expenditure. Between 2020/21 and 2022/23 the gap between income and expenditure is expected to increase to £4.113m. This arises from the net impact of inflation and other expenditure pressures compared with the forecast growth in funding from Government Grant and increases in Council Tax Income.

- 3.3 For 2019/20 the Minister of State for Policing and Fire has again, allowed PCCs further flexibility to increase council tax without the requirement to undertake a local referendum. In the funding announcement he gave PCCs the ability to increase the band D precept by up to £24 (for 2018/19 the flexibility was given to increase by £12), for Cumbria this sum would represent an annual increase of 10.29%. In return for this higher level of increase in the council tax precept for policing, the Commissioner has increased the number of Police Officers by 20 (on top of the increase of 25 officers provided in 2018/19) from 1145 to 1165 FTE. The remainder of the budget proposed has been produced on a continuation basis, which means that current levels of service have been maintained over the life of the four year forecast. This includes functions where additional funding was provided in the 2018/19 budget in response to service pressures including an additional 25 officers.

4. 2019/20 Policing Bodies Grant Settlement

- 4.1 On the 13th December 2018 the provisional funding allocations for policing bodies in England and Wales were announced. The funding allocations were based on the 2018/19 levels of funding with an inflationary increase (2.1%) to partially offset the impact of an increase in employers pension contributions. The MTFF assumes that the 2019/20 level of funding will be maintained on a flat cash basis for the 4 years of the MTFF. The final settlement figures were released on 24th January and these were unchanged from the provisional figures. The outcome of the settlement is a formula funding amount of £59.943m for the Cumbria police area for 2019/20.
- 4.2 The settlement confirmed that the current arrangements for formula funding and damping would continue for 2019/20. This means all policing bodies will continue to receive the same proportion of core Government funding as in 2018/19. The Government has indicated that it will re-visit the Home Office police funding formula in the next spending review, which will apply from 2020/21. However, any changes to the funding formula are unlikely to be implemented until 2021/22. In the absence of any firm indications on the timing and effect of any changes to the formula, for the purposes of the budget forecast, it has been assumed that this will have a neutral impact on Cumbria's core grant. The potential that changes to the formula may adversely affect the financial outlook will, however, continue to be recognised in the risk register and will be monitored on an on-going basis.
- 4.3 In addition to the formula grant the Commissioner receives a number of specific grants for policing and crime. The key grants against which most funding is received are the Police Pensions Top-Up Grant (£23m), Home Office legacy Council Tax Grants of £4.85m and a specific pensions grant of £1.2m introduced in 2019/20 to offset increased police officer pension contributions. The Commissioner will also receive income of £0.59m to support responsibilities for commissioning support for victims and restorative justice. For the purposes of financial planning it is assumed that

the legacy, pensions and victims grants will continue at their 2019/20 cash levels for the remainder of the MTF.

- 4.4 In summary, the formula grant settlement has seen a 2.1% increase in grant funding for local policing and crime reduction in Cumbria when compared with what was received for 2018/19, but this has been fully utilised in meeting additional police officer pensions contributions levied in 2020/21. The medium term forecast is currently projecting this settlement for the duration of the 4 years of the medium term financial forecast on a flat cash basis. On this basis, budgeted expenditure exceeds income by £4.1m by 2022/23.

5. Council Tax Income & Other Income

- 5.1 The net budget for the Cumbria Police area is funded by a combination of formula grant and Council Tax income. Income from Council Tax is dependent on a precept levied on each District Council in Cumbria. Total tax income is dependent upon the amount at which the precept is set, the number of properties charged (tax base) and the Police Area's share of any surplus or deficit on District Collection Funds. The Council Tax Base takes account of expected collection levels and discounts. The surplus or deficit position on each District Collection Fund reflects the extent to which actual collection and discounts have varied from the budget. Each precepting authority takes a share of the deficit or surplus pro-rata to their share of the precepts.

Council Tax 'Band B' is the band into which the highest number of properties in Cumbria fall, for this band the increase is £18.62 per annum or 36 pence per week (from £181.02 to £199.64).

- 5.2 The amount of the council tax precept is a decision for the Commissioner, who will take account of the views of the Chief Constable, the Police and Crime Panel and the results of a public consultation in making that decision. This is providing the proposal on the precept is within the Government's Council Tax increase limits. The limits are set by Government each year and inform the percentage increase in Council Tax income allowed before the Commissioner would need to hold a public referendum. The Government has formally announced the Council Tax increase limits as part of the formula grant settlement. As discussed above, the limit for Policing Bodies has been set at a maximum of £24 increase on a band D property for 2019/20. **The Commissioner's budget is based on a precept increase of 10.29%. The financial implications for residents are that the Band D Council Tax amount would increase to £256.68 for 2019/20, an increase of £23.94.**

- 5.3 Council tax income is forecast using the tax base estimates provided by district councils. Calculations of the tax base have taken into account billing authorities' responsibilities to support low income households with their council tax liabilities. This support is delivered by way of local schemes that

provide discounts. The discounts reduce the tax base and therefore also impact precepting bodies. Schemes are subject to review and the Police and Crime Commissioner is required to be consulted with regard to scheme changes. The Commissioner has supported the schemes currently proposed by all districts through the consultation process.

- 5.4 The table below sets out the tax base for each district for 2019/20 and the tax base for the prior year. The table shows that the total tax base is estimated to increase by 1,589 band D equivalent properties. Budgets from 2020/21 are based on an assumed annual increase in the tax base of 0.75%. The actual updated tax base will be incorporated into future budgets in the year it is notified by districts. If the tax base increases above our estimates this will deliver a small budget benefit whilst a decrease from our estimates will have a negative impact on funding.

District	Tax Base 2018/19	Tax Base 2019/20	Increase (decrease)	% change
Allerdale Borough	30,359.94	30,662.47	302.53	1.00%
Barrow Borough	19,290.00	19,520.25	230.25	1.19%
Carlisle City	33,326.46	33,850.60	524.14	1.57%
Copeland Borough	20,523.35	20,557.70	34.35	0.17%
Eden District	20,365.64	20,615.78	250.14	1.23%
South Lakeland District	45,265.99	45,513.47	247.48	0.55%
Total	169,131.38	170,720.27	1,588.89	0.94%

- 5.5 In addition to the recurrent grant and tax base income, the 2019/20 budget is reduced by the net impact of a forecast deficit on the 2018/19 district collection funds. The table below shows the council tax attributable to each district for 2019/20 and the position on each district collection fund (surplus/deficit) for 2018/19.

Council Tax Income 2019/20	Tax base 2019/20	Precept (Band D) £	Council Tax Income £	Declared Surplus/ (Deficit)	Total 2019/20 £
Allerdale Borough	30,662.47	256.68	7,870,442.80	36,248.00	7,906,690.80
Barrow Borough	19,520.25	256.68	5,010,457.77	(37,596.00)	4,972,861.77
Carlisle City	33,850.60	256.68	8,688,772.01	64,008.00	8,752,780.01
Copeland Borough	20,557.70	256.68	5,276,750.44	57,513.00	5,334,263.44
Eden District	20,615.78	256.68	5,291,658.41	(98,323.00)	5,193,335.41
South Lakeland District	45,513.47	256.68	11,682,396.97	(43,436.00)	11,638,960.97
Total	170,720.27	256.68	43,820,478.39	(21,586.00)	43,798,892.39

- 5.6 In addition to formula funding and Council Tax income, the budget includes an amount of one off income to support one off expenditure achieved through a contribution from reserves. The funding available to support the budget is determined annually and takes account of the funding settlement, the need to provide for budget risks and any estimated under spend from prior years. In total the 2019/20 budget is supported by the use of £5.6m of earmarked revenue and capital reserves. The most significant element of this are planned contributions of £4.2m from capital reserves to support the capital programme.
- 5.7 Fees and charges income is estimated to provide £5.2m in 2019/20 in support of expenditure. This income is primarily derived from reimbursements for services and officers provided to support national and regional policing requirements in addition to income from driver awareness training and licensing. This income is generated on behalf of the Commissioner by the Constabulary and is netted off the overall funding provided to the Chief Constable.

6. Expenditure Budget & Savings

- 6.1 Gross expenditure of £145.754m can be supported by budgeted income in 2019/20. However, it is anticipated that in future years funding will fail to keep pace with expenditure pressures meaning that by 2022/23 £4.1m savings will be needed to offset rising costs. The key driver in the level of savings requirements is increasing inflationary pressure. Previously, inflation on pay costs had been held at 2% for the life of the medium term forecast, 2018/19 saw further relaxation of the public sector pay constraint and as a consequence, the medium term forecast has now been adjusted to assume annual pay rises of 3%. Inflation on supplies has also been set at 2% for the life of the medium term forecast in line with Bank of England estimates. Against this backdrop, all expenditure budgets are subject to rigorous scrutiny including an annual budget Star Chamber process, where budget holders are required to justify their budget requirements.
- 6.2 Recognising the need to make further budget savings in the medium term in order to deliver a balanced budget, the Commissioner and Chief Constable have engaged in a number of discussions to consider areas of the budget that will be targeted for reductions in expenditure. Whilst no firm decisions have been made, initiatives, which will be explored as part of the Constabulary's Vision 2025 Strategy include, adjusting the workforce mix, consolidating functions to provide greater resilience, collaboration with other forces and other public sector bodies and realising benefits from investment in new technology.

7. Capital Funding & Expenditure

7.1 In addition to revenue grants the Commissioner also receives a small amount of annual capital funding that supports a capital programme. The programme is developed in consultation with the Constabulary who are the primary user of the capital assets under the ownership of the Commissioner. The budget benefits from £0.372m in capital grant to support capital expenditure from the 2019/20 settlement, which is slightly higher than the capital grant received in 2018/19 of £0.364m. Over recent years the level of capital grant has reduced significantly as a result of national top-slicing from capital allocations, contributing to a widening gap between the requirement for capital expenditure and capital funding. This has to be met by revenue contributions to capital, capital receipts from the disposal of property and the use of reserves. In 2019/20 the revenue budget contributes £1.8m to fund capital, this figure increases to over £3m per annum from 2020/21. Over the four years of the medium term financial forecast, major capital schemes for ICT and estates are primarily funded through one off reserves and capital receipts. Beyond 2023/24 both these sources of funding will be largely exhausted and as a result revenue contributions will be the primary source of capital funding.

8. Reserves and Balances

8.1 Over the life of the financial forecast total reserves are planned to reduce from £18.1m at the start of 2019/20 to £9.1m by end of March 2023, largely due to provision of funding to the support the capital programme. Of the remaining £9.1m, the general reserve of £3m is held for managing financial risks and unforeseen events, budget support, stabilisation and insurance reserves/contingencies of £3.9m provide further resilience, whilst a small number of other reserves are earmarked for specific purposes including pooled/partnership funds.

8.2 The agenda includes a separate paper, **The Reserves Strategy for 2019/20** (see item 11c). The reserves strategy, sets out the purposes for which the individual reserves are held and the planned movements over the life of the medium term budget.

9. Consultation & Value for Money

9.1 The Commissioner has undertaken consultation on the budget and the Police and Crime Plan in line with regulatory requirements. Public consultation has taken place through the Police and Crime Panel and with a specific survey on the Commissioner's website during the budget setting process for 2019/20. A total of 2,161 individuals responded to the survey and the outcome of public consultation has been that the majority of respondents (70.15%) have agreed with the proposal to increase council tax by the maximum allowed amount of just under £24 (10.29%) on a band D

property. The Commissioner has also sought the view of the Chief Constable. The Police and Crime Panel voted to support the Commissioner's proposal at its meeting 21 January 2019 and made no further recommendations.

- 9.2 The Police and Crime Plan is underpinned by a performance framework that supports the Commissioner in holding the Chief Constable to account for delivering priorities and securing value for money. In developing the framework consideration is given to past performance, benchmarking against most similar forces, the level of officer and staffing resources that can be supported by the budget and the impact of the continuing implementation of the savings programme.

10. Summary

- 10.1 This report presents and explains the budget plans for the period from 2019/20 to 2022/23. The 2019/20 budget is balanced based on a precept increase of £23.94 for a band D property which equates to an increase of 10.29%. In future years savings will be required to offset a deficit of £4.1m by 2022/23. The precept proposal will increase the annual Council Tax attributable to the Commissioner by £23.94 for a Band D property resulting in a Band D Council Tax charge of £256.68.

11. Recommendations

- 11.1 Appendix B sets out the budget resolution for decision by the Commissioner in order to formally approve the level of council tax precept. In the context of the budget resolution, it is recommended that:
- a) **The revenue budgets outlined in this report and appendices be approved, having regard to the Local Government Act 2003 report**
 - b) **That the budget requirement for 2019/20 be set on the basis of the amount within the budget resolution at appendix C**
 - c) **The council tax for Band D properties be approved at £256.68 for 2019/20, an increase of £23.94**

12. Acknowledgements

- 12.1 The budget is recommended to the Commissioner with recognition for the hard work and support of the financial services team who provide detailed income and expenditure forecasts and for the work of the Police and Crime Panel in providing challenge and scrutiny to the budget proposal.

Roger Marshall

Joint Chief Finance Officer

20 February 2019

Human Rights Implications

None identified

Race Equality / Diversity Implications

The budget is subject to an Equality Impact Assessment.

Risk Management Implications

There is a legal requirement to set a balanced budget. The Commissioner's strategic risk register recognises the importance of sound financial planning.

Financial Implications

The main financial impacts are described in the paper

Personnel Implications

As identified in the report

Contact points for additional information

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Budget for the Commissioner and the budget for the Chief Constable

Description	Base Budget 2018/19 £	Base Budget 2019/20 £	Base Budget 2020/21 £	Base Budget 2021/22 £	Base Budget 2022/23 £
Constabulary Funding					
Police Officer - Pay & Allowances	59,084,911	63,979,207	65,537,895	67,463,296	68,946,238
Police Officer - Contribution to Pension Fund A/c	22,574,000	22,915,000	24,923,000	26,506,000	21,215,000
Police Officer - Ill Health & Injury Pensions	944,199	1,211,319	1,235,546	1,260,257	1,285,463
Police Community Support Officers	3,131,356	2,738,236	2,828,384	2,850,236	2,907,744
Police Staff - Pay & Allowances	20,684,681	22,496,767	22,968,205	23,550,856	24,382,382
Other Employee Benefits	1,160,125	1,341,001	1,367,408	1,386,479	1,414,209
Transport Related Expenditure	2,171,152	2,292,794	2,361,384	2,432,482	2,506,196
Supplies & Services	9,827,801	10,529,007	10,583,016	10,778,177	10,993,741
Third Party Related Expenditure	2,108,051	2,188,724	2,255,685	2,316,279	2,365,029
Earned Income	(4,784,152)	(5,210,621)	(4,845,249)	(4,791,517)	(4,887,348)
Total Constabulary Funding	116,902,124	124,481,433	129,215,273	133,752,544	131,128,653
Commissioner's Budget					
Office of the Police & Crime Commissioner	722,694	749,008	769,858	791,309	813,376
Commissioned Services Budget	2,245,476	2,244,773	2,244,773	2,244,773	2,244,773
Premises Related Costs	4,045,455	4,310,486	4,269,848	4,371,550	4,476,201
LGPS Past Service Costs	492,600	503,400	514,500	525,900	537,500
Insurances & Management of Change	657,446	706,439	717,589	738,589	755,489
Accounting & Financing Costs	11,542,189	7,364,569	4,819,822	6,243,873	6,364,170
Contributions to Reserves Revenue	113,329	183,379	95,884	95,884	95,884
Grants & Contributions	(28,583,878)	(29,940,784)	(31,963,279)	(33,561,208)	(28,285,585)
Grants - Victims & Restorative Justice	(588,000)	(575,661)	(575,661)	(575,661)	(575,661)
Grants - Capital	(363,773)	(371,698)	(371,698)	(371,698)	(371,698)
Interest/Investment Income	(75,000)	(165,000)	(140,000)	(115,000)	(115,000)
Total Commissioner's Budget	(9,791,462)	(14,991,089)	(19,618,364)	(19,611,689)	(14,060,551)
Use of Reserves					
Revenue Reserve Drawdown	(12,307)	(1,586,210)	(275,535)	(123,472)	(29,304)
Capital Reserve Drawdown	(8,471,641)	(4,162,275)	0	(1,575,000)	(1,699,284)
Total Use of Reserves	(8,483,948)	(5,748,485)	(275,535)	(1,698,472)	(1,728,588)
Budget Requirement	98,626,714	103,741,859	109,321,374	112,442,383	115,339,514
Formula Grant & Council Tax Income					
General Police Grant	(58,710,055)	(59,942,966)	(59,942,966)	(59,942,966)	(59,942,966)
Council Tax Precepts	(39,916,659)	(43,798,892)	(46,407,980)	(48,828,829)	(51,283,392)
Total Formula Grant & Council Tax Income	(98,626,714)	(103,741,858)	(106,350,946)	(108,771,795)	(111,226,358)
Net Deficit/Savings Requirement	0	0	2,970,428	3,670,588	4,113,156
Council Tax per Band D Property	£232.74	£256.68	£268.65	£280.62	£292.59
Increase over previous year		£23.94	£11.97	£11.97	£11.97
Percentage Increase		10.29%	4.66%	4.46%	4.27%

Budget Resolution

Local Government Act 2003 Requirements: That the comments of the Joint Chief Finance Officer on the robustness of the estimates and adequacy of balances and reserves be noted and reflected in the decisions made by the Commissioner in making the following budget determination for 2019/20.

Revenue Estimates 2019/20: That the Commissioner's net **Budget Requirement** of £103,741,859 be approved.

Council Tax Base 2019/20: That it is noted that the Council Tax base has been calculated at the amount of 170,720.27 for 2019/20. This is the total of the tax bases calculated by the District Councils as required by regulation.

Budget Requirement: That the following amounts are calculated by the Commissioner for the 2019/20 financial year:

Ref	2019/20 Amount £s	Description
(a)	£145,754,107	being the total of gross expenditure
(b)	£42,012,249	being the total of income from specific grants, fees and charges and transfers from reserves
(c)	£103,741,858	being the Budget Requirement for the year to be met from Council Tax and External Finance
(d)	£59,942,966	being the total the Commissioner estimates will be received from external financing, being the Police Grant
(e)	-£21,586	being the net surplus/(deficit) on district collection funds
(f)	£43,820,478	being the council tax requirement (the budget requirement less the collection fund surplus and external finance)
(g)	£256.68	being the basic amount of Council Tax for the year (the council tax requirement divided by the tax base)

Valuation Bands and Calculation of the amount of Precept payable by each billing authority:

Valuation Band	Amount £.pp	Proportion
Band A	171.12	6/9 ths
Band B	199.64	7/9 ths
Band C	228.16	8/9 ths
Band D	256.68	9/9 ths
Band E	313.72	11/9 ths
Band F	370.76	13/9 ths
Band G	427.80	15/9 ths
Band H	513.36	18/9 ths

Billing Authority	Tax Base 2019/20	Precept (Band D) £	Amount Payable £
Allerdale Borough	30,662.47	256.68	7,870,442.80
Barrow Borough	19,520.25	256.68	5,010,457.77
Carlisle City	33,850.60	256.68	8,688,772.01
Copeland Borough	20,557.70	256.68	5,276,750.44
Eden District	20,615.78	256.68	5,291,658.41
South Lakeland District	45,513.47	256.68	11,682,396.97
Total	170,720.27	256.68	43,820,478.39