



DORSET

POLICE & CRIME
COMMISSIONER

POLICE AND CRIME PANEL: 6 FEBRUARY 2014

AGENDA NO: 5

PROPOSED PRECEPT FOR 2014-15

REPORT BY TREASURER TO THE POLICE AND CRIME COMMISSIONER

PURPOSE OF THE REPORT

This report sets out the proposed 2014-15 precept for the Police and Crime Commissioner for Dorset for consideration by the Police and Crime Panel.

1. INTRODUCTION

- 1.1 The Police and Crime Panels (Precepts and Chief Constable Appointments) Regulations 2012 require the PCC to notify the panel of their proposed precept for 2014-15 by the 1st February 2014. This then needs to be considered by the Police and Crime Panel who can either approve the proposed precept or veto it. A two thirds majority of the Police and Crime Panel is required to veto any precept proposal.

2. BACKGROUND

- 2.1 The Comprehensive Spending Review (CSR) in 2010 indicated cuts in government support for the Police Service of 20% over the period 2011-12 to 2014-15. Government Support was cut for 2011-12 by 5.14%, for 2012-13 by 6.4% and for 2013-14 by 1.6%. Indications have been given since then that similar levels of cuts will continue for several more years beyond this initial period.
- 2.2 Dorset Police Authority accepted the Council Tax Freeze Grant for 2011-12 which was equivalent to a 2.5% increase in precept (Council Tax). This made them eligible for a grant of around £1.3m for the four years of the spending review period.
- 2.3 A similar scheme was offered for 2012-13 with a Freeze Grant equivalent to 4% on offer if the precept was frozen, equivalent to £1.6m. The key difference was however that this funding was one-off i.e. offered for 2012-13 only. This funding was therefore lost from the budget from 2013-14 onwards.

3. 2013 SPENDING ROUND

- 3.1 On the 26 June 2013, the Chancellor announced the results of the 2013 Spending Round. In respect of Police funding, the headline level of cuts in government funding was a 5.75% real terms cut in 2014-15 (3.3% cash reduction) and a 4.9% real terms cut in 2015-16 (3.2% cash reduction).

- 3.2 Additionally there was the announcement of the establishment of a new Police Innovation Fund to help further reforms and enable greater collaboration between the emergency services and cut the cost of police ICT contracts.
- 3.3 Later announcements from the Home Office indicated that the sum allocated for the innovation fund in 2014-15 would be £50m but that rather than this being new money, the sum would be top-sliced from the existing police funding settlement.
- 3.4 In November 2013 it was also announced that the Independent Police Complaints Committee (IPCC) would be strengthened. Funding would again be top-sliced from the existing police funding settlement but no staff would transfer from forces to the IPCC.

4. PROVISIONAL SETTLEMENT FOR 2014-15

- 4.1 The provisional Local Government Finance Settlement, including the Police Finance Settlement, was received on 18 December 2013. The final settlement is not expected until around the 5th February 2014, after the notification to the Panel of the PCC's proposed precept, however there is no indication that the funding position will change.
- 4.2 In the Chancellor's 2013 Autumn Statement, it was announced that departmental budgets for government departments would be reduced by a further 1.1% in 2014-15 and 2015-16. Whilst Local Government spending was protected from these additional cuts for 2014-15, the Home Office, which now provides all of the police funding, was not protected.
- 4.3 For 2014-15, the Home Secretary decided that despite the further reduction to Home Office funding, the central government revenue funding to police would be protected from further reductions. The headline cash reduction of 3.3% for 2014-15 was therefore confirmed, which implied a reduction of £2.15m in police revenue grant.
- 4.4 Unlike the rest of Local Government, the settlement for Police only covered the period of 2014-15. It stated that following the additional cuts announced in the Chancellor's 2013 Autumn Statement, further consideration was still being made of all Home Office budgets and that 2015-16 provisional allocations would therefore not be made at this time.
- 4.5 In addition to the previously announced top-slices for the Police Innovation Fund and the IPCC (see 3.3 and 3.4 above), a number of additional sums have also been top-sliced from the existing settlement. These include for the HMIC for force inspections, College of Policing for direct entry schemes, City of London Capital City Grant and the National Police Co-ordination Centre.
- 4.6 Once these are taken into account the actual level of cuts applied to all English forces is a 4.8% cash reduction, not the 3.3% headline figure. This represents an additional cut of £955,000 per annum, taking the total cut in revenue grant funding for 2014-15 to just over £3.1m.
- 4.7 The previous arrangements for formula damping have also remained in place so that all forces receive the same level of cuts. This means that the needs-based funding formula for policing which is supposed to determine how much funding each area receives has never been properly implemented. Dorset currently loses around £1.8m per annum as a result of this.
- 4.8 The Council Tax Freeze Grant for 2011-12 was originally made available to local authorities for the period of the spending review i.e. 4 years. This was subsequently

extended for an additional year in the 2013 spending review. In the finance settlement for 2014-15 it has been added to the grant for the Localisation of Council Tax Support and will now for a Legacy Council Tax Grant. Indications from DCLG are that this will continue to be paid beyond 2015-16 for the rest of local government however for police, this funding has been transferred to the Home Office and it is currently unclear whether this will continue to be paid beyond 2015-16.

- 4.9 No details have been published by the Home Office in relation to the review of the police funding formula which was due to commence in early 2013.

5. FUNDING ALLOCATION

- 5.1 All policing related funding comes initially to the PCC for them to commission services as appropriate. This includes:-

- Police Revenue Grant
- Policing Precept
- Specific Grants

- 5.2 A small element of the Police Revenue Grant / Precept is used to fund the Office of the Police and Crime Commissioner. For 2014-15 this sum will remain at £870,100.

- 5.3 The Community Safety Fund was received as a specific grant for 2013-14 (£555,000) but this will now be rolled into the Police Revenue Grant from 2014-15 onwards. This sum will remain with the PCC and will be used to directly commission community safety related services. Additionally, there have been a number of other similar services which have previously been commissioned within Dorset Police totalling £309,100. These will in future be commissioned by the PCC so that all of this expenditure can be prioritised and monitored in one place.

- 5.4 New specific grants will also be paid to the PCC from 2014-15 for the commissioning of Victim services and Restorative Justice services. Again, these sums will be spent directly by the PCC.

- 5.5 The establishment of a local innovation fund is part of the precept proposals for 2014-15 which will be used initially for the purchase of body worn cameras. This sum (£300k) will also be controlled by the PCC.

- 5.6 Allocation of funds received under the Police Property Act is done annually through a competitive bidding process. There is no base budget for this, the level of funding is entirely dependent upon the receipts in the previous financial year.

- 5.7 All of the remaining Police Revenue Grant / Precept and the other specific grants will be passed to the Chief Constable for the commissioning of police services.

5.8 A summary of the funding streams for 2014-15 is shown below:-

| | | | |
|------------------|-------------------------------|------------------|---------------------------|
| | Police Revenue Grant | £62.076m | |
| | Policing Precept | £50.800m | {assuming 1.96% increase} |
| | Collection Fund Surplus | £0.515m | |
| Specific Grants: | Council Tax Legacy | £7.340m | |
| | PFI Grant | £5.238m | |
| | Loan Charges | £0.071m | |
| | Counter Terrorism | £1.755m | {estimated} |
| | Victim Services | £0.318m | |
| | Restorative Justice | £0.082m | |
| Income | Other Income | £3.230m | |
| | TOTAL FUNDING | £131.425m | |
| | <u>CHIEF CONSTABLE</u> | | <u>OPCC</u> |
| £128.991m | Policing Services | £0.870m | Office of the PCC |
| | | £0.555m | Community Safety Fund |
| | | £0.309m | Other Commissioned Svcs |
| | | £0.318m | Victim Services |
| | | £0.082m | Restorative Justice |
| | | £0.300m | Local Innovation Fund |
| | | £TBC | Police Property Act Fund |
| £128.991m | TOTAL | £2.434m | TOTAL |

6. COST PRESSURES FOR 2014-15

6.1 Following several years of pay freezes, with the exception of small rises for staff on less than £21,000 p.a., an increase in police staff pay of 1% was agreed payable from 1 September 2013. No settlement has yet been reached for 2014-15. Indications from Government are that pay increases will be kept to an average of 1% across the public sector for the next two years. The Government will also be piloting a “pay control bill” within several government organisations which will aim to control the overall pay bill of the organisation rather than just the pay rise. The Government will consider how best value can be obtained from the pay bill, including the results of the pilot, in setting pay policy for 2015-16 and beyond.

- 6.2 General inflationary pressures are also borne by the budget, particularly around contractual commitments. National agreements for items such as Airwave, IT systems and Training are also seeing significant cost increases as government funding is reduced / removed from the bodies providing these functions. General inflation will therefore add another £300-400k of cost pressures to the budget gap for 2014-15.
- 6.3 Within the PCC's manifesto there are also a number of pledges to the public which will require investment over the term of office. Some of these will be met through the redirection of existing resources but some will result in additional cost. The main areas of additional cost will be around the establishment of the Local Innovation Fund and additional rural community vehicles.
- 6.4 Police Officer recruitment in Dorset had been suspended since June 2010 but recommenced during 2013 with 12 new officers funded through the precept increase. Some recruitment of new officers is desirable to bring in new blood, allow for balance within the workforce and ensure the force is representative of the community it is policing. Subject to approval, part of this year's proposed precept increase will be used to fund a further intake of 16 officers which will mean that overall numbers for 2014-15 will be unchanged, despite the significant loss of funding.
- 6.5 Taking the loss of grant (£3.1m), and the cost pressures into account, the total budget pressures for 2014-15 are well in excess of £4m.

7. FUTURE OUTLOOK

- 7.1 Unlike the rest of local government, which received a two-year settlement, the provisional police finance settlement only provided information for 2014-15. All Home Office budgets are to be reviewed before any announcement is made on funding levels for 2015-16 and no timescale has been given for this review. The current expectation is that the cuts will continue in line with those from CSR 2010 so we anticipate further cuts of around 3.5% per annum for 2015-16 and 2016-17.
- 7.2 Adding further uncertainty, a new police funding formula, which determines the way in which government funding for the Police Service is split between forces, will also be implemented. It was originally anticipated that it would be implemented in 2015-16 but given the lack of progress it now seems more likely that it will 2016-17 at the earliest. The PCC is still looking to take an active role within the review process wherever possible.
- 7.3 Further council tax freeze grants equivalent to a 1% increase in council tax are on offer for 2014-15 and 2015-16. There is currently no indication on council tax arrangements beyond this point. There is also currently no guidance on what level of rises will be deemed to be excessive and hence require a referendum. Recent years have seen consistent tightening of the rules and there is no reason to expect that this will not continue.
- 7.4 Therefore there is great uncertainty over future levels of funding both in terms of what support will be given nationally through government grants and what will be achievable locally through council tax.
- 7.5 A significant additional cost pressure arises in 2016-17 due to the introduction of the Single State Pension. Current discounts in National Insurance rates applied to occupational pension schemes will be removed which will add around £2m to National Insurance costs from 2016-17 onwards.

7.6 A conservative estimate would be that further savings of £8-£12m will still be required over the next few years.

8. PRECEPT OPTIONS FOR 2014-15

8.1 At the time of finalising this report, the principles for council tax referendums to be required had still not been released for 2014-15. In determining the options for council tax it was assumed that the current limit increases in excess of 2% would be deemed excessive.

8.2 On this assumption, the basic options for 2014-15 were:-

- To freeze council tax and accept the Council Tax Freeze Grant on offer. For 2014-15 this grant is equivalent to only a 1% council tax increase. This would mean a grant of around £540k, receivable from 2014-15 onwards.
- To raise council tax by up to 2%. This would add £500k ongoing funding to the base budget for each 1% increase, and would mitigate the overall significant funding reductions. A 2% increase would therefore add £1m.
- To raise council tax by over 2%. This however would be deemed “excessive” and would require a referendum to be held in Dorset. The cost of such a referendum is estimated to be in the region of £1m.

9. THE PREFERRED OPTION – PRECEPT PROPOSAL FOR 2014-15

9.1 The PCC’s preferred option is an increase in Council Tax of 1.96%. This will generate around £975k in the base budget permanently. This would however need to be reconsidered if the referendum limits were amended.

9.2 Compared to accepting the 2014-15 Freeze Grant, this gives an extra £435k per annum from 2014-15 onwards.

9.3 Taking this option will enable the planned recruitment of 16 police officers to go ahead, meaning that police officer numbers can be maintained for 2014-15. It will also help to meet the other commitments around:-

- Integrated Offender Management
- Provision of body worn cameras, funded from the Local Innovation Fund
- Funding a Cyber Crime awareness campaign
- Funding additional community / rural vehicles.

9.4 It will therefore contribute significantly towards the vision set out in the Police and Crime Plan.

9.5 The detailed implications of the proposed precept are set out in the Budget Requirement paper attached to this report at Appendix 2.

10. PUBLIC CONSULTATION

10.1 Public consultation is done throughout the year via the Community Safety Survey. In the quarter 1 (2013-14) survey, the public were asked their opinion on the current years’

1.95% increase in council tax. 72% of respondents thought the rise was about right and a further 5% would have supported a higher increase.

10.2 The quarter 3 (2013-14) survey asked about the level of council tax increase which the public would support for 2014-15. 78% of respondents supported an increase of £4 or more per annum which would be an increase of 2.2%.

10.3 A further public consultation has also been running on the 2014-15 precept proposals via the website. Of the respondents to date, 53% have indicated that an increase of around 1.95% is about right and a further 15% would be happy to support a higher increase. This consultation closes on the 31 January and the final results will be presented to the police and crime panel meeting.

11. STATUTORY DECLARATIONS

Robustness of the estimates

11.1 The Local Government Act 2003 (Section 25) requires all Financial Officers with 'Section 151' responsibilities to make a statement with regard to the robustness of estimates and the adequacy of reserves at the time the budget is set. The Police and Crime Commissioner has a statutory duty to "have regard to the report when making decisions about the calculations".

11.2 There are also a range of other safeguards aimed at ensuring local authorities do not over-commit themselves financially. These include:

- the Chief Financial Officer's powers under section 114 of the Local Government Act 1988, which require a report to the Authority if there is or is likely to be unlawful expenditure or an unbalanced budget;
- the Local Government Finance Act 1992 which requires a local authority to calculate its budget requirement for each financial year, including the revenue costs which flow from capital financing decisions. The Act also requires an authority to budget to meet its expenditure after taking into account other sources of income. This is known as the 'balanced budget requirement'; and
- the Prudential Code, introduced under the Local Government Act 2003, which applies to capital financing and treasury management decisions from 2004/05 onwards.

11.3 Whilst budgets are based on realistic assumptions, some budgets are subject to a degree of estimating error as actual expenditure can be determined by factors outside the Police and Crime Commissioners' control, for example major inquiries. The Police and Crime Commissioner has well developed arrangements for the monitoring and reporting of budgets during the year.

11.4 The robustness of the budget critically depends on the maintenance of a sound financial control environment including effective financial management. Under the scheme of Cost Centre Management, overspendings on delegated budgets have to be offset by underspendings elsewhere in the budget or carried forward to the following year.

11.5 In preparing the estimates, detailed risk assessments of both bids and budget reductions were carried out. More general risks relating to the strategy are set out in the attached budget requirement paper.

- 11.6 With regard to capital finance, the Panel are asked to note that a separate report dealing with the Prudential Indicators, including a section on the risk assessment associated with treasury management decisions, together with a revised Treasury Management Strategy, will be presented to the Joint Independent Audit Committee in March.

Balances and Reserves

- 11.7 The Police and Crime Commissioner's medium term policy is that the level of General Balances should be 3% of the total budget. Uncommitted General Balances as at 31 March 2014 are anticipated to be near to this level.
- 11.8 Earmarked reserves (i.e. everything except the General Balance) are intended to be used for specific purposes over a period of time of more than a single financial year. These earmarked reserves protect the PCC against specific financial risks, as in the case of the Insurance Reserve, or are used as a means of funding specific capital projects.
- 11.9 Earmarked reserves are likely to stand at around £5.6m at 31 March 2014.

| PROJECTED RESERVES | 31/03/2013 | 31/03/2014 | 31/03/2015 | 31/03/2016 | 31/03/2017 | 31/03/2018 |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | £m's | £m's | £m's | £m's | £m's | £m's |
| Insurance Reserve | 3.7 | 2.9 | 2.8 | 2.7 | 2.6 | 2.5 |
| PFI Reserve | 0.0 | 0.0 | 0.5 | 1.0 | 1.0 | 1.0 |
| Pensions Reserve | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| POCA Reserve | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Protective Body Armour Reserve | 0.2 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Major Operations Reserve | 0.0 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Workforce Change Reserve | 0.9 | 0.9 | 0.5 | 0.0 | 0.0 | 0.0 |
| Other minor reserves | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| | 5.1 | 5.6 | 5.3 | 5.2 | 5.1 | 5.0 |

General Assurance

- 11.10 In relation to the estimates, I am satisfied that they provide a robust and accurate basis upon which to calculate the police precept.

12. CONCLUSION

- 12.1 Significant reductions in funding have been seen for the Police Service in recent years and these are likely to continue until at least 2017-18.
- 12.2 For 2014-15, the Police Finance Settlement has confirmed further cuts to government funding of £3.1m. Additional cost pressures within the budget mean that the budget gap for 2014-15 is well in excess of £4m.
- 12.3 The option of increasing council tax by 1.96% is supported by the PCC, rather than accepting a further freeze grant worth only 1%, as this will contribute towards the sizable budget gap which still exists and will therefore help to minimise the impact on front line policing.

13. RECOMMENDATIONS

- 13.1 The panel are requested to support an increase in precept for 2014-15 of 1.96%, or the maximum permissible under the Central Government referendum principles, if this is lower than 1.96%.
- 13.2 For the purposes of issuing a report to the Commissioner on the proposed precept, the Police and Crime Panel is recommended to endorse the council tax requirement and the basic amount of council tax for police purposes in Dorset for 2014-15 as presented in Appendix 1.

RICHARD BATES
TREASURER TO THE POLICE AND CRIME COMMISSIONER
February 2014

Members' Enquiries to: Mr Richard Bates, Treasurer (01305) 228548

Appendix 1: Council Tax Requirement for 2014-15
Appendix 2: Police Budget Requirement 2014-15

Appendix 1

DORSET POLICE

| | | | | |
|---|-----------------|--------------|--------------|---------------|
| BUDGET SUMMARY | 2014-15 | £ | £ | |
| Council Tax Requirement | | | 113,391,000 | -0.79% |
| To be met from :- | Police Grant | 44,175,736Cr | | |
| | Formula Funding | 17,900,372Cr | 62,076,108Cr | |
| Council Tax payers | | | 51,314,892 | |
| Estimated Surplus on 2013-14 collection funds | | | 514,748Cr | |
| PRECEPT required in 2014-15 | | | 50,800,144 | |

PRECEPTS

| District Councils | Tax Base | Estimated Surplus on Collection | Precept | Tax Base | Precept |
|---------------------|------------|---------------------------------|-----------------|------------|-----------------|
| | 2014-15 | Funds 2013-14 £.p. | 2014-15 £.p. | 2013-14 | 2013-14 £.p. |
| BOURNEMOUTH | 57,869.00 | 332,278.00Cr | 10,827,868.59 | 56,964.00 | 10,453,463.64 |
| CHRISTCHURCH | 19,095.00 | 0.00 | 3,572,865.45 | 18,857.00 | 3,460,448.07 |
| EAST DORSET | 36,194.00 | 0.00 | 6,772,259.34 | 35,828.00 | 6,574,796.28 |
| NORTH DORSET | 25,847.60 | 28,588.00Cr | 4,836,344.44 | 25,453.00 | 4,670,880.03 |
| POOLE | 53,933.00 | 111,040.84Cr | 10,091,403.63 | 53,160.00 | 9,755,391.60 |
| PURBECK | 18,301.55 | 0.00 | 3,424,403.02 | 18,333.71 | 3,364,419.12 |
| WEST DORSET | 40,130.30 | 0.00 | 7,508,780.43 | 39,965.40 | 7,334,050.55 |
| WEYMOUTH & PORTLAND | 20,128.10 | 42,841.00Cr | 3,766,168.79 | 20,026.50 | 3,675,063.02 |
| | 271,498.55 | 514,747.84Cr | 50,800,093.69 | 268,587.61 | 49,288,512.31 |

COUNCIL TAX

| | 2014-15 | 2013-14 | |
|---------------------|----------------|---------|---------------|
| BASIC AMOUNT | £187.11 | £183.51 | +1.96% |
| (Equivalent to | £3.59 | £3.52 | per week) |
| BAND A | £124.74 | £122.34 | |
| BAND B | £145.53 | £142.73 | |
| BAND C | £166.32 | £163.12 | |
| BAND D | £187.11 | £183.51 | |
| BAND E | £228.69 | £224.29 | |
| BAND F | £270.27 | £265.07 | |
| BAND G | £311.85 | £305.85 | |
| BAND H | £374.22 | £367.02 | |