

POLICE AND CRIME COMMISSIONER FOR LEICESTERSHIRE **DECISION RECORD**

To be completed in cases where a decision is required

DECISION OF POLICE AND CRIME COMMISSIONER
Date: 23.2.15
Officers present: Helen King CHIEF FINANCE OFFICER

Received in OPCC Date:	OPCC Ref: EXE 0001 / 15
------------------------	--------------------------------

Title: Budget & Precept 2015/16

Summary of Issue:

Following the confirmation by local authorities of their council tax base and council tax surplus, the decision requested is to:

- (a) set the Band D Precept, and
- (b) amend the budget and precept proposals submitted to the Police & Crime Panel (PCP) on 29th January 2015 to reflect the revised collection fund surplus/deficit position

The impact of the change to the collection fund estimates received from the billing authorities is a reduction in the income available to the PCC and a corresponding increase in the 'funding gap' identified for 2015/16. Recognising the timing for savings, the funding gap for 2015/16 is met from the Budget Equalisation Reserve.

Formal notification of the final precepts was communicated to each billing authority on 17th February 2015.

Recommendations presented:

1. To formally approve the Band D Precept of **£179,9951** representing a **1.99%** increase on the 2014/15 equivalent.
2. To note and approve the change in the Collection Fund Surplus/Deficit since the PCP on 29th January 2015 and the corresponding change in the Funding Gap as follows:

	Police & Crime Panel Report 29 th January 2015	Final Version 2015/16	Recommended Change
	£	£	£
Collection Fund Surplus/(Deficit)	958,844	816,985	(141,859)
Funding Gap	(1,575,442)	(1,717,301)	141,859

Key discussion points at meeting

A technical briefing on the adjustments and the reason for making them (i.e. final collection fund surplus/(deficit) figures received from billing authorities).

It was resolved that :

- (a) The Band D Precept be formally set at £179.9951 (a 1.99% increase on the 2014/15 equivalent), and
- (b) To note and approve the adjustments required to the 2015/16 budget requirement shown above.

OFFICE OF PCC APPROVAL

Chief Executive or Chief Finance Officer:

I have been consulted about the proposal and confirm that appropriate advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner

Signature 

Name Helen King (Chief Finance Officer)

Date 17th February 2015

Publication Scheme

Decision of Monitoring Officer:

As Monitoring Officer for the Office of Police and Crime Commissioner for Leicestershire I have determined that :

It is appropriate to publish this record of decision made by the Police and Crime Commissioner : **Yes / ~~Part Redacted~~ / No**

It is appropriate to publish the contents of the assessment of the decision by either of the senior post holders in the Office of the Police and Crime Commissioner for Leicestershire (i.e. either the Chief Executive or Chief Finance Officer) : **Yes / ~~Part Redacted~~ / No**

It is appropriate to publish details of the decision by the Police and Crime Commissioner for Leicestershire : **Yes / ~~Part Redacted~~ / No**

Reasons for any non Publication (referencing appropriate legislation):

Signature 

Name Paul Stock (Chief Executive)

Date 17th February 2015

Police and Crime Commissioner for Leicestershire

Having received the advice set out above and reviewed relevant documentation my decision in regard of this matter is:

Supported / ~~Not-Supported~~

Signature

A handwritten signature in black ink, appearing to read 'P. Hood', written over a horizontal line.

Date

23/2/15



AY revised.

The Office of the PCC for Leicestershire
Budget and Precept 2015/16 to 2019/20

APPENDIX 1 - (OPTION 3)

		Precept Increase	1.99%	1.99%	1.99%	1.99%	1.99%
2014/15	Approved Budget		2015/16	2016/17	2017/18	2018/19	2019/20
£	Budget Heading		Revenue Budget	Revenue Budget	Revenue Budget	Revenue Budget	Revenue Budget
			£	£	£	£	£
93,795,218	Police Pay & Allowances		89,260,707	87,602,076	86,416,858	86,318,206	86,238,319
3,430,750	Police Pensions		4,134,719	4,161,649	4,197,252	4,235,545	4,274,298
8,146,078	Central & Financing Items		8,077,427	9,065,131	9,448,588	9,707,030	9,922,633
49,290,682	Delegated Budgets		50,220,007	52,567,856	54,395,462	56,182,899	57,999,116
7,171,713	Police Community Support Officers		7,371,143	7,754,192	7,896,914	7,720,730	7,425,735
7,100,045	Regional Collaboration		8,163,816	8,198,454	8,298,019	8,385,931	8,474,937
1,031,200	Office of the PCC		1,104,195	1,135,159	1,171,381	1,208,710	1,247,179
3,502,029	Community Safety Fund Expenditure		4,343,000	4,243,000	4,243,000	4,139,000	3,992,000
173,467,715	Subtotal		172,675,014	174,727,517	176,067,474	177,898,051	179,574,217
	- Less: Specific Grants		(1,102,000)	(1,102,000)	(1,102,000)	(1,102,000)	(1,102,000)
(453,851)	Less: Efficiency Savings						
173,013,863	Subtotal		171,573,014	173,625,517	174,965,474	176,796,051	178,472,217
(407,081)	Transfer to/(from) Specific Earmarked Reserves		(973,865)	(758,273)	(513,293)	(57,938)	278,903
	- Transfer to/(from) Budget Equalisation Reserve		(321,614)	(321,614)	(44,000)	-	-
	- Funding Gap		(1,717,301)	(6,140,871)	(9,683,602)	(13,537,491)	(16,920,158)
172,606,782	Total Budget Requirement		168,560,234	166,404,759	164,724,579	163,200,622	161,830,962
£	Funding		£	£	£	£	£
70,004,790	Police Grant		65,720,384	63,556,195	61,461,260	59,433,362	57,470,358
548,000	Victims Services/RJ Funding		-	-	-	-	-
41,277,877	Business Rates		39,876,209	38,600,170	37,364,965	36,169,286	35,011,869
7,020,391	Council Tax Support Grant		7,020,391	7,020,391	7,020,391	7,020,391	7,020,391
1,910,530	Council Tax Freeze Grant		1,910,530	1,910,530	1,910,530	1,910,530	1,910,530
761,733	Collection Fund Surplus		816,985	500,000	500,000	500,000	500,000
51,083,461	Precept		53,215,735	54,817,473	56,467,434	58,167,053	59,917,815
172,606,782	Total Funding		168,560,234	166,404,759	164,724,579	163,200,622	161,830,962

£	Precept by Billing Authority		£	£	£	£	£
5,312,923	Blaby	30,961.93	5,572,996	5,740,737	5,913,529	6,091,521	6,274,869
9,027,199	Charnwood	52,291.30	9,412,178	9,695,474	9,987,299	10,287,907	10,597,561
5,568,342	Harborough	32,163.00	5,789,182	5,963,431	6,142,926	6,327,821	6,518,281
6,127,829	Hinckley & Bosworth	35,599.60	6,407,754	6,600,621	6,799,295	7,003,947	7,214,758
11,361,100	Leicester City	65,903.00	11,862,217	12,219,258	12,587,046	12,965,906	13,356,165
3,125,074	Melton	17,909.30	3,223,586	3,320,612	3,420,559	3,523,514	3,629,568
5,131,070	North West Leicestershire	29,664.00	5,339,375	5,500,084	5,665,633	5,836,163	6,011,825
2,905,222	Oadby & Wigston	16,698.90	3,005,720	3,096,189	3,189,382	3,285,381	3,384,267
2,524,702	Rutland	14,459.99	2,602,727	2,681,067	2,761,765	2,844,893	2,930,521
51,083,461	Total	295,651.02	53,215,735	54,817,473	56,467,434	58,167,053	59,917,815
289,452.42	Tax Base		295,651.02	298,607.53	301,593.62	304,609.55	307,655.65

£	Precept by Band	Apportionment	£	£	£	£	£
117.6554	Band A	6/9	119.9967	122.3847	124.8201	127.3041	129.8374
137.2646	Band B	7/9	139.9962	142.7821	145.6235	148.5214	151.4770
156.8739	Band C	8/9	159.9956	163.1796	166.4268	169.7387	173.1165
176.4831	Band D	9/9	179.9951	183.5770	187.2302	190.9561	194.7561
215.7016	Band E	11/9	219.9940	224.3719	228.8369	233.3908	238.0352
254.9200	Band F	13/9	259.9929	265.1668	270.4436	275.8255	281.3144
294.1385	Band G	15/9	299.9918	305.9617	312.0503	318.2601	324.5935
352.9662	Band H	18/9	359.9902	367.1540	374.4604	381.9122	389.5122

£176.4831	Band D Council Tax		£179.9951	£183.5770	£187.2302	£190.9561	£194.7561
1.50%	% Increase		1.99%	1.99%	1.99%	1.99%	1.99%
£2.61	£ Increase		£3.51	£3.58	£3.65	£3.73	£3.80
5.0p	Increase per week in Pence		6.8p	6.9p	7.0p	7.2p	7.3p

£	Use of Equalisation Reserve	£	£	£	£	£
11,813,480	Opening Balance	10,150,165	9,828,551	9,506,937	9,462,937	9,462,937
	- Council Tax Freeze Grant	-	-	-	-	-
	- Transfer To Reserve - Other	-	-	-	-	-
(1,663,314)	Transfer To/(From) Reserve	(321,614)	(321,614)	(44,000)	-	-
10,150,165	Closing Balance	9,828,551	9,506,937	9,462,937	9,462,937	9,462,937

Note: The Victims and Witnesses Grant (£1.078m) is now shown as Specific Grants and was previously shown in the funding section.



PCP 29/1/15

The Office of the PCC for Leicestershire
Budget and Precept 2015/16 to 2019/20

APPENDIX 1 - (OPTION 3)

		Precept Increase	1.99%	1.99%	1.99%	1.99%	1.99%
2014/15	Approved Budget		2015/16	2016/17	2017/18	2018/19	2019/20
£	Budget Heading		Revenue Budget	Revenue Budget	Revenue Budget	Revenue Budget	Revenue Budget
			£	£	£	£	£
93,795,218	Police Pay & Allowances		89,260,707	87,602,076	86,416,858	86,318,206	86,238,319
3,430,750	Police Pensions		4,134,719	4,161,649	4,197,252	4,235,545	4,274,298
8,146,078	Central & Financing Items		8,077,427	9,065,131	9,448,588	9,707,030	9,922,633
49,290,682	Delegated Budgets		50,220,007	52,567,856	54,395,462	56,182,899	57,999,116
7,171,713	Police Community Support Officers		7,371,143	7,754,192	7,896,914	7,720,730	7,425,735
7,100,045	Regional Collaboration		8,163,816	8,198,454	8,298,019	8,385,931	8,474,937
1,031,200	Office of the PCC		1,104,195	1,135,159	1,171,381	1,208,710	1,247,179
3,502,029	Community Safety Fund Expenditure		4,343,000	4,243,000	4,243,000	4,139,000	3,992,000
173,467,715	Subtotal		172,675,014	174,727,517	176,067,474	177,898,051	179,574,217
	- Less: Specific Grants		(1,102,000)	(1,102,000)	(1,102,000)	(1,102,000)	(1,102,000)
(453,851)	- Less: Efficiency Savings						
173,013,863	Subtotal		171,573,014	173,625,517	174,965,474	176,796,051	178,472,217
(407,081)	Transfer to/(from) Specific Earmarked Reserves		(973,865)	(758,273)	(513,293)	(57,938)	278,903
	- Transfer to/(from) Budget Equalisation Reserve		(321,614)	(321,614)	(44,000)	-	-
	- Funding Gap		(1,575,442)	(6,140,871)	(9,683,602)	(13,537,491)	(16,920,158)
172,606,782	Total Budget Requirement		168,702,093	166,404,759	164,724,579	163,200,622	161,830,962
£	Funding		£	£	£	£	£
70,004,790	Police Grant		65,720,384	63,556,195	61,461,260	59,433,362	57,470,358
548,000	Victims Services/RJ Funding		-	-	-	-	-
41,277,877	Business Rates		39,876,209	38,600,170	37,364,965	36,169,286	35,011,869
7,020,391	Council Tax Support Grant		7,020,391	7,020,391	7,020,391	7,020,391	7,020,391
1,910,530	Council Tax Freeze Grant		1,910,530	1,910,530	1,910,530	1,910,530	1,910,530
761,733	Collection Fund Surplus		958,844	500,000	500,000	500,000	500,000
51,083,461	Precept		53,215,735	54,817,473	56,467,434	58,167,053	59,917,815
172,606,782	Total Funding		168,702,093	166,404,759	164,724,579	163,200,622	161,830,962

£	Precept by Billing Authority		£	£	£	£	£
5,312,923	Blaby	30,961.93	5,572,996	5,740,737	5,913,529	6,091,521	6,274,869
9,027,199	Charnwood	52,291.30	9,412,178	9,695,474	9,987,299	10,287,907	10,597,561
5,568,342	Harborough	32,163.00	5,789,182	5,963,431	6,142,926	6,327,821	6,518,281
6,127,829	Hinckley & Bosworth	35,599.60	6,407,754	6,600,621	6,799,295	7,003,947	7,214,758
11,361,100	Leicester City	65,903.00	11,862,217	12,219,258	12,587,046	12,965,906	13,356,165
3,125,074	Melton	17,909.30	3,223,586	3,320,612	3,420,559	3,523,514	3,629,568
5,131,070	North West Leicestershire	29,664.00	5,339,375	5,500,084	5,665,633	5,836,163	6,011,825
2,905,222	Oadby & Wigston	16,698.90	3,005,720	3,096,189	3,189,382	3,285,381	3,384,267
2,524,702	Rutland	14,459.99	2,602,727	2,681,067	2,761,765	2,844,893	2,930,521
51,083,461	Total	295,651.02	53,215,735	54,817,473	56,467,434	58,167,053	59,917,815
289,452.42	Tax Base		295,651.02	298,607.53	301,593.62	304,609.55	307,655.65

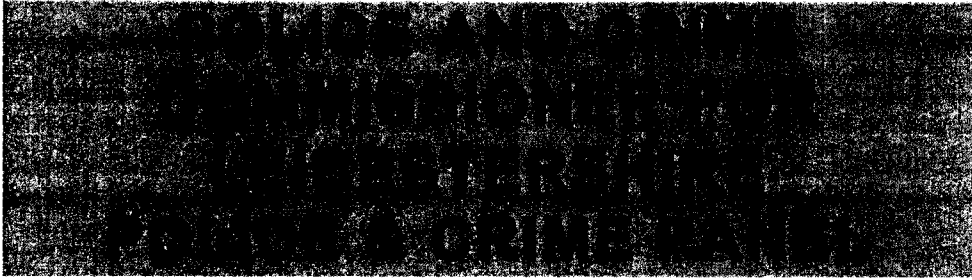
£	Precept by Band	Apportionment	£	£	£	£	£
117.6554	Band A	6/9	119.9967	122.3847	124.8201	127.3041	129.8374
137.2646	Band B	7/9	139.9962	142.7821	145.6235	148.5214	151.4770
156.8739	Band C	8/9	159.9956	163.1796	166.4268	169.7387	173.1165
176.4831	Band D	9/9	179.9951	183.5770	187.2302	190.9561	194.7561
215.7016	Band E	11/9	219.9940	224.3719	228.8369	233.3908	238.0352
254.9200	Band F	13/9	259.9929	265.1668	270.4436	275.8255	281.3144
294.1385	Band G	15/9	299.9918	305.9617	312.0503	318.2601	324.5935
352.9662	Band H	18/9	359.9902	367.1540	374.4604	381.9122	389.5122

£176.4831	Band D Council Tax		£179.9951	£183.5770	£187.2302	£190.9561	£194.7561
1.50%	% Increase		1.99%	1.99%	1.99%	1.99%	1.99%
£2.61	£ Increase		£3.51	£3.58	£3.65	£3.73	£3.80
5.0p	Increase per week in Pence		6.8p	6.9p	7.0p	7.2p	7.3p

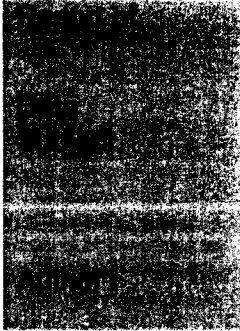
£	Use of Equalisation Reserve	£	£	£	£
11,813,480	Opening Balance	10,150,165	9,828,551	9,506,937	9,462,937
	- Council Tax Freeze Grant	-	-	-	-
	- Transfer To Reserve - Other	-	-	-	-
(1,663,314)	Transfer To/(From) Reserve	(321,614)	(321,614)	(44,000)	-
10,150,165	Closing Balance	9,828,551	9,506,937	9,462,937	9,462,937

Note: The Victims and Witnesses Grant (£1.078m) is now shown as Specific Grants and was previously shown in the funding section.





PAPER MARKED



POLICE & CRIME COMMISSIONER

THURSDAY 29TH JANUARY 2015

PROPOSED PRECEPT 2015/16 AND MEDIUM TERM FINANCIAL STRATEGY

CHIEF FINANCE OFFICER

Purpose of the Report

1. To present the 2015/16 Precept Proposal and the additional considerations contained within it.
2. To present the Medium Term Financial Strategy (MTFS) and to outline the intended plan for finding solutions to address the estimated funding gap.

Recommendation

3. The Police and Crime Panel is asked to:
 - a. Note the information presented in this report, including the total 2015/16 budget requirement (before use of reserves) of £171.573m, which includes a council tax requirement for 2015/16 at £53.216m.
 - b. Support the proposal to increase the 2015/16 Precept for police purposes by 1.99% to £179.9951.
 - c. Note the additional considerations included in the precept proposal.
 - d. Note that any changes required, either by Government grant alterations notified through the final settlement or through council tax base and surplus/deficit notifications received from the collecting authorities, will be balanced through a transfer to or from the Budget Equalisation Reserve (BER).
 - e. Note the current MTFS, the savings already achieved and plans to identify further solutions alongside the requirements of the Police and Crime Plan.

Executive Summary

4. This report and the Precept proposal within it is the culmination of several months' work of the OPCC, supported by force colleagues and taking account of key government announcements. Following the announcement of the provisional Police Grant settlement, the further increase in top slicing for 2015/16, and after taking into account the views received through consultation by local residents of Leicester, Leicestershire and Rutland, the Police and Crime Commissioner has considered current and future funding levels, together with a consideration of the Chancellor's 2014 Autumn Statement. In addition, the PCC has taken into account the adequacy and level of reserves and impact of future financial challenges in the Medium Term Financial Strategy.
5. After careful consideration of these factors, Sir Clive is proposing a precept increase of 1.99% for the 2015/16 financial year in order to build a sustainable base budget and to maintain and safeguard policing services where possible across the entire force area of Leicester, Leicestershire and Rutland.
6. In addition, mindful of the medium and longer term funding challenges in the MTFS, Sir Clive has included within his precept proposal a determination that specific areas will be prioritised by the force to identify a minimum of a further £2.5m in revenue savings to be released in 2016/17 and future years and which will not only complement the existing work of Project Edison and the force change team, but will also enable a real cashable saving moving forward. The force will report to the PCC at the Strategic Assurance Board by the end of June 2015 and provide proposals on the following areas:
 - Further recommendations into Force structural reform
 - A review of productivity across the force
 - Proposals for savings in middle and back office functions
 - Further demand management benefits
 - Continued vigour with the Volunteers in Policing (ViP) strategy
 - Wider local public sector "join up":
7. Furthermore, in line with the PCC's focus on making neighbourhoods safe and protecting the vulnerable in our communities, he is earmarking a maximum of £2m from the Budget Equalisation Reserve to provide 'invest to save' or seed funding to support strategic priorities with partners on such issues as victims, safeguarding, CSE, cyber-crime, mental health and any other emerging priorities from the joint review of partnerships and partnership working. It is intended that oversight of this approach will be the responsibility of the refreshed SPB and its supporting structures and, whilst the detail needs to be fully scoped, this funding will only be released if there is a clear, costed business case that supports the achievement of improved outcomes.
8. This precept proposal will also build on and maintain the 2014/15 precept strategy which:
 - Increased the precept by 1.5% to help build the base following the unprecedented and unexpected additional top slicing of £1.6m applied to the Police grant settlement for 2014/15;

- Increased and maintained PCSO resources to 251 over three years. This increase took place to maintain operational resilience and minimise the impact of any Edison structural changes on neighbourhood policing. In addition, these resources were targeted to support the force in prioritising community and neighbourhood safety, particularly in regard to ASB hotspots; and
 - Secured a commitment from the force to deliver the Volunteers (ViP) Strategy over 3 years.
9. This precept proposal supports the priorities identified within the Police and Crime Plan to make neighbourhoods safe and to protect the vulnerable. Sir Clive has listened to the views of local residents, the majority of whom have supported an increase to the precept of 1.99% in line with the MTFS, to build the base budget and maintain services where possible. At the same time, the precept proposal has secured commitment from the force to prioritise work on identifying savings in key areas; furthermore, the ring fenced one-off investment of £2m reflects the importance the PCC places on partnership working to deliver key strategic priorities, without placing ongoing pressure on the base budgets of the PCC and key partners.

The Provisional Grant Settlement

10. On 18 December 2014 the Minister for Policing, Criminal Justice and Victims, the Rt Hon Mike Penning announced the provisional funding allocations for policing bodies in England and Wales for the financial year 2015/16 (the final figures are expected in February 2015).
11. The grant report confirms that funding for Leicestershire Police will be reduced by £5.7m (4.7%) in 2015/16 (from £120.2m in 2014/15) to £114.5m. This is a cut of £1m (1.5%) more than previously indicated in the Comprehensive Spending Review 2010 (CSR 2010) announced in the Chancellor's 2013 Autumn Statement.
12. Details of the revenue allocations have only been made available for 2015/16. The availability of only one year's figures makes medium term financial planning more uncertain, and prone to risk, especially in the context of the requirement to have a Police and Crime Plan for the period to 31 March 2017.
13. In addition, on the 18 December 2014, the DCLG announced that there will be additional council tax freeze grant for those authorities and policing bodies that do not increase their rate of council tax or precept for 2015/16. That grant will be available at an amount that would be equivalent to a 1% increase in Band D council tax. The provisional allocation for Leicestershire has been notified at £582k and there is unfortunately no commitment regarding the continuation of council tax freeze grant or further freeze grants after 2015/16.
14. While it is welcomed that there is additional grant made available to help to reduce the burden of costs on local council tax payers, the lack of forward planning in respect of the freeze grant inevitably provides continuing uncertainty.
15. From 2014/15 onwards, policing bodies will be receiving their formula funding solely from the Home Office which subsumes former DCLG grants. The grant allocation continues to be calculated through the four-block model, which has been subject to limited technical and data updates.

16. The Police and Crime Commissioners Treasurers Society (PACCTS) in conjunction with PCCs and their CFOs have scrutinised the key elements of the provisional Police Grant Settlement and have identified that one of the most significant impacts is the top slicing of Police Grant to fund central initiatives.
17. A summary of the settlement is shown in the table below:

Funding Source	2014/15 Final (£'m)	2015/16 Planned (£'m)
Police Grant	70.005	65.720
Business Rates & Revenue Support Grant	41.278	39.876
Precept (1.99% increase in 2015/16)	51.083	53.216
Localised Council Tax Support	7.020	7.020
2011/12 & 2013/14 Council Tax Freeze Grants	1.911	1.911
Council Tax Collection Fund Surplus (estimate)	0.762	0.959
Total	172.059	168.702

18. PACCTS have advised that top slicing nationally is £176.8m (excluding PFI and Ordnance Survey), where Leicestershire's element is estimated at approximately £2.6m. In 2014/15, the comparative top slice for these elements was over £90m (of which Leicestershire's element was approximately £1.6m). Following the 2014/15 grant settlement, a number of these (but not all) were foreseen and included within the forecasting for 2015/16 and beyond.
19. Key points in relation to the top slice issues include the following:
- Some of the top slice elements, namely the Innovation Fund, PFI, Special Grant and a new Police Knowledge fund (£5m details are still awaited) will be returned to individual Forces, some as competitive funding pots.
 - The top slice has ceased for ICT charges and PCCs will now be meeting these costs locally. However, the anticipated charges are significantly higher than the share previously top sliced (the details of which are currently being assessed).
 - The Police Innovation Fund has increased from £50m to £70m (implying an increase of circa £0.5m per force).
 - £30m has been top sliced for the Independent Police Complaints Commission (IPCC) - increased from £18.4m in 2014/15.
 - Her Majesty's Inspectorate of Constabulary (HMIC) is further supported by a £9.4m top slice, consistent with 2014/15.
20. Financial prudence dictates an assumption that this grant reduction is permanent and therefore the long term impact on the MTFs must be considered alongside the precept options presented in this report.
21. Damping has again been applied to the funding allocations to ensure that all policing bodies receive a 5.1% cash reduction in overall formula funding (applied to Police Grant and Business Rates) in 2015/16 when compared to 2014/15 and equates to a total cash reduction of £299m in the national police funding envelope.

22. In line with other authorities subject to formula damping, Leicestershire Police is disadvantaged by this arrangement as it would receive about £5.6m more each year if the formula were allowed to work in full, i.e. if the floor was funded from sources other than those policing bodies whose formula increases are capped.
23. As mentioned above, council tax freeze grant is payable to policing bodies if they do not increase the basic amount of council tax in 2015/16 compared to that for 2014/15. The grant is equivalent to a 1% increase in the PCC's 2014/15 Band D amount multiplied by the council tax base for 2014/15 but unadjusted for billing authority reductions to be awarded under local council tax reduction schemes. If the precept were frozen for 2015/16, the grant would be payable. Previous years' freeze grants have been built into baseline allocations but it is currently unclear what happens to the 2015/16 grant after the general election in May 2015.
24. In the provisional grant settlement, counter terrorism specific grant will remain as set out in the CSR 2010, but allocations will not be made known until early 2015. Whilst the provisional settlement assumed that the allocation will remain broadly the same as that for 2014/15, since that date, additional national funding has been provided in year for 2014/15 and any impact on 2015/16 and future years is now awaited.
25. The Office of the Police and Crime Commissioner (OPCC) will also receive a specific grant for the Localisation of Council Tax Support (LCTS). This scheme replaced the council tax benefit scheme (CTB) in 2013/14, and is administered locally by council tax collecting authorities. As a local scheme, the grant previously given to collecting authorities to reflect actual expenditure on LCTS is distributed to collecting and precepting authorities. The sum allocated to the OPCC for Leicestershire for 2015/16 is £7.02m which is the same amount allocated in 2014/15.
26. The budget includes an allocation for Victims and Witnesses Commissioning based on the provisional notification received in April 2014 of £1.102m. This grant is provided by the Ministry of Justice directly, was not included within the provisional settlement and therefore confirmed figures are not yet available for 2015/16.

Police and Crime Plan - Precept Considerations

27. The Police and Crime Plan and the Medium Term Financial Strategy (MTFS) have been prepared in line with the plans outlined by the PCC to the Police and Crime Panel in January 2013.
28. The precept proposals which underpin the 2013/17 Police and Crime Plan and MTFS and their comparison with actual precept decisions and the MTFS are detailed below:

	Increase in precept (%)			
	13/14	14/15	15/16	16/17
MTFS and Police and Crime Plan January 2013	0%	0%	2%	2%
Precept Determination Implemented Medium Term Financial Strategy	0%	1.5%	1.99%	1.99%

29. As detailed in the above table, the Panel will note that the precept proposal within this report is consistent with the plans underpinning the Police and Crime Plan 2013/17, with the exception of 2014/15 where the PCC increased the precept as a result of the unexpected reduction in the settlement, due to the implementation and impact of top slicing to central government departments.

Council Tax Referendum Limit

30. The Localism Act 2011 requires authorities, including Police and Crime Commissioners, to determine whether their “relevant basic amount of council tax” for a year is excessive, as such increases will trigger a council tax referendum. From 2012/13, the Secretary of State is required to set principles annually, determining what increase is deemed excessive.
31. For the financial year 2014/15, the referendum limit was set in February 2014, which was after the date of the Panel meeting on the precept and subsequently planning was difficult within this timescale. However, the earlier notification (December 2014) in respect of the coming year is welcomed and for 2015/16, the principles state that an increase of more than 2% in the basic amount of council tax between 2014/15 and 2015/16 would be seen as excessive.
32. For 2015/16, the relevant basic amount is calculated as follows:

$$\frac{\text{Council Tax Requirement}}{\text{Total tax base for Area}} = \text{Relevant basic amount of Council tax}$$

33. Therefore, the Leicester, Leicestershire and Rutland calculation for 2015/16 is:

$$\frac{\underline{\pounds 53,215,735}}{295,651.02} = \pounds 179.9951 \text{ (1.99\%)}$$

With a 2% increase the Band D equivalent charge would be £180.01 and under the regulations the Council Tax needs to be 1p (or more) less than the referendum limit which equates to a Band D charge of £180.00 or less. As the proposed increase rounds to £180.00 it is in line with those requirements.

34. The cost of a referendum for a proposal to set a Council Tax increase in excess of 1.99% is significant, this would fall to the PCC (and importantly the residents of Leicester, Leicestershire and Rutland) thus needing to be built into the increase sought.
35. If a referendum were held to increase the Policing precept above 1.99%, on the same day as the General Election and district council elections in May, it would cost approximately £650k. That would rise to £1.2m if held on an alternative day.
36. Furthermore, if a “no” vote was returned in such a referendum, there could be a further cost of £1 million to re-issue council tax bills to every home. This would increase the total potential cost to between £1.650m and £2.2m if the referendum were unsuccessful.
37. The Panel will, therefore, be unsurprised that the PCC has no intention to propose a precept which will trigger a referendum. Therefore, once the tax base levels have been formally advised by the District and Borough Councils, should there be any subsequent revisions which affect the above calculation, the Budget Equalisation Reserve will be used to balance the impact of any changes.

The Financial Challenge – Savings Already Achieved

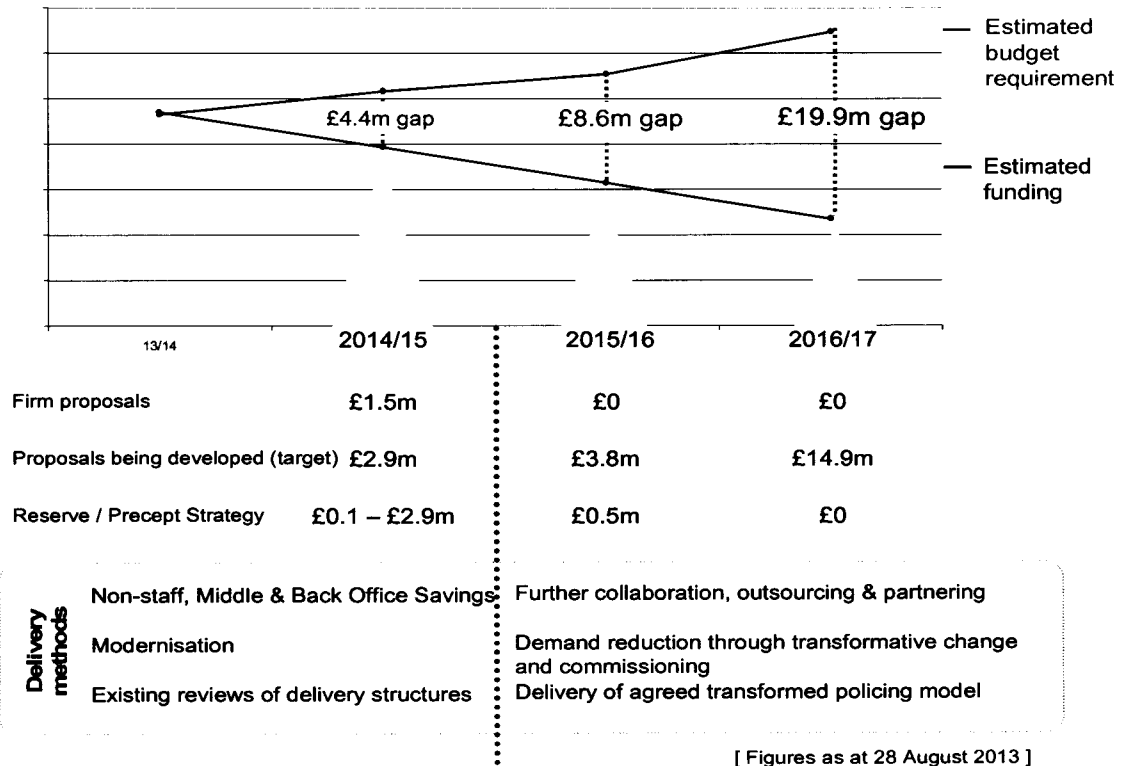
- 38. At the time of the PCC’s commencement in office, Leicestershire Police had already demonstrated a good record in achieving efficiency savings, with some £23m being removed from the base budget in the two years to 31 March 2013.
- 39. However, as highlighted to the Panel in January 2013, the financial challenge continued and the MTFs which underpinned delivery of the Police and Crime Plan showed a significant shortfall each year to 2016/17 as follows:

2013/14	2014/15	2015/16	2016/17
£0.446m	£6.085m	£12.820m	£20.260m

- 40. The Police and Crime Plan recognised this increased financial challenge to its delivery and included within it Strategic Priority 18 which stated:

“with our staff and partners, transform the way we protect our communities and deliver over £20m in (revenue) savings by 2016”.

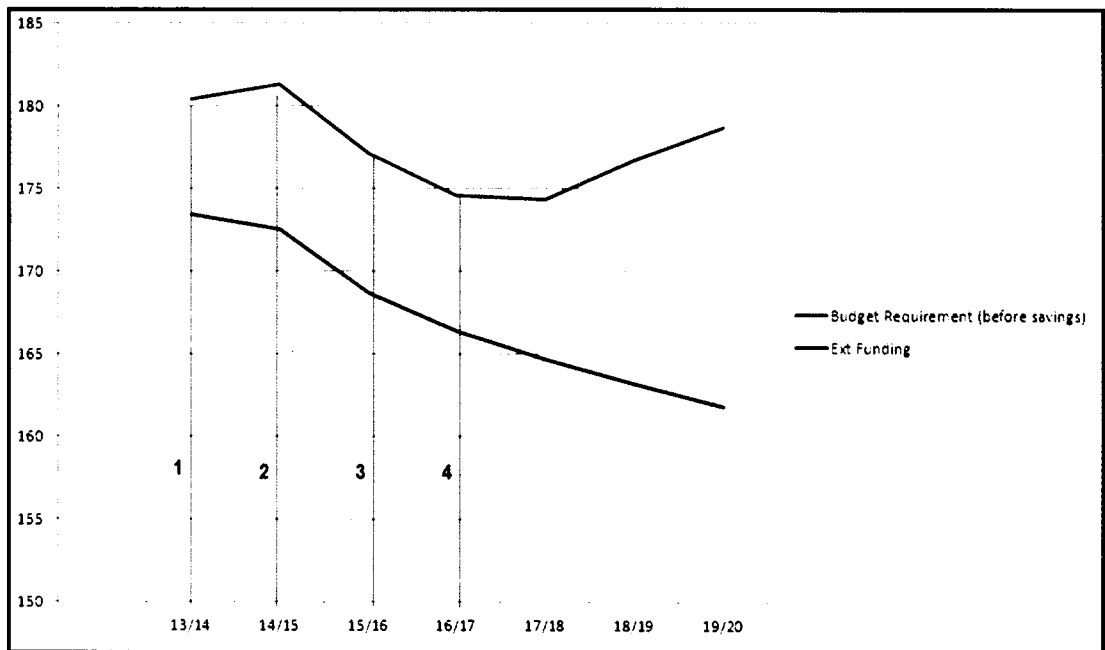
- 41. The PCC set the Chief Constable the challenge of developing a change programme which would address the gaps identified following the CSR in June 2013 (which revised the figures in the MTFs). The Police and Crime panel at its meeting in August 2013 received a presentation, which included the change programme. This included the graph below, which demonstrated the identified gap and the proposal to close this gap by 2016/17.



- 42. Since January 2013, the MTFs has been revised regularly to take into account emerging issues and changes to the finance settlement. The roll forward base budget for 2015/16 takes into account the fact that the Force has now delivered over £38m in

cashable efficiency savings since 2009/10 in response to Home Office funding reductions arising from the Government's austerity measures. The force has responded well to the financial challenge which commenced under the governance of the Police Authority and has continued during the tenure of the PCC.

43. The PCC has received regular updates and officers from the OPCC have attended the force change board to challenge and scrutinise the change plan, its timescales and to receive assurance on its implementation. Regular updates on the scrutiny applied by the PCC and assurances received from the force on the implementation of the change programme have been provided to the Police and Crime Panel since Autumn 2014 and this will continue during 2015/16.
44. The graph below shows that whilst funding levels have reduced since the appointment of the PCC, success has been achieved in also reducing the ongoing budget requirement and this has been reduced year on year. Despite this, the Force has still had to identify in year savings to reduce the gap further:



1. £6.5m of savings were removed from the budget requirement for 13/14
2. A further £8.2m was removed from the budget requirement for 14/15.
3. A further £6.9m was removed from the budget requirement for 15/16.
4. A further £2.1m has been removed and £4m still to be identified for 16/17.

In 2017/18, 2018/19 and 2019/20 require further base budget reductions.

45. Savings identified and removed from the budget requirement for the period 13/14 to 16/17 reflect the shift from mainly transactional savings in 2013/14 to more transformational savings by 2016/17 as follows:

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Transformational (Edison and modernisation)	1.4	5.4	4.3	2.1(and TBC)
Transactional:				
Police Pay	2.3	1.1	0.8	TBC
Police Staff	0.4	0.2	0.6	TBC
Non Pay	2.4	1.6	1.2	TBC
	6.5	8.2	6.9	2.1

The Financial Challenge – Savings Still Required

46. Whilst the force has responded well to the financial challenges to date and Project Edison (which is being rolled out fully in February 2015) has been successful in achieving significant savings through the identification and implementation of a new target operating model, the financial challenge continues throughout the medium term as evidenced in the updated MTFS in paragraphs 79 to 88.
47. Whereas the main focus during 2014/15 has been to identify a new operating model which releases significant savings and to implement it effectively, opportunities for savings have also been taken forward when the opportunity has arisen and regular dialogue, scrutiny and challenge between the OPCC and the force shows that the force has not lost sight of the savings which remain to be realised from the current and future challenges.
48. Whilst detailed plans will be provided by the force in the coming months for discussion and consideration with the PCC, they are not yet refined enough to capture as savings within the budget and there are £4m of savings still required for 2016/17 (£6.1m less £2.1m in respect of project Edison which will not be fully realised due to officer attrition until August 2017, see paragraph 66). In respect of these savings, the force has identified a number of areas which it is progressing to close the funding gap as part of the change programme following project Edison and these are highlighted further by the Chief Constable in his statement at paragraph 120 in the report.
49. In reviewing the next steps for the change programme (post implementation of Edison) in identifying savings, the PCC is mindful of the work by the force and is conscious that whilst areas are currently being scoped on identifying the remaining £4m funding gap in 2016/17 and working towards the MTFS gap identified for 2019/20, these remain at a high level with the detail still to be worked through.
50. The PCC is supportive of this work, and recognising other national considerations and savings areas being progressed, wants to support the force in continuing this momentum by identifying areas he wishes to be prioritised for review. Consequently, the PCC has agreed with the Chief Constable, the need to identify, by the end of June 2015, a series of proposals (with timescales for achievement) which prioritise specific savings areas and would create a minimum of a further **£2.5million** in revenue savings. The areas he has sought specific proposals from the force on are as follows:

1. **Further insight into Force structural reform:** a review of rank structures, supervisory levels and ratios and consideration whether any further changes to shift patterns may be required. Timescales for bringing in further structural changes for future phases of the force transformation programme are to be identified;
 2. **An honest review of Productivity across the Force:** is the organisation working to its full capacity? Is the Force equipped with the most up to date mobile technology to allow front line officers the best opportunities to be productive? Can more be achieved by looking at staff mix, absenteeism and abstractions and other people-focused areas of activity?;
 3. **Proposals for savings to middle and back office:** building on work undertaken prior to the PCC's arrival, constructive and achievable options for bringing down the cost of these functions by creative and innovative solutions;
 4. **More Demand Management benefits:** some of this work has commenced through the Edison programme. However, the PCC is keen to see that Predictive Demand Management becomes the norm;
 5. **Continued vigour with the Volunteers Strategy:** identifying even more innovative solutions in supporting the workforce with the Volunteers in Policing team looking for new and challenging proposals;
 6. **Identifying effective opportunities to work with partners:** the PCC, the force and partners have started this conversation in Leicester, Leicestershire and Rutland and there is a real opportunity to continue the momentum and at the same time release much-needed savings for the PCC, the force and partners in the process.
51. Furthermore, the PCC is setting out his commitment to working with partners and is including within this Precept proposal his concern that, in addition to the financial challenges for the force, there are also significant challenges faced in areas such as Cyber-criminality, CSE and counter-terrorism. To this end, he is earmarking a maximum of £2m to provide opportunities to increase resources in these highly complex and emotive areas. This will be in support of strategic priorities identified with partners. This is detailed further in paragraphs 97 and 98.

2015/16 – Base Budget preparation, approach and scrutiny

52. In 2008/09 the Force introduced a risk based approach to budget setting which sought to align the budget process with identified strategic operational priorities and risks.
53. The Force continues to consider key corporate risks when setting the budget. Essentially these risks are operational and organisational around managing people, infrastructure assets, information etc. The Force has maintained and kept up to date its Corporate Risk Register that sets out how it intends to control and mitigate these risks.
54. The Force continues to identify its Strategic Operational Risks as part of the National Intelligence Model (NIM). This has been used to inform resourcing strategies at both Directorate and Departmental level.

55. Each year, the Force undertakes a major exercise to review its operational risks which are set out within the "Force Strategic Assessment". This work was also informed by the work of the Regional Collaboration Project Team looking at the extent of collaborative opportunities across the East Midlands.
56. The purpose of the Force Strategic Assessment is to identify those areas of greatest risk. Essentially a high risk area is where only limited resources had been allocated to address a substantial risk i.e. this creates a significant risk gap.
57. A key part of this work was to bring together the Office of the Police and Crime Commissioner and Senior Officers across the Force, to consider the key risks that the Force faces and how best to address them.
58. The revised five year financial forecast and, in particular, the 2015/16 budget contained within this report aligns the Force's financial resources to risk and therefore is key to the Force's performance management regime.
59. The budget takes into account the fact that the Force has delivered over £38m in cashable efficiency savings since 2009/10 in response to Home Office funding reductions arising from the Government's austerity measures.
60. The CFO has worked closely with the force finance team throughout the year during the budget monitoring process and in the preparation of the budget for 2015/16. In respect of the budget, this has included (but was not limited to), the identification and agreement of assumptions and methodology and challenge and scrutiny of the budget workings. In addition, where the CFO has sought clarification, or changes, these have been discussed and amendments made where appropriate.
61. The PCC, together with the CFO and his CEO have held regular discussions with the CC and his team throughout the year, particularly prior to and throughout the budget preparation process and the announcement and interpretation of the settlement.
62. These discussions have culminated in a full discussion of the budget requirement, the precept options available, a review of the MTFs and associated risks and scrutiny and challenge by the PCC and his team at the Strategic Assurance Board on the 14th January 2015 to ensure the precept proposal has been informed by relevant information.

2015/16 Revenue Budget

63. The base budget for 2015/16 has been built based upon the 'budget rules' which are consistent with previous years and the risk based approach outlined earlier in the report.
64. **In line with this approach, the Panel is advised that the base budget requirement in 2015/16 is £171.573m (before the use of reserves), which reduces to £168.702m (after the intended use of reserves).**

This equates to a reduction of £3.905m from the 2014/15 level of £172.607m (after the use of reserves).

65. The budget requirement is detailed in Appendix 1 and the PCC has undertaken full scrutiny of the budget options with the Force and not least in discussions at the Strategic Assurance Board.

66. There are a number of areas where it may be helpful to highlight significant variations to the Panel in respect of frontline officers and they are as follows:

Police Officers - The base budget reflects part and full year savings resulting from the new operating model in Project Edison which is being implemented from February 2015. The combined effect of these changes will reduce full time equivalent police officer numbers by 110 from 1,949 in April 2015 to 1,839 by March 2016. The Project Edison target police officer strength is 1,726 which will be achieved by August 2017 based upon current projected attrition levels.

Police Community Support Officers (PCSOs) -The PCSO establishment for 2014/15 of 223 was increased to 251 in line with the precept strategy and commitment by the PCC to increase and maintain this presence until March 2017, prioritising neighbourhood policing and minimising the local impact of changes during the implementation and embedding of the new operating model.

Under Project Edison, the new operating structure supports a target staffing level of 193 PCSOs. In his precept proposal, the PCC has reinforced his commitment to neighbourhood policing and his proposal includes maintaining his 2014/15 commitment to not only fund the additional PCSOs to April 2017 but also to continue at the existing establishment level, the cost of which is being funded from the earmarked PCSO Reserve.

Office of the Police & Crime Commissioner (OPCC)

67. As highlighted to the panel in December 2014, the next financial year will continue to be challenging for the OPCC. The new Victim First integrated service will be launched in October 2015, bringing with it for the first time a truly innovative approach to supporting victims and witnesses, with a "single point of contact" service delivery model. It was anticipated that the draft net budget for the OPCC, after taking into account additional Victims & Witnesses capacity requirements and grant (to support the additional Commissioning resources required to deliver the new V&W agenda) and reserve would remain at the existing level of £1.031m for 2015/16. In addition, further one-off Home Office grant funding has also been received to support the implementation and development of this area and this has (and will continue to be) utilised on a temporary support basis.
68. Following a review undertaken by the Chief Executive the Panel is advised that a further saving has been identified in the structure of £6k and this has enabled the PCC to reduce the total cost of his office to £1.025m. This may appear to the Panel to represent only a small reduction, but taken with the additional responsibilities passing to the OPCC during this financial year it represents a significant achievement.
69. A copy of the OPCC budgeted establishment for 2015/16 is attached at Appendix 2 and reflects the comments made by the Panel (a change has been made to the previous Policing Advisor title which is now the Policing Coordinator role).
70. In June 2013 the Panel were advised that the OPCC had adopted the Force strategy of utilising accommodation more intensively, and reducing the number of cellular offices, and the OPCC offices were reconfigured to make them open plan. This enabled the entire OPCC staff complement to be housed in no more space than was occupied by the previous Police Authority team. The panel are advised that this accommodation is still sufficient to meet OPCC needs where permanent staff have all been allocated desks and hot desking is available for temporary staff or visitors.

71. The draft OPCC Budget for 2015/16 was tabled at the December 2014 Panel meeting and the final budget requirement is summarised below as follows:

	2013/14		2014/15	2015/16	
	Budget	Outturn	Original Budget	Initial Draft	Final Budget
	£000	£000	£000	£000	£000
Staffing, Agency and Comms	834	876	807	847	841
Contribution towards force shared Executive Support and Communications	-	-	-	64	64
Legal Costs, Audit Fees,	105	79	101	97	97
Transport, Independent Custody Visitors ,training and recruitment expenses	21	57	31	23	23
Ethics Committee	-	-	-	-	15
Policy Advisor , JARAP and Office costs	86	76	92	64	64
Cost before funding and reserve	1,046	1,088	1,031	1,095	1,104
V&W Grant funding	-	-	-	(64)	(64)
Transitional Reserve	-	(42)	-	-	(15)
Net of funding and reserve	1,046	1,046	1,031	1,031	1,025

72. The only changes to the draft budget from that discussed at the Panel meeting in December 2014 are:
- the reduced cost of the structure identified above; and
 - the creation of a £15k budget for the establishment of a new Ethics, Integrity and Complaints Committee. This will be funded by the OPCC Transitional Reserve whilst the work of the Committee is embedded.
73. The balance on the Transitional Reserve (set aside to use towards set up costs and new initiatives and significant structural changes) is currently £165K and this will reduce to £150K for 2015/16 in light of the new Committee highlighted above.

Commissioning

74. In September 2014, the panel received a report on the revised Commissioning Framework which includes the new Commissioning arrangements for Victims and Witnesses (which have been the subject of separate reports to the Police and Crime Panel during 2014/15).
75. These new arrangements are supported by specific V&W grant from the Ministry of Justice and whilst the final allocations have still not been confirmed for 2015/16, the provisional funding of £1.102m is included within the budget proposals. Of this, £64k is set aside to support the additional staffing capacity requirements to deliver these responsibilities and £1.038m earmarked for the commissioning of services for victims and witnesses.

Capital Programme 2015/16 to 2017/18 and Treasury Management - Investment Strategy

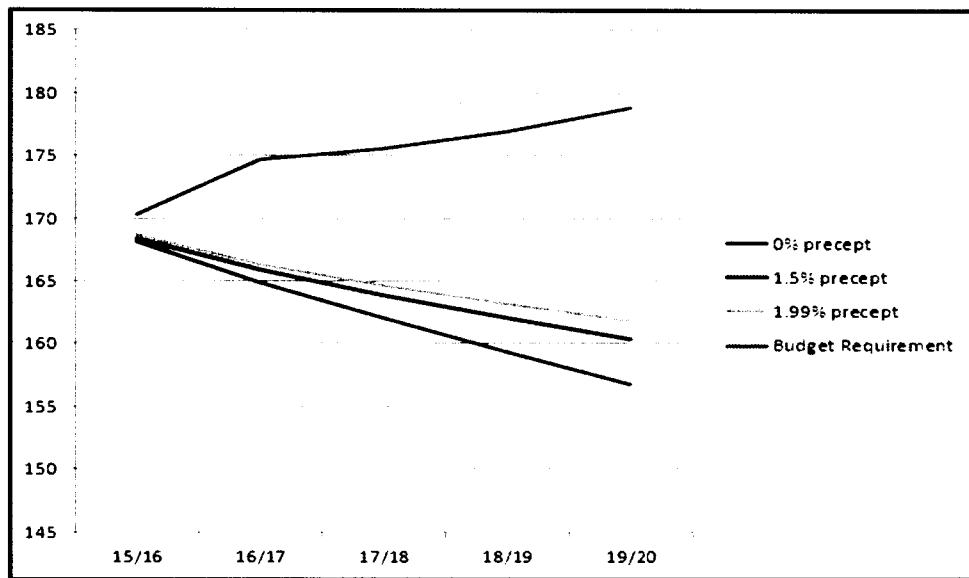
76. The capital programme has been considered and reviewed as part of the budget requirement and discussions with the force and a summary is set out in Appendix 3 to this report. The revenue consequences of the proposed Capital Programme have been taken into account in the development of the revenue budget, and the required prudential indicators are also set out in Appendix 3.
77. The Treasury Management report is set out at Appendix 4. This is required by the Code of Treasury Management published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and explains the Investment Strategy in relation to reserves and balances.
78. The OPCC receives regular updates on the Capital Programme and Treasury Management Strategy as part of the budget monitoring process and these were fully considered in the budget and precept discussion at the Strategic Assurance Board on 14th January 2015.

Medium Term Financial Strategy (MTFS)

79. It is a statutory requirement that the Police and Crime Plan must cover the period until the end of the year of the next election for PCCs, in this case to 31 March 2017. It is therefore appropriate that the MTFS covers not just the same period but extends this to 2019/20 to provide a longer term view.
80. However, this is not without its challenges, given that there is only a firm Government announcement of funding for 2015/16, that the impact of LCTS remains unpredictable, that there is at least another CSR between now and then, and that there is a formula review to be undertaken. Any one of these makes funding predictions challenging, but combined they make forecasting very difficult. This is in line with the challenges other authorities are also facing.
81. During 2014/15, the PCC restated the priorities set out in the Police and Crime Plan which shows how it is intended to balance the budget over the medium term, and with an organisation that is sustainable financially and in operational delivery.
82. The previous plan and MTFS have been updated to reflect estimated funding and budget requirements to 2019/20 under the three options of 0%, 1.5% and 1.99%.
83. Key assumptions in seeking to outline the financial challenge for the medium term are:
 - That the council tax base grows at 1% per annum;
 - All existing Council Tax Freeze grants already included in the base budget remain;
 - That 2015/16 is the final year for the award of new Council Tax Freeze Grants
 - Government funding reductions are 3.2% each and every year from 2016/17 onwards;

- The collecting authorities' LCTS schemes deliver a cash neutral position when combined with the council tax support grant from the Government;
- Pay and price increases are assumed at realistic levels which are comparable with other PCCs;
- No additional, unfunded responsibilities are given to the PCC;
- The BER can fund any necessary invest to save projects and further borrowing beyond the capital programme is not required;

84. With the above assumptions, the MTFS reveals a funding gap across the three options as set out in the graph below:



85. Whilst it is recognised that the forthcoming General Election in May 2015 and the PCC elections in May 2016 could affect the funding levels, budget requirements and precept strategy, the above graph shows that even with an assumed precept increase of 1.99% per year, there is still a significant funding gap of £16.9m by 2019/20. This gap increases by a further £5.04m if precept increases are assumed at 0% per annum until 2019/20 to £21.96m.
86. The most significant impact on the 2016/17 funding gap increase is the change to Employers National Insurance contributions, which are estimated at £2.1m.
87. The Force has already made significant steps in identifying savings for 2016/17 through Project Edison. However, there remains a residual funding gap of £1.6m in 2015/16 and £6.1m in 2016/17. This includes £2.1m planned savings in police officer costs that cannot be realised until 2017/18 due to police officer attrition rates.
88. The table below summarises the shortfall year on year under each of the three options modelled in the MTFS.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Option 1 (0% Increase)	2.03	7.68	12.34	17.36	21.96
Option 2 (1.5% Increase)	1.83	6.67	10.49	14.65	18.35
Option 3 (1.99% Increase)	1.58	6.14	9.68	13.54	16.92

Use of Reserves and Balances

89. In considering the precept options, it is important to look closely at the size, level and type of reserves to ensure that they are adequate to cover the purposes for which they are held and to provide some robustness against the risks identified within the budget.
90. Three types of reserves are held; the General Reserve, Earmarked Reserves and the Budget Equalisation Reserve. These are explained further below:
91. **The General Reserve** of £6m represents 3.5% of the net budget requirement for 2015/16 and is within (but at the lower end of) recommended audit levels of 3-5%. It is prudent to have such a reserve at this level to enable the organisation to withstand unexpected events that have financial implications. There are no planned uses of this reserve during 2015/16.
92. **Earmarked Reserves** of £4.8m represent funds set aside for specific future purposes. There are 10 of these reserves and the most significant are:
- Capital reserve - £0.4m, although most will be spent by 31 March 2015;
 - Proceeds of Crime Act - £0.7m – reserve to smooth the peaks and troughs of flow of proceeds (£0.126m is planned to be utilised in 2015/16);
 - PCSO reserve - £2.1m – to support the continued employment of PCSOs in future years as grant and local authority support reduces. In line with the 2014/15 budget and precept strategy, £0.686m is planned to be utilised in 2015/16.
93. **The Budget Equalisation Reserve (BER)** is currently £10.1m and has been created over recent years from a combination of the impact of effective efficiency programmes and through financial prudence. The PCC advised the panel in January 2013 as part of the presentation on the precept and the Police and Crime Plan, that the purpose of this reserve was two-fold:
1. To fund “invest to save” opportunities and other new initiatives and investments (for example investment in the Change Programme to deliver Operation Edison and future savings);
 2. To recognise that some savings would take time to implement (particularly in respect of Police Officers where attrition is at a lower level than reductions required) and to smooth the impact of these changes.
94. Whilst it is likely that the change programme will continue to deliver further sustainable efficiencies, until these are fully quantified and timescales established, it is prudent not to include these within the budget estimates.

95. In line with the purpose of the Budget Equalisation Reserve (to smooth the effects of timing of Edison savings), **the PCC will draw down £1.58m (based on a 1.99% precept increase) from the BER to balance the budget for 2015/16.** In addition, there will be the possibility that invest to save initiatives will be funded from the BER in 2015/16 such as match funding for Home Office Innovation Fund bids if successful.
96. Whilst the BER is currently at a prudent level, if this were used solely for the purpose of meeting the shortfalls in funding identified, the reserve would be exhausted in just over two years. Therefore, ongoing sustainable savings need to be identified and implemented.
97. In addition to smoothing, the second purpose of the reserve is to fund invest to save and other new initiatives and investments and it is in line with this purpose that the PCC wishes to prioritise his work in making neighbourhoods safe and protecting the vulnerable in our communities. To this end, he is **earmarking a maximum of £2m from the Budget Equalisation Reserve** to provide capacity and capability investments and to support strategic priorities with partners on such issues as victims, safeguarding, CSE, Cyber-crime, mental health and any other emerging priorities from the joint review of partnerships and partnership working.
98. It is anticipated that oversight of this approach will be the responsibility of the refreshed Strategic Partnership Board (SPB) and its supporting structures and as the detail develops, it is hoped that partners would also want to seek opportunities to match-fund or pool financial resources for such initiatives. This will help to complement the work already in place in Leicester, Leicestershire and Rutland to bring about a more joined-up, problem-solving approach to the challenges all partners are facing.

Precept Options – Council Tax Consultation

99. During November and December 2014, a survey of 863 residents of Leicester, Leicestershire and Rutland was commissioned, advising that:

“...the Commissioner is continuing to seek to drive efficiencies through the Force to minimise the council tax burden on local residents, but should this not be possible, he is seeking your views on what you should pay towards policing for 2015/16.”
100. The survey highlighted the savings already identified for the period of the Police and Crime Plan and sought views on options of 0%, 1.5% and 2% through the Force’s external survey company, and via an online form on the Force and OPCC websites.
101. The survey of 700 residents provided a confidence level of 95% (in line with Home Office and HMIC guidelines) to be representative at Force level, by gender, age and ethnicity. Although numerically at first sight there appears to be a slight under representation by BME respondents in the survey when compared to the population, statistically it is within reasonable parameters. The number of respondents for each of the LPU areas endeavoured to be proportionate to the population of that area (Census 2011).
102. The online survey was completed by 163 respondents (compared to 23 in 2014/15) but was not subject to the sampling methodology therefore it is important to highlight this survey method is not entirely proportionate. This is most evident in the over representation of the 35-44 and 45-54 age brackets.

103. At Force level, confidence levels are at +/-3.7%, which gives assurance that in the results **56.1%** of those who responded said that they would pay an increase of 2% on the current amount, significantly higher than both other options.
104. Of those surveyed, 89.1% (758) pay council tax, and of those who pay council tax this increased to **56.5%** saying that they support the 2% increase in the precept.

	Survey		Online		Combined	
	Number.	%	Number	%	Number	%
Freeze	209	30.4	34	20.9	243	28.5
Increase by 1.5%	123	17.9	8	4.9	131	15.4
Increase by 2%	356	51.7	121	74.2	477	56.1
Refused	12				12	
	700	100	163	100	863	100

105. In summary, out of 851 who stated a preference, 608 (71.5%) support an increase in the precept with 28.5% supporting a freeze grant.106. In respect of Council Boundaries (combined from LPU level data), due to lower levels of responses, confidence levels varied, but in all instances, the majority of respondents preferred an increase of 2%.

	Preferred Option						Total	
	Freeze		+1.5%		+2%		Consultees	C.I.%
City Council	84	31.8%	52	19.7%	128	48.5%	264	6.0
Charnwood	35	25.0%	21	15.0%	84	60.0%	140	8.3
Melton	12	30.0%	2	5.0%	26	65.0%	40	15.4
Rutland	7	22.6%	4	12.9%	20	64.5%	31	17.5
NW Leics	22	29.3%	10	13.3%	43	57.4%	75	11.3
Blaby	23	27.4%	15	17.9%	46	54.7%	84	10.6
Harborough	22	27.8%	8	10.1%	49	62.1%	79	10.3
Hinckley & Bosworth	21	25.9%	9	11.1%	51	63.0%	81	11.7
Oadby & Wigston	12	26.7%	10	22.2%	23	51.1%	45	14.6
No postcode/ refused							24	
Total	238		131		470		863	+/- 3.7

106. Residents were asked to provide comments under key categories, the main three responses were grouped as follows:
1. "This is not a lot to pay for the services received" (168 respondents)
 2. "Policing needs to be maintained/improved by funding" (166 respondents)
 3. "I pay enough council tax already" (133 respondents)
107. In summary, the survey shows that the majority of residents (56.1%) are in favour of increasing the precept by up to 2%. This reaffirms the precept strategy adopted on which the Police and Crime Plan and associated MTFs were based.

Precept Options

108. In order to calculate the precept increase required for 2015/16 to fund the budget requirement, after taking account of the Government formula grant and the use of reserves, it is necessary to have regard to two figures. Firstly, the value of the council tax base for the area and secondly, the Police and Crime Commissioner's share of the estimated surpluses on the billing authorities' collection funds for the preceding financial year (2014/15).
109. At the time of writing this report, estimated council tax base information has been provided by all billing authorities, and final information is awaited to confirm estimates.
110. The collection fund surplus reflects the performance of the billing authorities in collecting council tax in 2014/15 and the tax base reflects the number of households upon whom council tax can be levied, usually quoted in Band D equivalent numbers. Billing authorities are currently finalising their collection fund surplus elements and not all of these have been finalised or notified to the PCC at the time of writing this report. Therefore, the latest quarterly information supplied by the billing authorities has been used in this report and updated where notified. The Panel will be advised of any changes notified by billing authorities between the time of writing the report and the Panel meeting at the meeting.
111. As mentioned above, the Government announced its commitment to freeze council tax at the 2014/15 level, at the same time offering a council tax freeze grant, equivalent to a 1% council tax increase, as compensation and paragraphs 30-37 above details this and the PCCs position in respect of a referendum.
112. In the light of this information three council tax options have been considered:
1. **Option 1 – no increase in Band D equivalent council tax** combined with accepting the council tax freeze grant. This grant is estimated to be £0.582m for 2015/16.
 2. **Option 2 – a council tax Band D increase of 1.5%** (£2.65 per annum or 5.1 pence per week) in 2015/16, which would produce £0.783m in additional council tax receipts, the £0.582m council tax freeze grant would no longer be applicable and, therefore, this option would result in an additional £0.201m when compared to option 1.
 3. **Option 3 – a council tax Band D increase of 1.99%** (£3.51 per annum or 6.8 pence per week) in 2015/16, which would produce £1.038m in additional council tax receipts, the £0.582m council tax freeze grant would no longer be applicable and, therefore, this option would result in an additional £0.456m when compared to option 1.
113. When considering the level of Council Tax Band D increase to set, a number of factors must be taken into consideration. These include:
- The capacity to address the priorities as set out in the Police and Crime Plan;
 - The potential efficiencies to be derived from the current change programme;
 - The hitherto good track record in driving costs down and efficiency up but acknowledging the limitations around this moving forward;
 - Future funding forecasts and the longer term MTFS;
 - The incentive, in the form of council tax freeze grant, from central government.

114. Further factors which are worth noting in relation to Council Tax levels (Source: HMIC VFM indicators) for Leicestershire are as follows:

- Regionally, Council Tax levels for Band D properties show that Leicestershire is placed mid way within the band in 2014/15 shown as follows:
 - £170.22 (Derbyshire)
 - £172.98 (Nottinghamshire)
 - £176.48 (Leicestershire)
 - £193.86 (Lincolnshire)
 - £197.04 (Northamptonshire).
- At £176.48 in 2014/15, Leicestershire's Council tax level for a Band D property is higher than both the national average at £171.8 and the MSG average of £154.7; however,
- Leicestershire PCC receives a lower level of Precept per head of population at £49.50, compared to national levels of £54.80 but slightly higher than the most similar group of £49.20.
- Additionally, Leicestershire raises significantly less through Council tax than others, with a Council tax yield (the amount per £1 of council tax collected that goes to the local policing body) of £0.28 per £1 of council tax raised compared to £0.32 both nationally and the most similar groups.
- As highlighted earlier in the report, Leicestershire receive less central funding per head of population due to the damping formula.

Precept proposal

115. In determining the proposed precept level, the PCC has taken account of key relevant information and this has been the subject of much challenge, scrutiny and discussion, which is properly reflected within this report.

116. After careful consideration of this information and taking into account the views received through consultation by local residents of Leicester, Leicestershire and Rutland the PCC is proposing a precept increase of 1.99% (option 3 as detailed in paragraph 112 above and attached at Appendix 1) for the 2015/16 financial year to build a sustainable base budget and to maintain and safeguard policing services where possible.

117. This precept proposal is supported by a determination that specific areas will be prioritised by the force which will identify a minimum of £2.5m in revenue savings to be released in 2016/17 and future years and which will not only complement the existing work (and savings) of Edison and the Change Team, but will also enable a real cashable saving moving forwards. The force will report to the PCC at the Strategic Assurance Board by June 2015 and provide proposals on the following:

- Further Force Structural reform
- A review of productivity across the force
- Proposals for savings in middle and back office
- Further demand management benefits
- Continued vigour with the volunteer strategy
- Wider local public sector "join up":

118. Furthermore, in line with the PCC's focus on making neighbourhoods safe and protecting the vulnerable in our communities, he is earmarking a maximum of £2m from the Budget Equalisation Reserve to support strategic priorities with partners on such issues as victims, safeguarding, CSE, mental health and any other emerging priorities from the joint review of partnerships and partnership working. It is intended that oversight of this approach will be the responsibility of the refreshed Strategic Partnership Board and its supporting structures and whilst the detail needs to be fully identified, this funding will only be released if there is a clear, costed business case that supports the achievement of improved outcomes.
119. This precept proposal will build on and complement the 2014/15 precept strategy which:
- Increased the precept by 1.5% to help build the base following the unprecedented and unexpected additional top slicing of £1.6m applied to the Police settlement for 2014/15;
 - Increased and maintained PCSO resources to 251 over three years. This increase took place to maintain operational resilience and minimise the impact of any Edison structural changes on neighbourhood policing. In addition, these resources were targeted to support the force in prioritising community and neighbourhood safety, particularly in regard to ASB hotspots: and
 - Secured a commitment from the force to deliver the Volunteer Strategy over 3 years.

Statement of the Chief Constable

120. In proposing the precept and associated conditions, the PCC has sought views from the Chief Constable and his statement on the PCC's precept proposal for 2015/16 is as follows:

"It is my responsibility as described in the Policing Protocol Order 2011 to provide professional advice and recommendations to the PCC in relation to his receipt of all funding, including the Government Grant and precept and other sources of income related to policing and crime reduction. Under the terms of the Order I am responsible for delivery of efficient and effective policing, the management of resources and expenditure by the Force. I must also support the PCC in the delivery of the strategy and objectives set out in the Police and Crime Plan, assist in the planning of the Force's budgets, have regard to the strategic policing requirements in respect of national and international policing responsibilities, and have day to day responsibility for financial management of the Force within the framework of the agreed budget allocation and levels of authorisation issued by the PCC.

Clearly this is a very challenging budget settlement, arguably the toughest in the Force's history. That is exacerbated by the fact that Leicestershire does not receive full funding due to damping applied to the funding formula; that now costs us over £5.6 million. The ability to raise further revenue through the precept is limited by the 2% cap and compared to other Forces is further limited by the reality of revenue raising levels against Council Tax within the Force area. This means that we have the 11th highest proportion of our revenue budget to save of all 43 Forces. Consequently my preferred option is an increase in the precept of 1.99% as this best enables the Force to deliver the Police and Crime Plan, and meet the requirements of the Strategic Policing Requirement going forwards.

HMIC has assessed us as 'good' across all areas in the first national PEEL assessment (Police Effectiveness, Efficiency, Legitimacy);

- Effectiveness (preventing offending and reducing crime, investigating crime, tackling ASB),
- Efficiency (efficiency, taking steps to ensure a secure financial position, providing affordable policing),
- Legitimacy (acting with integrity and providing the service the public expects).

They also assess us as demonstrating value for money, with the 4th lowest costs nationally on support functions offering the opportunity to deliver frontline services. HMIC's assessment when austerity began was that policing could sustain a 12% cut without the frontline being impacted, our cut is 19%.

The Force Change Programme sets about meeting the challenges of maximising the impact of the money that we do have, which is still a considerable amount, on community safety within the terms laid out by the Police and Crime Plan. In striving to provide the best service possible to local people and to keep them as safe as is possible we are doing focused work on demand management and looking at our productivity.

The Force has identified a number of areas which it is progressing in order to close the funding gap:

2015/16

Regional Collaboration will deliver further savings anticipated at £0.5m of which £0.3m is expected from work within Criminal Justice.

Output Based Budgeting will commence this financial year and is expected to realise between £1.9m and £2.7m in 2016/17.

Local Projects are anticipated to realise further savings this financial year. Projects being scoped include workforce modernisation, vacancy management, reduction in training costs associated with specialist roles, reduction in overtime expenditure, embargo on non-critical estate improvements, and a recruitment restriction/freeze.

2016/17

Project Edison will be reviewed to see what element of the initial uplift in the number of police officers in the base model calculations can be removed. This may realise savings of up to £4.5m.

Further Collaborative working may realise savings. This could include more integration of contact management functions and potential shared services around Chief Officer functions and corporate services. The region will also utilise Output Based Budgeting.

Local Projects are anticipated to realise £0.5m to £1.5m and will review fleet, estates, management structures, partnership working and IT.

The opportunities for further savings identified above will be developed by the Force Change Team once Project Edison is implemented. We shall also seek to identify a

minimum of £2.5million in revenue savings, complementary to the existing work of Edison, as requested by the Police and Crime Commissioner. To do so we will look at;

- 1. Force structure including rank structures, supervisory levels and ratios and working hours.*
- 2. Productivity, which will be inspected by the HMIC during the year ahead. This will include capacity, attendance management, workforce mix, underperformance and utilising technology.*
- 3. The opportunity for savings to middle and back office: this will include looking at options with partners.*
- 4. Demand Management; we will seek, with partners, to make Predictive Demand Management the norm.*
- 5. Continued vigour with our Volunteers Strategy: seeking innovative engagement.*
- 6. Wider local public sector “join up”: where we can realistically “join up” in support of the same agendas to deliver a better service and at the same time release much-needed savings in the process.*
- 7. We will also seek to identify effective opportunities to work with partners, possibly pooling some budgets, to maximise the impact of the £2 million from reserves earmarked by the PCC for work on issues such as victims, safeguarding, CSE, cyber- crime, mental health and other emerging priorities identified within the Strategic Assessment, and the partnership review.*

We live in an age where the desire for a visible policing presence remains key to ensuring community confidence, yet whilst officers visibly patrol the streets the greatest threat may be coming into your house through the internet. To meet this challenge we will be innovative, seeking to protect the vulnerable whilst targeting offenders.

The Panel’s support through Community Safety Partnerships, joined up demand management, and shared risk appetites will be crucial in ensuring our continued success.”

Robustness of the Budget –statement of the PCC Chief Finance Officer

121. The Local Government Act 2003, Part 2, Section 25, as amended by the Police Reform and Social Responsibility Act 2011, requires the PCC’s Chief Finance Officer to report on the robustness of the estimates used for the budget and the adequacy of the proposed financial reserves. The PCC is required to have regard to the report of the Chief Finance Officer and the report must be given to the Police and Crime Panel. For the Strategic Assurance Board, this statement was been prepared by the PCC and Force Finance Officers to provide assurance to the Board that these factors have been jointly considered.
122. In the sections above, titled “2015/16 – Base Budget – preparation, approach and scrutiny” and “2015/16 Base Revenue Budget”, a description of the development of this budget is given. During the preparation of the budget I have been given full access to the budget model and have been consulted on the assumptions being made in order to develop the model and received timely and detailed responses to

queries and/or points of clarification. In the majority of cases I have agreed with the assumptions being made, and where I have sought changes then they have been incorporated.

123. I have reviewed the track record of Leicestershire Police in achieving efficiency savings; this is impressive and I am therefore assured that the efficiencies required, supplemented by the use of the Budget Equalisation Reserve (in respect of timing differences for realisation of savings) to ensure a balanced budget for 2015/16 can be achieved.
124. I am assured that there is work underway to identify the remaining savings for 2016/17 supplemented by the use of the Budget Equalisation Reserve in respect of timing differences for realisation of savings to ensure a balanced budget for 2016/17 can be achieved.
125. I have confidence that the budget monitoring process will identify any variations of expenditure or income from that budgeted so that early action can be taken and this is regularly reviewed, discussed and scrutinised at the Strategic Assurance Board.
126. I have also reviewed the detailed calculations in arriving at the budget requirement and council tax precept and options and find these to be robust. I am assured that inflation and other key assumptions have been benchmarked with peers.
127. The Chief Constable has been involved in the development of the refreshed Police and Crime Plan and has been able to develop a budget that supports the delivery of the priorities set out in that Plan.
128. There is an operational contingency available to the Chief Constable, and sufficient general reserves available should demands require access to these. Earmarked reserves are also in place for specific requirements such as pensions and insurance.
129. In coming to my conclusion on the robustness of the budget I have also reviewed the separate papers on Capital Expenditure (Appendix 3) and Treasury Management (Appendix 4).
130. The section above on the MTFs does, however, set out a significant challenge to the organisation. In June 2013, the PCC approved a change plan which included transactional reductions in earlier years, and these have been implemented. Some Transformational changes have been identified in terms of a new operating model for the Force and these are being implemented in February 2015. These have been incorporated into the Revenue Budget Requirement.
131. A level of savings identified from the original Police and Crime Plan priority remain to be identified and as highlighted above, work is already underway in the Force to identify and realise these and I am assured that regular updates will continue to be given to the PCC.
132. I conclude that the budget for 2015/16 has been prepared on a robust basis and that although shortfalls have been identified for 2015/16 and 2016/17 they are manageable and plans are being progressed to address these.
133. Beyond 2015/16, there is a high level of uncertainty as to how the finance settlement might look and from 2017/18 onwards, the financial position begins to deteriorate further and following the headlines identified in the Chancellor's Autumn statement, in line with many other public sector organisations, it is reasonable to assume that the

financial challenges will continue and these are reflected as best estimates in the MTFS to 2019/20.

134. I conclude, therefore, that the budget for 2015/16:

1. has been prepared on a robust basis, and
2. that the level of reserves are adequate and sufficient to ensure that timing differences to realise savings can be accommodated.
3. In the short term (2015/16 and 2016/17), the budget is stable and reserves are sufficient, however,
4. the financial landscape after that time is uncertain and significant financial challenges have been identified within the MTFS which need to be considered and plans identified.

Implications

Financial –	This report for the Police and Crime Panel to note the precept proposal, the financial position, uncertainties and timescales.
Legal -	There are no legal implications identified.
Equality - Impact Assessment	There are no equality issues identified.
Risks and -Impact Link to Police and Crime Plan	Risks have been identified within the report. The report provides an update on the strategic priority 18

List of Appendices

- Appendix 1 Budget and Precept 2015/16 to 2019/20
- Appendix 2 Office of the Police and Crime Commissioner – Budgeted Establishment 2015/16
- Appendix 3 Capital Programme 2015/16 to 2017/18
- Appendix 4 Treasury Management – Investment Strategy

Background Papers

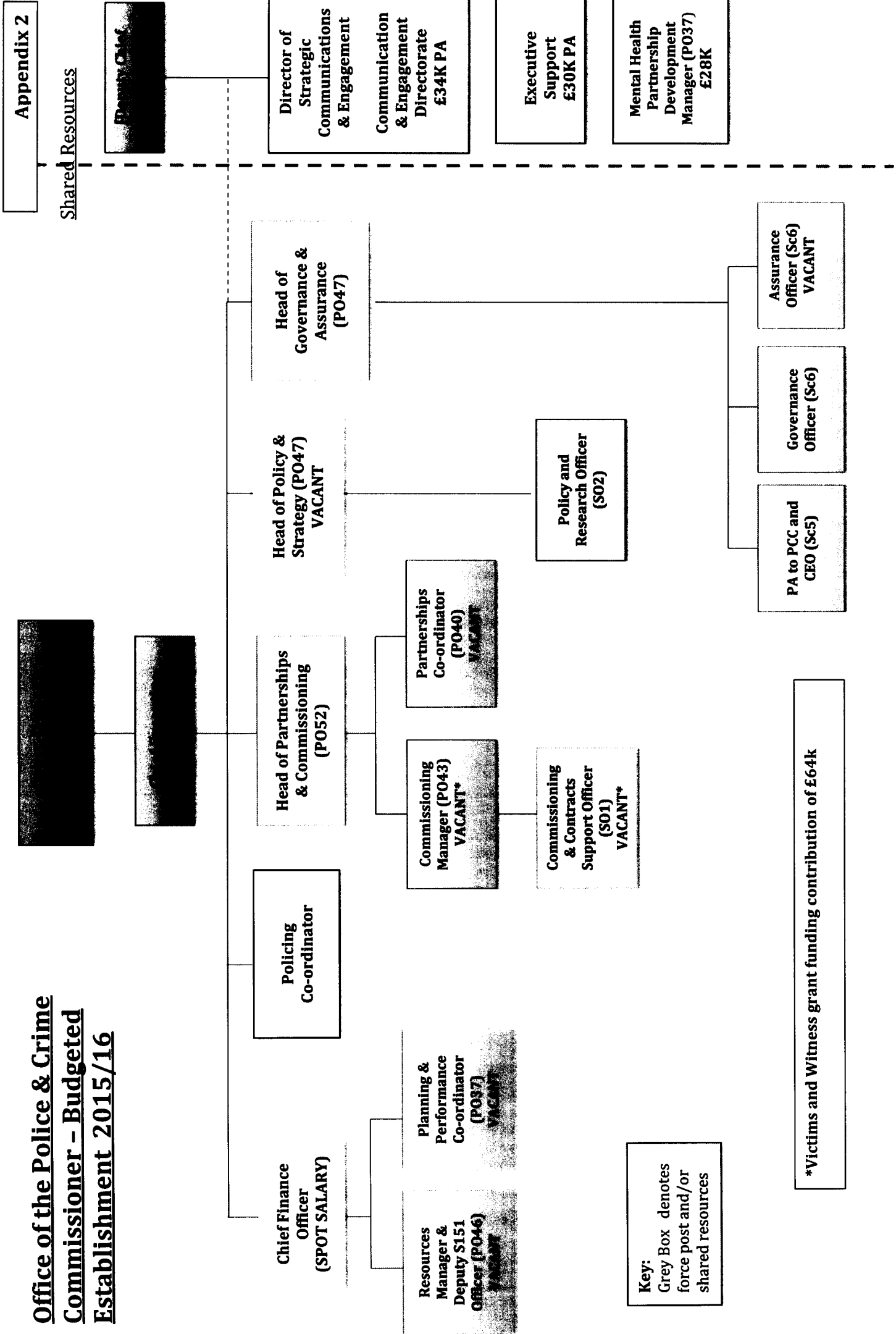
- Provisional Police Grant Report – 18 December 2014
- Council Tax Freeze Grant and Council Tax Referendum Principles
- 2015/16 Leicestershire Police and Crime Commissioner Precept Survey

Persons to Contact

Mrs H King, Chief Finance Officer, Office of the Police and Crime Commissioner
Tel 0116 229 8984, Email: helen.king@leicestershire.pnn.police.uk

Mr P Dawkins, Finance Director, Office of the Chief Constable
Tel 0116 222 2244, Email: paul.dawkins@leicestershire.pnn.police.uk

Office of the Police & Crime Commissioner – Budgeted Establishment 2015/16



Key:
 Grey Box denotes force post and/or shared resources

*Victims and Witness grant funding contribution of £64k

CAPITAL PROGRAMME 2015-16 TO 2017-18

Background

1. The Government support for capital spending includes the capital grant which directly supports the capital programme. Since 2004 the Prudential Code has given the police authority and now the PCC the freedom to set its own borrowing limit subject to compliance with the Code.

Prudential Code

2. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice.
3. The Prudential Indicators required by the Code are designed to support and record local decision making. They are not designed to be comparative performance indicators.
4. The main objective in consideration of the affordability of the capital programme is to ensure that total capital investment remains within sustainable limits, and in particular to consider its impact on the council tax.
5. In assessing affordability the Office of the Police and Crime Commissioner (OPCC) has to take into account all the resources currently available to the organisation and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the coming year and the following 2 years.
6. In relation to being prudent there is a need to ensure that, over the medium term, net borrowing will only be used for capital purposes. It is also prudent to ensure that treasury management is carried out in compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and limits are set on fixed and variable interest rate exposures, and on the maturity structure of borrowing.
7. The decisions on capital investment need to take into account option appraisal, asset management planning, strategic planning for both the OPCC and Force and the achievability of the forward plan.

Prudential Indicators

8. The actual 2013/14 capital expenditure and the estimated capital expenditure for the current year and future years are:-

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Total	9.0	7.9	8.9	5.4	3.9

9. The estimates of the ratio of financing costs to the net revenue stream for 2013/14 and for the current and future years are:-

2013/14	2014/15	2015/16	2016/17	2017/18
Actual	Estimate	Estimate	Estimate	Estimate
%	%	%	%	%
1.08	1.11	1.28	1.77	1.96

10. The actual capital financing requirement at 31 March 2013 and the estimates for the current and future years are:-

	31.3.14	31.3.15	31.3.16	31.3.17	31.3.18
	£m	£m	£m	£m	£m
Total	20.4	24.1	28.4	29.4	28.7

11. The capital financing requirement (CFR) measures the OPCC's need to borrow for capital purposes. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the OPCC has to ensure that net external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus estimates of any additional CFR for the current and next two years. The OPCC met this requirement in 2013/14, and is expected to do so in future years.

12. In respect of external debt, the recommended authorised limits for total external debt, gross of investments, for the next three financial years are shown below:-

	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m
Borrowing	18.4	19.2	22.4	24.0
Long Term Liabilities	2.7	2.3	1.9	1.4
Total	21.1	21.5	24.3	25.4

13. These authorised limits are consistent with the OPCC's current commitments, existing plans, and proposals in this report for capital expenditure and its financing, and the approved treasury management policy. The authorised limit for 2015/16 is the statutory limit determined under section 3(1) of the Local Government Act 2003.

14. There is a need to have an approved operational boundary for external debt which is based on the same estimates as the authorised limit (para 12). The operational boundary reflects an estimate of the most likely level of debt. It does not include the additional headroom within the authorised limit that allows for unusual cash movements.

	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m
Borrowing	17.4	18.2	21.4	23.0
Long Term Liabilities	2.2	1.8	1.4	0.9
Total	19.6	20.0	22.8	23.9

15. The OPCC's actual external debt at 31 March 2014 was £14.6m. The amount is split between the Public Works Loans Board (PWLB) figure of £12.4m and Leicestershire County Council £2.2m (transferred debt from 1995 regarding the formation of police authorities as per the Police and Magistrates Courts Act 1994. This has now transferred to the OPCC).

It is planned that the 2014/15 'borrowing requirement' of £5.0m will be met by internal cash balances.

16. A monitoring system is in place and reports on progress against the indicators are taken to the OPCC.
17. On their commencement to the role, the Resources Manager in the OPCC will attend the Strategic Finance and Infrastructure Board where the Capital programme is discussed in more detail and provide challenge, scrutiny and receive assurance for the CFO and PCC.

Proposed Capital Programme

18. The capital programme has been prepared in consultation with budget holders on the basis of operational need and risk. The Force Executive Group, as part of its remit, has challenged and prioritised the proposed medium term capital programme.
19. A summary of the proposed Capital Programme for 2015/16 is shown in the table below. The more detailed programme relating to the financial years 2014/15 to 2017/18 was considered in full by the PCC and his team during the preparation and at the Strategic Assurance Board on the 14th January 2015.

<i>Proposed Capital Programme 2015/16</i>			
Expenditure	£000	Funding	£000
Property	2,535	Capital Grant (TBC)	1,600
Information Technology	4,796	Borrowing Requirement	5,826
Emergency Services Network	75	Capital Receipts	1,305
Vehicle Fleet	1,500	Home Office Grants (TBC)	75
		Revenue Contributions	100
Total	8,906	Total	8,906

20. The Programme includes property schemes relating to the replacement of the Oakham and Coalville police stations for smaller efficient premises, the commencement of major refurbishments at Beaumont leys and the remodelling of the Force HQ residential block to create additional office space. The information technology expenditure includes significant investment in the Data Infrastructure and mobile devices to support the new policing model and regional collaborative projects. Planned replacements for the existing vehicle fleet are also included.

Funding Arrangements

21. The 2015/16 capital grant has not yet been confirmed by the Home Office. This will be announced with the Final Settlement in February 2015. A provisional capital grant of £1.6m has been included based on 2014/15 but this may be top sliced to fund national programmes. After the utilisation of receipts arising from the sale of properties as part of the strategic estates review and the application of revenue contributions to capital schemes, the borrowing requirement is **£5.826m** for 2015/16.
22. The Capital Programme assumes that the 15/16 borrowing requirement of £5.826m is financed through maturity loans from the PWLB at an indicative interest rate of 3.6% for 25 years and 2.44% for 6 year loans.

Background Papers

Home Office Settlement Notification via the Home Office website

TREASURY MANAGEMENT – INVESTMENT STRATEGY

Background

1. The 'Code of Treasury Management' published by the Chartered Institute of Public Finance and Accountancy (CIPFA), and recommended by the Home Office, has been adopted by the Office of the Police and Crime Commissioner for Leicestershire ("the OPCC").
2. The Treasury Management Strategy is approved annually to run from 1st April to the following 31st March.
3. The Strategy has evolved in recent years in response to the relative instability within the banking sector. This saw the removal of all European/foreign banks and all but one Building Society (Nationwide) from the authorised lending list.
4. The Local Government Act 2003 included capital regulations that applied from 1st April 2004. These regulations allow the OPCC freedom to borrow to fund capital expenditure provided it has plans that are affordable, prudent and sustainable. The requirements are covered in the Prudential Code.

Treasury Management Strategy

5. The core aim is to generate additional income for the OPCC but by balancing risk against return. The avoidance of risk to the principal cash amounts takes precedence over maximising returns.
 - i. Managing daily cash balances and investing surpluses

In order that the OPCC can maximise income earned from investments, the target for the uninvested overnight balance in the current account is a maximum of £15k.

At any one time, the OPCC has in excess of £30m available to invest. The current lending list is as follows:-

<u>Institution</u>	<u>Maximum Loan</u> £m	<u>Maximum Period of</u> <u>Loan</u>	<u>Short-Term Credit</u> <u>Ratings</u> **
Royal Bank of Scotland plc	10.0	364 days	F1 / A-2 / P-2
Lloyds TSB Bank plc	10.0	364 days	F1 / A-1 / P-1
Barclays Bank plc	10.0	364 days	F1 / A-1 / P-1
HSBC Bank plc	10.0	364 days	F1+ / A-1+ / P-1
Nationwide Building Society	10.0	364 days	F1 / A-1 / P-1
Debt Management Office	*	364 days	n/a

* No limit is set. The DMO tends to pay a low rate of return and hence are used only when funds can not be placed with other approved institutions.

** Short-term credit ratings (valid as at 23/12/2014) are as supplied by the OPCC's brokers - Tullet Prebon (Europe) Ltd. The highest potential

ratings are F1+ (Fitch), A-1+ (Standard & Poor's) and P-1 (Moody's) respectively.

ii. Borrowing

Funds are only borrowed to finance part of the Capital programme. External borrowing is from the Public Works Loan Board (PWLB) at below commercial rates. The critical factor in determining the length of such loans is the view on the future movement of interest rates and the life of the asset being financed.

Borrowing may be made from internal cash resources where it is considered appropriate by the OPCC having assessed its merits against the external alternative.

Any borrowing, whether internal or external, will be timed such that the impact on the OPCC is as advantageous as possible.

Latest Position regarding Treasury Management

6. The banking sector continues to show signs of instability alongside the wider economy. In this context it is not yet advisable to consider a return to placing investments with the majority of Building Societies or European/Foreign banks. This is in keeping with the OPCC's stated aim of protecting the principal (cash) amount.
7. Funds are placed with institutions based on (a) available headroom and (b) rate of return – this is a daily decision-making process. A balance is struck between the desired level of return and the need to provide liquid funds to meet the OPCC's obligations i.e. supplier payments, payroll costs and tax liabilities.
8. Continued monitoring of the ratings agencies' assessment of institutions takes place and is reported to the PCC Strategic Assurance Board via a quarterly "Treasury Management Performance" report.
9. The Bank of England Base Rate has been at 0.50% since 5th March 2009. Returns have therefore been lower in recent years as can be seen below:

<u>Financial Year</u>	<u>Interest Income</u>	<u>Comments</u>
2008/09	£1.48m	Actual
2009/10	£0.18m	Actual
2010/11	£0.12m	Actual
2011/12	£0.10m	Actual
2012/13	£0.25m	Actual
2013/14	£0.14m	Actual
2014/15	£0.12m	Forecast
2015/16	£0.12m	Proposed Budget

External Advice

10. External advisers have not been used over the last year. However they may be used on an ad-hoc basis if required.

Borrowing Limits

11. In accordance with the Prudential Code it is a requirement that the OPCC set borrowing limits for the next 3 years. These limits are intended to reduce risk. It is proposed that the limits should be as follows:

		2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
(i)	Total authorised borrowing limit*	18.4	19.2	22.4	24.0
(ii)	Long term liabilities	2.7	2.3	1.9	1.4
(iii)	Interest payable limit on borrowing at variable rates	0.2	0.2	0.2	0.3
(iv)	Interest payable limit on borrowing at fixed rates	0.6	0.6	0.7	0.8

* includes headroom for short term borrowing - £1m for each year.

12. The OPCC has an obligation to repay transferred debt to Leicestershire County Council, to finance capital spending prior to 1st April 1995. The amount outstanding at 31st December 2014 was £1.795m and is subject to interest charged at variable "pool" rates.
13. The Prudential Code also recommends that the Police and Crime Commissioner sets upper and lower limits for the maturity structure of its fixed rate borrowing. The following limits are proposed:-

	Upper Limit	Lower Limit
Under 12 months	20%	0%
Between 12 months and 24 months	20%	0%
Between 24 months and 5 years	20%	0%
Between 5 years and 10 years	50%	0%
Over 10 years	100%	25%

14. The Treasury Management Strategy was reviewed, scrutinised, challenged and considered as part of the budget and precept discussion on the 14th January 2015. In addition to ongoing discussions on a daily and weekly basis between the CFO and FD, a Treasury management update is reviewed formally on a quarterly basis at the Strategic Assurance Board where the information is challenged and scrutinised.

