



2014/15 REVENUE BUDGET AND PRECEPT CAPITAL PROGRAMME 2014/15 – 2017/18

Report of the Police and Crime Commissioner

There is a statutory requirement for the Police and Crime Commissioner to set the precept by 1 March, although historically the former Police Authority approved the annual budget and precept by mid February in most years to assist Billing Authorities with early despatch of Council Tax Bills.

Regulations now require the PCC to notify the Panel of the proposed precept by 1 February, and this has been presented to the Panel at its meeting on 20 January. The Panel is required to review the precept by 8 February and this further report is intended to assist in that decision.

The Panel does have the power to veto the proposed level and if that veto is exercised the Commissioner would need to submit a revised precept by 15 February for review by the Panel by 22 February.

The Panel's schedule of meetings in February accommodates this timetable should it be needed.

PURPOSE

1. To set out the Police and Crime Commissioner's proposals for the 2014/15 Revenue Budget and Precept and Capital Programme 2014/15 to 2017/18.

BACKGROUND

2. This report follows the preliminary budget and precept proposals which were considered by the Panel at its meeting on 20 January. In the absence of final Government Grant figures and the Council Tax Referendum rules for 2014/15 the Commissioner is not able to make a firm proposal at this stage. The preferred approach, which was presented to the last panel meeting, is based on the provisional grant figures which were announced in December 2013 and the Referendum Rules which applied in relation to the 2013/14 Precept, which would have allowed for a precept increase of 5% in the West Midlands without the requirement for a referendum. Further information will be presented orally at the meeting if that becomes available.
3. In formulating these proposals the Commissioner has considered:-
 - (a) the level of resources required to deliver the Police and Crime Plan (elsewhere on the Agenda for this meeting);
 - (b) the provisional one year funding settlement announced by the Government in December 2013;

- (c) the availability of reserves to support spending in 2014/15 and later years;
- (d) the need to continue to address the “grant/precept ratio” issue;
- (e) the implications of spending levels in later years and the uncertainty of funding settlements in future years;
- (f) the results of the Public Consultation about the proposals which are now set out in this report and about which 85% of respondents were supportive, including a precept increase of 3% or more
- (g) the outcome of the Statutory Consultation meeting with representatives of Business ratepayers, where no specific issues were raised;
- (h) any inherent risks and uncertainties;
- (i) the impact on local Council Tax payers, and particularly balancing what needs to be spent to provide services with what it is reasonable to ask local council tax payers to pay.

GOVERNMENT GRANT SETTLEMENT 2014/15

4. The following table summarises the Provisional Grant figures for the West Midlands:-

2013/14		2014/15		Difference	
£m		£m		£m	%
282.3	Police Grant*	268.7		-13.6	-4.8
197.5	DCLG Formula Funding	188.2		-9.3	-4.7
19.0	Council Tax Grants	19.0		0.0	0.0
498.8		475.9		-22.9	-4.6

* Includes Community Safety Fund (CSF) which was paid as a separate grant in 2012/13

5. The points to note from the provisional grant settlement are:
- (a) A total reduction in funding compared to 2014/15 of £22.9m or 4.6%, however this comprises of a 4.8% reduction in core funding (i.e. funding that is subject to damping) compared to a total Government Revenue Funding for Police in 2014/15 that is 3.3% less than 2013/14;
 - (b) This is because of “top slicing” for the Innovation Fund (£50m) and the IPCC (£18m) and new funding streams for the College of Policing (£3m for direct entry schemes), HMIC (£9.4m to fund a new annual programme of all force inspections) and the City of London Police (£2m in recognition of the national and international capital city functions carried out).
 - (c) As announced last year the Community Safety Fund has been included within main grant for 2014/15;
 - (d) As has been the case in previous years, formula damping (also known as floors and ceilings) has remained unchanged;
 - (e) The Home Secretary expects it to take three years for the IPCC to reach full capacity, so it is likely that there will be further additional “top slicing” in 2015/16 and 2016/17;
 - (f) Despite the Chancellor’s announcement in his Autumn Statement of further reductions to Departmental Budgets in 2014/15 and 2015/16, the Home Secretary has decided that Government funding to the police will be protected in 2014/15 from further reductions, but decisions on the impact of the Autumn Statement on police funding in 2015/16 will be made “at a later date after careful consideration of all Home Office Budgets”;

(g) From 2014/15 council tax freeze grants relating to the 2011/12 and 2013/14 schemes and Local Council Tax Support Grant of £19m will be paid to the PCC by the Home Office rather than the DCLG as in previous years;

6. It is very disappointing that despite previous Government commitments to provide at least indicative grant figures for more than one year to help with medium term planning, the provisional settlement includes figures for only 2014/15.

7. The Minister referred to formula damping about which he said

“In my Statement accompanying the Police Grant Report 2013/14, I announced that the current damping arrangements would continue in 2014/15. This means that every police force area in 2013/14 will face the same percentage reduction in core central Government funding.”

FUTURE COMMISSIONING OF VICTIMS SERVICES

8. Following announcements in May 2013 that PCC commissioned services for victims of crime would start to operate in October 2014, the Policing Minister has notified the following indicative allocations of funding for the West Midlands:-

	2013/14*	2014/15
	£	£
Victim Services	691,072	1,123,000
Restorative Justice	188,030	305,000
Total	879,102	1,421,000

**funding to begin building capacity*

COUNCIL TAX FREEZE SCHEME 2014/15

9. Following the Provisional Grant announcement the Government has also notified details of the Council Tax Freeze Scheme for 2014/15. The Government will pay an additional grant in 2014/15 and 2015/16 equivalent to a 1% precept increase to any Police and Crime Commissioner who freezes or reduces the 2014/15 precept compared to 2013/14. The Commissioner has given careful consideration to the offer of the freeze grant for 2014/15 (and its impact in 2015/16) but has decided not to accept the offer because of:

- (a) The impact on the total resource base beyond 2015/16, particularly in the light of decisions by the former Police Authority to accept freeze grants in earlier years for which there is no commitment from Government, at this stage, to pay after 2014/15
- (b) The need to continue to address the current “precept/grant ratio” issue, where areas, like the West Midlands, with very high proportions of spending funded by Government grants and low precept levels, suffer disproportionately from across the board reductions in Government grants.

PROPOSED REVENUE BUDGET 2014/15

10. In formulating the budget and precept proposals for 2014/15, the Commissioner has been particularly mindful of the following factors:-

- (a) Matching resources to the emerging priorities from the Police and Crime Plan;
- (b) That a “tipping point” between reduced policing resources (as a result of reductions in Government grant) and the levels of crime and anti-social behaviour is in danger of being reached and action needs to be taken to redress the balance;
- (c) The demographic and age profile of the current workforce, and the need to continue to ensure the workforce appropriately reflects the community it serves;
- (d) The current workforce mix of police officers and police staff and opportunities for further civilianisation to release more officers for operational duties;

- (e) The need to support the Innovation and Integration Partnership (IIP) Project;
 - (f) Opportunities for Invest to Save Schemes;
 - (g) The desirability of maintaining Community Safety Funding at the same levels as 2013/14;
11. The Commissioner is proposing a Revenue Budget for 2014/15 based on the following principles:-
- (a) The recruitment of 250 additional Police Officers in 2014/15 replacing broadly the number of officers who are likely to retire or otherwise leave the force in 2014/15 and subject to a review of resource levels, a further 200 additional Police Officers in 2015/16;
 - (b) Establishing a further 100 new police staff posts to release police officers for more operational duties;
 - (c) Maintaining allocations of Community Safety Funding at the same level as 2013/14 (excluding one off allocations), despite the reduction in Central Government Support;
 - (d) Continuing the Forces' existing cost reduction programme as part of the Medium Term Financial Strategy in addition to savings that the IIP may bring;
 - (e) Setting a budget for the Office of the Police and Crime Commissioner which takes account of new and emerging responsibilities and demands and the Stage 2 Transfers;
 - (f) The prudent use of the Budget Reserve;
 - (g) Subject to the referendum rules a precept increase broadly in line with inflation;

RELEASING POLICE OFFICERS FOR OPERATIONL DUTIES

12. Building upon the success of the Workforce mix opportunities identified in 2013/14, detailed reviews of working practices continue to be undertaken. This means it will be possible to create a further 100 new police staff posts by disestablishing police officer posts, creating opportunities to release up to 100 police officers to more operational duties. This remains cost effective and good value for money due to the additional operational resilience it provides.

CONTINUING COST REDUCTION PROGRAMME

13. The Force continues to reduce its cost base through the established Continuous Improvement programme and also an on-going budget review. The savings from staff represent the turnover of those leaving the Force and not being replaced, which is achievable through the redirection of roles or the adoption of new ways of working. The savings proposed for 2014/15, which total £30m are:-

<i>Area</i>	<i>£m</i>
<i>Police, Staff and PCSO leavers in 2014/15</i>	<i>12</i>
<i>Effects of Civilianisation Programme</i>	<i>7</i>
<i>Force Contact</i>	<i>5</i>
<i>Budget Review</i>	<i>6</i>
<i>Total</i>	<i>30</i>

PROPOSED 2014/15 REVENUE BUDGET

14. Details of the proposed 2014/15 Revenue Budget compared to the 2013/14 Budget are shown at Appendix 1 and the following table analyses the changes between years:-

	<i>£m</i>	<i>£m</i>
<i>2013/14 Approved revenue Budget</i>		559.0
<i>Changes in treatment of Government Funding</i>		6.9
Add		
<i>Pay Awards</i>	9.6	
<i>New Recruits</i>	3.0	
<i>IIP Reserve</i>	10.0	
<i>Invest to Save Reserve</i>	5.0	
<i>Transfer to PCC for Stage 2</i>	0.4	
<i>Other</i>	0.5	
Less		
<i>Vacant Posts</i>	-10.8	
<i>Police, Staff & PCSO Leavers in 2014/15</i>	-11.5	
<i>Effects of Civilianisation Programme</i>	-7.5	
<i>Force Contact</i>	-5.2	
<i>Budget Review</i>	-5.6	
<i>Transfer from CC for Stage 2</i>	-0.4	
2014/15 Proposed Revenue Budget		553.4

OFFICE OF THE POLICE AND CRIME COMMISSIONER

15. The proposed budget for the Office of the Police and Crime Commissioner includes provision for existing staffing levels and activities, together with the cost of twelve posts which will continue to be employed by the PCC but will transfer from under the direction and control of the Chief Constable, where budget provision was previously made. All other police staff will transfer to the employment of the Chief Constable at 1 April in accordance with the terms of the Stage 2 Transfer arrangements which have been approved by the Home Secretary.
16. The 2014/15 proposed budget is shown in the following table:-

	<i>Original</i> <i>2013/14</i> <i>£'000</i>	<i>Proposed</i> <i>2014/15</i> <i>£'000</i>
<i>Governance & Strategic Direction</i>	315	315
<i>Staff & Office Support Costs</i>	1,145	1,145
<i>Stage 2 Adjustments</i>	0	425
<i>Consultation, Publicity etc</i>	236	236
<i>Community Initiative Fund</i>	25	25
<i>Subscriptions</i>	54	54
<i>Bank charges and External Audit fees</i>	109	109
Total	1,884	2,309

COMMUNITY SAFETY FUNDING

17. The Commissioner has made a commitment that Community Safety Funding levels remain the same in 2014/15 as those in 2013/14, with the exception of the one-off allocations, which were made in 2013/14. This means the passported allocations for 2014/15 are as follows:-

Proposed CSF Allocation 2014/15	
District	£
<i>Birmingham</i>	<i>2,497,583</i>
<i>Coventry</i>	<i>546,304</i>
<i>Sandwell</i>	<i>530,190</i>
<i>Wolverhampton</i>	<i>492,495</i>
<i>Walsall</i>	<i>402,203</i>
<i>Dudley</i>	<i>396,364</i>
<i>Solihull</i>	<i>285,938</i>
Sub Total	5,151,077
<i>West Midlands Police*</i>	<i>1,817,923</i>
Total	6,969,000

**to fund Detention Escort Officers who work in custody blocks and Arrest Referral workers and Analysts*

RESERVES

18. In accordance with usual practice, the Commissioner and Chief Constable's Joint Audit Committee has recently undertaken a review of reserves to ensure they are appropriate and robust. The following table summarises the estimated level of reserves at 31 March 2014.

Estimated Balance as at March 2014	
£000	
<i>Capital Reserve</i>	<i>40,400</i>
<i>Budget Reserve</i>	<i>71,844</i>
<i>Redundancy and Equal Pay Reserve</i>	<i>4,000</i>
<i>Self-funded Insurance Reserve</i>	<i>13,000</i>
<i>Devolved Budget Reserve</i>	<i>1,000</i>
<i>Uniform and Protective Equipment Reserve</i>	<i>3,000</i>
<i>Mobile Data Project Reserve</i>	<i>2,599</i>
<i>Major Incident Reserve</i>	<i>2,153</i>
<i>Financial Instrument Impairment Reserve</i>	<i>270</i>
Earmarked Reserves	138,267
<i>General Reserve</i>	<i>12,042</i>
TOTAL RESERVES	150,309

19. The Budget reserve, which was first established some years ago by the former Police Authority when the Home Office changed the funding arrangements for Police Pension costs and a reserve which had been established to equalise the varying annual costs of police pension lump sum payments was no longer required, has increased in recent years as a result of savings being made earlier than planned and budgeted.

MEDIUM TERM FINANCIAL PLAN (MTFP)

20. Although it has become increasingly more difficult to predict Government grant levels in future years with any degree of accuracy, all the indications suggest further reductions in excess of

existing publically announced levels will be made. Assuming precept increases in future years broadly in line with inflation it is forecast that some £32-£35m (of the £73-£75m now expected to be available in the Budget Reserve at 31 March 2014) will be required to support the MTFP up to 2016/17. It will be necessary to monitor and revise the MTFP as further information about Government funding levels, spending pressures and opportunities for savings become available. Given the use of the Budget Reserve over the medium term it is, of course, likely that there will continue to be a gap between underlying spending levels and Government funding and precept income in the years after 2016/17. There should, however, be sufficient flexibility from continuing police officer and staff turnover levels, other savings including those from the IIP, and the balance of the Budget Reserve, to manage the MTFP into the longer term.

CAPITAL PROGRAMME 2013/14 – 2016/17

21. The programme has been prepared with the medium term strategic context in mind, and as such is structured in the following way:

- **Section 1 (approved schemes)** represents schemes that are ongoing replacement of assets or new schemes that will generate a benefit in the short term or represent good alignment with the medium term strategy. These schemes will have approved business cases to support them.
- **Section 2 (business case required)** includes schemes which have been identified only as an outline and will need more definition before they can be written into a business case format. This includes some major system replacements and funding for estates rationalisation over the medium term.

22. The proposed capital programme is summarised as follows:-

	2014/15	2015/16	2016/17	2017/18	Total
	£'000	£'000	£'000	£'000	£'000
Section 1 (Approved schemes)					
<i>Birmingham Estates Rationalisation</i>	22,850	7,550	900	0	31,300
<i>New Custody Suites</i>	20,180	5,300	0	0	25,480
<i>Vehicles</i>	3,000	4,150	3,000	3,000	13,150
<i>ICT – Infrastructure</i>	3,155	595	550	450	4,750
<i>ICT – Projects</i>	3,080	0	0	0	3,080
<i>Equipment</i>	200	200	200	200	800
	52,465	17,795	4,650	3,650	78,560
Section 2 (Business Case required)					
<i>General Provision</i>	3,000	4,500	4,500	3,000	15,000
<i>Estates Strategy</i>	2,487	3,013	3,000	0	8,500
<i>Operational Policing</i>	150	2,500	2,000	1,500	6,150
<i>Driver Standards</i>	1,200	0	0	0	1,200
<i>Central Justice Services</i>	485	350	0	0	835
	7,322	10,363	9,500	4,500	31,685
TOTAL PROGRAMME	59,787	28,158	14,150	8,150	110,245

Capital Financing

23. The exact combination of funding sources will depend upon:-
- The extent to which reserves will be required to support total revenue spending over the medium term
 - The outcome of detailed business cases particularly for invest to save schemes, where the use of one-off reserves to generate recurring savings makes good sense
 - The long term costs of borrowing and the impact of borrowing costs on total revenue spending, although the proportion of the total budget allocated to capital financing charges is significantly lower than similar force areas.
24. For planning purposes the PCC is has set aside a reserve of £40m to support the capital programme.
25. The proposed funding plan will be reviewed and updated as necessary in accordance with changes to the Treasury Management Strategy and emerging market conditions. It may be advantageous to borrow long term for the purchase of land or the creation of buildings to maximise value for money scenarios as they present themselves further into the programme.
26. The table below shows the forecast of capital resources that will be available over the programme period.

Funding Source	Brought Forward (£m)	Estimated for 2014-18 (£m)	Total (£m)
<i>Capital Receipts</i>	22.6	2.0	24.6
<i>Capital Grant</i>	18.1	23.6	41.7
Sub total – capital resources	40.7	25.6	66.3
<i>Reserves / borrowing</i>			43.9*
Total requirement			110.2

* includes up to £40m from the Budget Reserve.

PRECEPT PROPOSALS

27. As paragraph 2 says, the final grant figures for 2014/15 have not yet been agreed by Parliament (although it is unlikely they will change significantly from the provisional figures set out in paragraph 4), and the Referendum Rules for 2014/15 have not yet been announced by the Secretary of State for Communities and Local Government. The Commissioner cannot, therefore, at this stage, submit a firm proposal for the Panel's consideration, although he would not be minded to consider a precept increase for 2014/15 which would require a referendum or a precept increase greater than 3%.
28. Details of the tax bases and collection fund surpluses and deficits the Commissioner is required to take into account in setting the precept are set out in the following table:-

District	2014/15 Taxbase	2013/14 Surplus / (Deficit) on Collection Fund
<i>Birmingham</i>	230,432.00	*
<i>Coventry</i>	73,201.00	*
<i>Dudley</i>	84,087.69	123,000
<i>Sandwell</i>	66,874.40	47,638
<i>Solihull</i>	71,229.00	(28,347)
<i>Walsall</i>	61,523.32	48,726
<i>Wolverhampton</i>	56,299.12	(54,437)
Total	643,646.53	

*Awaiting formal notification

29. Subject, therefore, to confirmation of the final grant figures, the surpluses and deficits on collection funds and assuming referendum rules similar to 2013/14, the Commissioner would be proposing the following Budget for 2014/15 and a precept increase of 3% as set out in the following table:

	2013/14	2014/15
	£m	£m
Total Revenue Budget	566.0	553.4
Less: Government grant (incl CSF)	-498.8	-475.9
Balance to Fund via Reserves & Precept	67.2	77.5
Less: Use of Reserves	-2.3	-9.6
Precept (including 3% Increase)	-64.9	-67.9

30. This would produce a charge for each property band for 2014/15, as follows:-

		2013/14	2014/15		
	Statutory Proportion	Precept	Precept	Change Annual	Change Weekly
		£ : p	£ : p	£ : p	£ : p
A	6/9	68.29	70.34	2.05	0.04
B	7/9	79.67	82.06	2.39	0.05
C	8/9	91.05	93.78	2.73	0.05
D	9/9	102.43	105.50	3.07	0.06
E	11/9	125.20	128.96	3.76	0.07
F	13/9	147.96	152.40	4.44	0.09
G	15/9	170.72	175.84	5.12	0.10
H	18/9	204.87	211.02	6.15	0.12

31. If the referendum rules require a reduction in the level of the precept increase proposed by the Commissioner in paragraph 29, the difference would be met by marginal increases in the use of reserves, as the following table demonstrates using for illustrative purposes precept increases of 2.5%, 2.0% and 1.5%

	2.5%	2.0%	1.5%
Total Revenue Budget	553.4	553.4	553.4
Less: Government grant (incl CSF)	-475.9	-475.9	-475.9
Balance to Fund via Reserves & Precept	77.5	77.5	77.5
Less: Use of Reserves	-9.9	-10.3	-10.5
Precept	-67.6	-67.2	-66.9

32. The implications for each property band are shown at Appendix 2

APPROVAL OF THE REVENUE BUDGET AND PRECEPT

33. When the Commissioner comes to finally approve the precept, he must have regard to a range of legal requirements including:-
- (a) Ensuring that the precept is sufficient to provide for the expenditure incurred in the year;
 - (b) The requirement to hold a taxpayer referendum if excessive increases are proposed;
 - (c) The Chief Finance Officers report on the robustness of estimates and the adequacy of financial reserves;

PROPOSALS

34. The Police and Crime Panel is invited to consider the following proposals from the West Midlands Police and Crime Commissioner in respect of the 2014/15 Revenue Budget and Precept and the 2014/15 – 2016/17 Capital Budget and Programme.
- I. Subject to confirmation of the final grant figures, surpluses and deficits on collection funds and referendum rules for 2014/15, that:-
 - (a) The total Revenue Budget for 2014/15 be set at **£553,422,000**;
 - (b) The Community Safety Fund should be allocated as set out in **paragraph 17**;
 - (c) The Band D precept for 2014/15 should be set at **£105.50** an increase of 3% compared to 2013/14;
 - (d) The Capital Budget for 2014/15 and Capital Programme for 2014/15 – 2017/18 be as set out in **paragraph 22**;
 - II. If the Government announces a referendum trigger applicable to the PCC for 2014/15 which for a 3% precept increase would trigger a referendum, the precept increase will be set at the maximum permitted without a referendum, with the balance to be funded from the Budget Reserve.

Appendix 1 – Summary of Revenue Budget 2014/15 and Revised Budget 2013/14
Appendix 2 – Implications for Each Property Banding of Differing Precept Levels

	Budget 2013/14 £000	Base 2014/15 £000
<i>Police pay</i>	371,814	352,479
<i>Police Community Support Officers</i>	20,971	18,309
<i>Support staff pay</i>	97,187	95,085
<i>Other employees expenses</i>	1,652	1,804
Sub total	491,624	467,677
<i>Premises</i>	22,103	22,240
<i>Transport</i>	9,061	7,794
<i>Supplies and services</i>	43,807	45,049
<i>Agency</i>	3,902	4,357
<i>Capital Financing Costs</i>	5,628	3,814
<i>External income</i>	-21,960	-24,409
<i>CTU</i>	2,621	2,642
Police Force	556,786	529,164
IIP	0	10,000
Invest to Save	0	5,000
<i>Office of the Police & Crime Commissioner</i>	1,884	1,884
<i>Stage 2 Transfer</i>	0	425
<i>CSF Expenditure</i>	7,319	6,969
<i>Victim Services Expenditure</i>	879	1,421
<i>Victim Services Income</i>	-879	-1,421
Total Revenue Budget	559,020	553,442

Implications for Each Property Banding of Differing Precept Levels

Precept at 2.5%

	Statutory Proportion	2013/14	2014/15	Change Annual £ : p	Change Weekly £ : p
		Precept	Precept		
		£ : p	£ : p		
A	6/9	68.29	70.00	1.71	0.03
B	7/9	79.67	81.66	1.99	0.04
C	8/9	91.05	93.33	2.28	0.04
D	9/9	102.43	104.99	2.56	0.05
E	11/9	125.20	128.33	3.13	0.06
F	13/9	147.96	151.66	3.70	0.07
G	15/9	170.72	174.99	4.27	0.08
H	18/9	204.87	209.99	5.12	0.10

Precept at 2.0%

	Statutory Proportion	2013/14	2014/15	Change Annual £ : p	Change Weekly £ : p
		Precept	Precept		
		£ : p	£ : p		
A	6/9	68.29	69.66	1.37	0.03
B	7/9	79.67	81.26	1.59	0.03
C	8/9	91.05	92.87	1.82	0.04
D	9/9	102.43	104.48	2.05	0.04
E	11/9	125.20	127.70	2.50	0.05
F	13/9	147.96	150.92	2.96	0.06
G	15/9	170.72	174.13	3.41	0.07
H	18/9	204.87	208.97	4.10	0.08

Precept at 1.5%

	Statutory Proportion	2013/14	2014/15	Change Annual £ : p	Change Weekly £ : p
		Precept	Precept		
		£ : p	£ : p		
A	6/9	68.29	69.31	1.02	0.02
B	7/9	79.67	80.87	1.20	0.02
C	8/9	91.05	92.42	1.37	0.03
D	9/9	102.43	103.97	1.54	0.03
E	11/9	125.20	127.08	1.88	0.04
F	13/9	147.96	150.18	2.22	0.04
G	15/9	170.72	173.28	2.56	0.05
H	18/9	204.87	207.94	3.07	0.06