

LEICESTERSHIRE POLICE AUTHORITY

POLICE AUTHORITY

THURSDAY, 16 FEBRUARY 2006 – 2.00 P.M.

CHIEF CONSTABLE & TREASURER

REVENUE BUDGET & PRECEPT 2006/07

Purpose of the Report

1. To report the Government grant settlement for the years 2006/07 and 2007/08, to set out the revenue budget and precept details for 2006/07 and 2007/08, and to obtain Members' approval for the budget requirement and precept for 2006/07.

Background

2. The recently announced funding settlement for local authorities is for a two year period – 2006/07 and 2007/08. In his statement to the House of Commons on 5 December 2005, Local and Regional Government Minister Phil Woolas said :

"Sensible planning for service delivery needs a stable and predictable funding environment. Freezes on grant distribution changes have helped. But the time has come to go further, and give councils firm forward financial allocations. There is no reason why councils cannot now provide similar certainty for their local taxpayers when setting their council tax for 2006-07, by providing an indicative council tax for 2007-08."

3. The Minister also made it clear that all local authorities (including police authorities) are expected to budget prudently and that the average council tax increase in England will be less than 5% in both 2006/07 and 2007/08. The Government will take decisions on capping principles once authorities have set their budgets for 2006/07.
4. Major changes to the grant calculation methodology have been introduced from April 2006. A four block model, known as Pol 2, has been introduced for Police Authorities. A description of the new distribution system is included at Appendix 1.
5. However, as described in Appendix 1, resources have not been allocated according to the formula as it was decided that all police authorities would receive at least the floor increase of 3.1% in 2006/07 and a further 3.6% in 2007/08. Because the application of the new formula to Leicestershire results in the Authority being entitled to more than the floor increase, we have had to contribute to the pot for those below the floor. The result is that the grant needed for Leicestershire and Rutland policing, according to the Government's own formula, has been scaled back by a significant amount, as follows: -

	2006/07 £m	2007/08 £m
Entitlement according to the formula	110.362	114.510
Actual grant	107.536	111.472

Loss of grant	2.826	3.038
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6. A further change from April 2006 is the treatment of police pensions. In the past these have been met directly by the Authority and partly funded through the existing grant distribution methodology. From April 2006 all deficits on police pension accounts will be met in full by the Home Office – similarly, any surpluses would be paid over to the Government. Leicestershire expects to record a deficit in both 2006/07 and 2007/08, and will therefore be reimbursed for the net cost. This has implications in two ways. Firstly, the Pensions (Specific) Reserve that has been built up in the Authority's accounts to meet the cost of lump sum pension payments to police officers eligible to retire during the financial year, will no longer be needed (see use of reserves below). Secondly, the net budget requirement for 2005/06 has been adjusted notionally downwards by the estimated cost of the deficit before adding the 3.1% and 3.6% described above. Two other deductions have been made from the 2005/06 base to reflect new specific grants from 2006/07. These are contributions for officers on secondment and dedicated security posts.
7. The 2004/05 and 2005/06 amending report losses of £0.545m will be deducted from our grant payment in 2006/07. However they have been added back to our calculated entitlement so that when the percentage increases are applied we are guaranteed the minimum percentage increases of 3.1% and 3.6%.
8. The net result of all of this is the actual grant entitlement as shown in paragraphs 10 and 11 below.
9. The target for efficiency savings has been maintained at 3% for both years. This must include 1.5% cash efficiency savings which can be used to support policing activity or reduce pressure on council tax precepts.

Comparative Funding Settlement for 2006/07

10. The comparison of the 2005/06 to 2006/07 settlements identifies an increase broadly in line with the floor increase of 3.1% as tabled below.

	2005/06	2006/07	Increase	Increase
	£m	£m	£m	%
Police Grant	65.596	61.364		
Revenue Support Grant	26.868	7.471		
Business Rate	15.253	38.701		
Formula Grant	<u>107.717</u>	<u>107.536</u>		
Adjusted by Removal of Pensions	103.678	107.536	3.858	+3.72
Less Amending Reports	<u>0</u>	<u>(0.545)</u>		
Final Settlement	103.678	106.991	3.313	+3.19

Comparative Funding Settlement for 2007/08

11. The comparison of the 2006/07 to 2007/08 settlements identifies an increase broadly in line with the floor increase of 3.6% as tabled below.

	2006/07	2007/08	Increase	Increase
	£m	£m	£m	%
Police Grant	61.364	62.813		
Revenue Support Grant	46.172	48.659		

Business Rate)				
Formula Grant		107.536	111.472	3.936	+3.66

12. The funding by way of specific grants is tabled below.

	2005/06	2006/07	2007/08
	£m	£m	£m
NIM Analysts	0.1	0	0
Hi-Tech Crime	0.1	0	0
Drug Testing on Charge	0.27	0.51	0.51
Police Community Support Officers	1.33	1.73	5.67
DNA Expansion Programme	0.25	0.76	0.76
Security Funding	0	1.45	1.45
Special Priority Payments	1.06	1.06	1.06
Crime Fighting Fund	4.06	4.06	4.06
Rural Policing Fund	0.43	0.43	0.43
Total	7.60	10.00	13.94
Basic Command Unit Fund	0.82	0.82	0.82

Budget Setting Process

13. The budget has been prepared against this challenging background in consultation with budget holders and the Treasurer. In addition, the Strategic Alignment Group (which includes three Police Authority members) has overseen the budget setting process. The group has met on a regular basis during the budget period and has examined savings, together with unavoidable additional spending, put forward by budget holders. Areas where resources can be realigned in order to make better use of them have also been reviewed. The Group's findings and recommendations were placed before the Force Chief Officer Group in January.
14. Whilst there is no obligation on the Authority to set a budget and precept for 2007/08 until this time next year, it will be prudent for the Authority to have regard to the totality of the settlement when considering its approach to the budget for both 2006/07 and 2007/08.
15. It is also impossible to disregard the probability of the amalgamation of forces by the end of 2007/08 or 2008/09. This has implications in two particular areas :

(i) Use of Reserves and Balances

Restructuring is inevitably accompanied by a difficult debate about the use of reserves, and experience in earlier local government restructuring confirms this. One school of thought suggests that those reserves have been paid for by local taxpayers, and should be returned to them either through a reduction in the council tax bill, or by the provision of better services and/or facilities. The opposite view is that the organisation has an obligation to its successor, and should have regard to the need for healthy opening balances. The pragmatic view probably lies somewhere between the two.

(ii) Capital Investment

A capital scheme that is a valuable addition to the existing structure may not have the same status in a regional setting, and so careful thought needs to be given to the Authority's investment strategy during the final years of the Authority.

16. The paragraphs that follow reflect a considered view on both of these issues.

Base Revenue Budget Changes 2006/07

17. The approach outlined in the previous paragraphs generates the 2006/07 revenue base budget requirement shown in the table below, which takes into account the spending to be funded from specific grants, but before allowing for other items.

	£	£
2005/06 Approved Base Budget		154,032,352
Less: Specific Grants		<u>(7,601,395)</u>
		146,430,957
Variations :		
Police Pay & Allowances		
Pay Award (Full Year Effect)	2,212,301	
Pay Increments	680,000	
Establishment Changes	<u>530,058</u>	3,422,359
Police Pensions		(1,201,830)
Central and Financing Items		403,156
Delegated Budgets (inc. Police Authority)		
Police Staff Pay Award (Full Year Effect)	1,020,948	
Police Staff Pay Increments	382,646	
2005/06 Growth (Full Year Effect)	438,242	
Reinstatement of 2005/06 One Off Savings	642,128	
Price Increases	1,704,919	
Other Net Adjustments	<u>(116,842)</u>	4,072,042
Police Community Support Officers		
Pay Award (Full Year Effect)	65,527	
Pay Increments	59,510	
Establishment Growth (Full Year Effect)	<u>846,506</u>	971,543
Specific Grants		(2,401,056)
2006/07 Revenue Base Budget Requirement		<u>151,697,171</u>

(i) Police Pay & Allowances

The full year effect of the September 2005 pay award and pay increments is included for those officers eligible to receive them. Establishment changes relate to growth in Dedicated Security Posts and other variations.

(ii) Police Pensions

The net reduction in pensions expenditure follows the introduction of the New Police Pensions Scheme from 1 April 2006.

(iii) Central and Financing Items

The net increase in other non delegated corporate budgets includes provision for pay inflation from 1 September 2006 at 3% for both police officers and police staff.

(iv) Delegated Budgets (inc. Police Authority)

The full year effect of the September 2005 pay award and pay increments is included for those police staff eligible to receive them. The full year effect of 2005/06 growth initiatives is also

included, as are the reinstatement of one off efficiency savings achieved in 2005/06, together with all non pay related price increases and other net adjustments.

(v) Police Community Support Officers (PCSOs)

The full year effect of the September 2005 pay award and pay increments is included for those PCSOs eligible to receive them. Also included is the full year effect of the net increase in PCSO establishment growth costs.

(vi) Specific Grants

The increase in specific grants includes the changes described in paragraph 12, growth in PCSOs and other non mainstream funding initiatives.

Police Authority Budget 2006/07

18. The proposed Police Authority Budget is detailed at Appendix 2. The approved budget for 2005/06, as adjusted for pay and prices and savings, amounts to £615,842. Transfers have been made between budget heads to reflect likely expenditure. The budget has been uplifted to include an increase in members' allowances proposed by the Independent Remuneration Panel and agreed by the Police Authority on 26 January 2006. The Panel also recommended that the allowances for Committee Chairmen be increased to the average paid in the East Midlands region, at a cost of £4,900 per annum. The proposed Police Authority Budget for 2006/07, including the additional £4,900, totals £632,238, an increase of 2.7%.

Revenue Consequences of the Capital Programme 2006/07

19. The proposed Capital Programme is dealt with in a separate report on this agenda. The Revenue Budget does not contain any revenue contribution to the Programme. However debt charges are met from the Revenue Budget and these are estimated to rise from £1.85m in 2005/06 to £2.2m in 2006/07, and to £2.7m in 2007/08.

Police Service Realignment Proposals 2006/07

20. In addition to the revenue base budget requirement, other service growth imperatives have been identified totalling £969k in 2006/07 (ongoing cost of full year effect is £889k in 2007/08 and beyond) which require funding through internal realignment of the revenue budget and reserves. These items are summarised as follows :

(i) Intelligence Led Policing Initiatives £189k

The expansion of the Regional Intelligence Unit is required to develop the overall East Midlands region capability to tackle cross border serious and organised crime and which impact upon local communities. The Force intelligence Bureau also requires further investment to collect, analyse and disseminate intelligence on criminals engaged in firearms related activity.

(ii) Citizen Focus £123k

Citizen Focus is a Home Office initiative and features as a key priority highlighted within the National Community Safety Plan. It aims to provide citizen focused policing which responds to the needs of communities and individuals around new service standards. The impact of this for the Force is a requirement to expand the current satisfaction survey programme and to provide local policing summaries to all households within the Force area.

(iii) Learning & Development £186k

A review of the Force's learning and development resources has identified the need for further investment in both probationer and specialised police training courses. This is considered to be

imperative if the organisational skills base is to be maintained and improved and further improvement in performance sustained.

(iv) Operational Support £80k

Additional funding is required to support the Force's Automatic Number Plate Recognition capability to deny criminals use of the roads. An increase in the number of trained firearms officers available for deployment and to ensure 24/7 cover.

(v) Professional Standards Intelligence Cell £90k

The Deputy Chief Constable has identified the need to create a separate Intelligence Cell within the Integrity Unit to isolate the intelligence and investigation aspects of the Unit in accordance with the National Intelligence Model and HMIC assessment of capability.

(vi) Forensic Science Services £120k

The national implementation of 'Livescan' (electronic capture, transmission and search of an individual's fingerprints against the National Fingerprint Database) within custody suites, and investment in other forensic imaging equipment is required to meet increased demand in both prisoner throughput and electronic data analysis.

(vii) Child Protection £60k

Changes in national guidance (i.e. statutory Code of Practise) around attendance at case conferences requires growth of two police staff posts and also police officer overtime to meet the anticipated increased demand.

(viii) Core Services £120k

Investment is also required in community consultation events, proactive initiatives for reducing staff long term sickness, and improvements in the security of the Authority's operational buildings.

Savings Proposals 2006/07

21. The savings proposals identified to part fund the 2006/07 revenue budget requirement total £2.45m and are summarised as follows :

(i) Delegated Budgets £0.946m

Areas and Departments were invited to identify risk assessed savings from within their estimated 2006/07 base budgets. A total of £401k savings have been identified. In addition, £545k savings have been identified from within 2006/07 police overtime, vehicle fuel and operational uniform budgets which represents a 10% budget reduction. The totality of these savings will be ongoing in 2007/08 and beyond.

(ii) Transport Review £0.5m

During 2005, the Force commissioned leading national transport consultants to review its transport arrangements with a view to recommending how transport efficiency savings could be realised through improved transport management in relation to resourcing operational demand. Through implementing the Review's recommendations, it is anticipated that savings of £500k will be realised in 2006/07 with a further £125k in 2007/08.

(iii) Utilisation of Prior Year Underspends £1m

Based upon recent 2005/06 corporate budget monitoring information, it is considered that a further £1m of managed savings can be carried forward from 2005/06 to part fund the 2006/07

budget requirement. All of these savings are one off however and will not be achievable in 2007/08.

Three Year Base Revenue Budget 2006/07 to 2008/09

22. Given the two year settlement and the probability of Force re-structuring in the future, the opportunity has been taken to produce a three year base revenue budget for the financial years 2006/07 to 2008/09 based upon the 2006/07 updated position as set out at Appendix 3. Whilst 2007/08 and 2008/09 are merely projections at this stage and include no new growth, the figures give an indication of the pressures facing the Authority and the Force over the coming years.

Precept Requirement

23. This bridges the gap between the budget requirement and the external funding made available by the Government. Account has been taken of the Police Authority share of the Collection Fund Surplus together with a 0.9% increase in the Band D equivalent tax base when compared with 2005/06.

24. Funding the total base budget requirement identified in this report would require a precept increase of 17.8% on current 2005/06 Band D Council Tax, prior to utilising savings, reserves and balances. This requirement is created by the effects of 'damping' on Government Grant to which the Authority is entitled under the formula but will not receive.

25. Following the Police Authority budget discussion day on 26th January 2006, the Chief Constable was asked to prepare the following budget options (see Appendix 3 for further details) :

(i) Option 1 – 5% increase

In order to levy a precept increase of no more than 5% for both 2006/07 and 2007/08 a total of £9.69m savings needs to be found.

The funding gap for 2006/07 will be £4.94m. After utilising £2.45m savings (see para. 21), a funding gap of £2.49m remains which will have to be met from the utilisation of reserves and balances (see para. 29).

The funding gap for 2007/08 will be £4.75m. After utilising £1.09m in ongoing savings (see para. 21) and the balance of available reserves of £0.26m, a funding gap of £3.40m will remain. This will have to be met through a combination of further efficiency savings and/or cutting services.

The resultant Band D Council Tax increase under this option would be £6.30 per annum (12.1 pence per week) in 2006/07 and £6.61 per annum (12.7 pence per week) in 2007/08.

(ii) Option 2 – 7.5% increase

In order to levy a precept increase of no more than 7.5% for both 2006/07 and 2007/08 a total of £6.66m savings needs to be found.

The funding gap for 2006/07 will be £3.98m. After utilising £2.45m savings (see para. 21), a funding gap of £1.53m remains which will have to be met from the utilisation of reserves and balances (see para. 29).

The funding gap for 2007/08 will be £2.68m. After utilising £1.09m in ongoing savings (see para. 21) and the balance of available reserves of £1.22m, a funding gap of £0.37m remains. This will be met through further efficiency savings and should allow current service levels to be maintained.

The resultant Band D Council Tax increase under this option would be £9.45 per annum (18.2 pence per week) in 2006/07 and £10.16 per annum (19.5 pence per week) in 2007/08.

26. The setting of a precept increase in excess of 5 per cent brings with it the threat of capping, and Ministers have made it clear that they will not hesitate to cap if necessary although ODPM has not been consistent on this in recent years. The capping powers available to Ministers are not as simple as a straight 5 per cent limit.
27. There are two forms of capping – designation or nomination. The Ministers (ODPM) may designate or nominate an authority for capping its precept if in their opinion its budget requirement is excessive.
28. Designation requires the authority to reduce its budget requirement and re-bill its population. Nomination effectively puts the authority on notice that the ODPM will stipulate a budget limit for the following year.
29. The ODPM determines the criteria (the principles) after the budgets have been set nationwide. The principles must include a comparison of the amount calculated by the authority as its budget requirement with that calculated for a previous financial year. Ministers are free to include in the principles any other matters they consider relevant.
30. This leaves a great deal of discretion available to Ministers, and hence great uncertainty for authorities at the time of budget setting. In previous years authorities have been capped on different principles; on the amount of the precept increase or on the amount of the budget increase. It has also been indicated that a cumulative increase over a number of years can be a legitimate trigger for capping.
31. Authorities have the right to challenge any cap, but in the past have enjoyed little success.
32. It is unlikely that the Authority will be capped if it adopts option 1.
33. One of the major consequences of capping is the need to re-bill council tax payers. This includes the cost of printing and postage, new computer software where necessary to enable the councils to bill for a second time, and the loss of cash flow during the re-billing process. As a change to the Police Authority precept would mean re-billing in all Leicestershire and Rutland billing authorities, the costs would be substantial. An estimate provided with the assistance of Leicester City Council suggests a figure in the order of £1.2 million.
34. Irrespective of which precept option is chosen, this will not be sufficient to close the totality of the funding gap across both financial years 2006/07 and 2007/08. It is therefore recommended that the 2006/07 budget set out in Appendix 3 be funded by a combination of savings and use of reserves as detailed below.

Use of Reserves and Balances

35. The precept options identified in this report indicate the need to utilise reserves and balances in both 2006/07 and 2007/08 as follows (see Appendix 4 for further details) :

- (i) Police Fund

The balance at 1 April 2006 is expected to be £3.581m. This represents 2.4% of the net revenue budget requirement for 2006/07. It is not proposed to utilise the Fund in 2006/07.

- (ii) Pensions (General) Reserve

The balance at 1 April 2006 is expected to be £0.751m. This sum is earmarked in 2006/07 to cover any ill health retirement costs not included in the budget. It is not proposed to utilise the reserve in 2006/07.

(iii) Pensions (Specific) Reserve

The balance at 1 April 2006 is estimated to be £1.75m. The Reserve has been used in the past to provide for the cost of lump sum pension payments to police officers eligible to retire during the financial year. It is this Reserve that is no longer needed under the new pensions funding arrangements (see para. 6). It is therefore recommended that this reserve be utilised in full during 2006/07 and 2007/08.

(iv) Capital Reserve

This is estimated to be £1m on the 1st April 2006 and comprises revenue contributions provided in earlier years which have not been required to part fund the capital programme in those years. It is recommended that this reserve be utilised in full during 2006/07 and 2007/08.

Treasurer's Comments

36. The Local Government Act 2003, Part 2 Section 25, requires additional statements by the Treasurer to be included in the budget report.
37. The Treasurer is required to report to the Authority on the robustness of the estimates that underpin the budget requirement, and the adequacy of the proposed financial reserves. The Authority is required to have regard to this report when making decisions on the budget.
38. The budget options presented in this report are based upon robust figures and the Treasurer has received documentation and explanations in this regard from the Chief Constable and his senior officers.
39. Detailed estimates have been prepared on a realistic basis. A wide range of Senior Officers have been involved in the budget process. Proper provision has been made for pay and price increases, achievable levels and deliverable efficiency savings. The work of the Strategic Alignment Group has been instrumental in the budget process.
40. There is a detailed monthly budget monitoring system in place involving all budget holders and reports are provided to all Police Authority members.
41. The reserves and provisions as set out in this report are considered to be adequate for the year ahead. However, there remains a significant funding gap for subsequent years that can only be met, without utilising the Police Fund, by further budget reductions, or by setting a precept increase in excess of 5%.
42. Robust arrangements will need to be implemented if these savings are to be identified ahead of 2007/08, and a recommendation to this effect is included below.
43. On the other hand, if an increase in excess of 5% is contemplated, serious consideration needs to be given to the consequences. Because of the pensions change, the Government has indicated what our "alternative notional budget" would have been for 2005/06. It is £142.486 million. The option 2 budget proposed for 2006/07, after use of reserves, is £149.235 million, an increase of 4.7%.
44. However, the ODPM's definition of the net budget requirement is more complex than the £149.235 million as some specific grants are excluded from the calculation. This would push our increase over 5% and so clarification of the definition for the coming year is being urgently sought. At the time of writing, this had not been received. Similarly, the outcome of a request from the APA to Ministers for a steer on capping for next year is awaited.
45. If both the budget increase and precept increase are greater than 5%, the threat of capping and its financial consequences are real. Even if the Authority were able to challenge successfully for a figure somewhere between 5% and 7.5%, the cost of re-billing is potentially so

great that it could wipe out any increase gained. If the precept increase were to be capped at 5% then the funding shortfall over the next two years would increase by the cost of re-billing.

Conclusions

46. The 2006/07/08 settlement would have given, without the operation of the floor, a significant increase in the level of grant entitlement to the Authority. However over £5.8m of the total increase due to the Authority under the formula has been transferred to those authorities below the floor to give them the minimum increase.
47. The requirement to achieve the 1½% cash efficiency savings as part of the Gershon reductions has proved to be very challenging, not least because as HMIC has previously stated, the Force is already "lean and mean".
48. Whilst the grant 'damping' arrangements remain in force, Leicestershire will continue to be significantly underfunded by reference to the Government's own needs and resources formula. This inevitably means that some challenging decisions will be needed over the coming year, and a recommendation is included below that suggests an appropriate mechanism for addressing this.

Recommendations

49. Members are asked to:

- (i) Set the 2006/07 budget.
- (ii) Approve the Council Tax precept for 2006/07.
- (iii) Note the impact on reserves.
- (iv) Authorise the Treasurer to issue the necessary precept notices.
- (v) Agree that a formal arrangement be established to work on the budget requirement for subsequent years, based upon monthly meetings of the Strategic Alignment Group with regular progress reports to the Finance and General Purposes Committee.
- (vi) Agree that all non-committed revenue initiatives, and all non-committed capital schemes, be referred to the Strategic Alignment Group for "review and sign-off" prior to implementation with the review including any budgetary and/or Force re-structuring implications according to the prevailing circumstances at the time.

Note :

The decision on the budget and the issue of the precept can only be made if the members approving it constitute at least half of the total membership of the authority at the time of the decision and include more than half of the members at that time who are local authority appointees (Source : Police Act 1996).

Background Papers

ODPM and Home Office Settlement Notification; LPA Circular 05/2006

Officers to Contact

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Appendix 1

The New Formula Grant Distribution System

(The Four-Block Model)

Much of the basis for grant distribution remains similar to the previous FSS system. For example, a large slice of the money is still being distributed according to authorities' relative needs; the system will still equalise for authorities' potential local income; and the system will retain a mechanism for protecting local authorities from detrimental changes to their grant allocation (the floor damping system).

Government has decided to move away from the notional spending and tax elements of the previous grant distribution system which have been subject to misinterpretation. Therefore, it was decided to move to a new system based on cash amounts of grant.

The new system has been referred to during its development as the 'four block' model because it is built upon four main elements as set out below.

i) Relative Needs Block

This block is based on formulae, the Relative Needs Formulae (RNFs) which are similar in structure to the previous Formula Spending Shares. The Relative needs Formula themselves are split into seven different blocks, covering the seven main service areas provided by local authorities (Children's Services; Adults' Personal Social Services; Police; Fire and Rescue; Highways Maintenance; Environmental, Protective and Cultural Services (EPCS); and Capital Financing).

Relative Needs Formulae are designed to reflect the relative needs of individual authorities in providing services. They are not intended to measure the actual amount needed by any authority to provide local services, but to simply recognise the various factors which affect local authorities' costs locally.

The formula for each specific service area is built on a basic amount per client, plus additional top ups to reflect local circumstances. The top ups take account of a number of local factors which affect service costs, but the biggest factors are deprivation and area costs.

Because the RNFs are only intended to reflect the relative differences in the cost of providing services in different areas, they are expressed as a proportion – or ratio – of the total RNF. They do not relate to the actual monetary amount of grant that a council needs for providing services for its residents. The amount of grant a council will receive from Government depends also on the results of the other three block detailed below.

Once we have calculated each RNF for all authorities, the next step is to use this to generate cash amounts that are related to need. To do this fairly, Government has to group the individual service formulae into groups so that councils are only being compared to authorities providing the same range of services.

The RNFs are added together to give a total RNF for each group. The total RNF for each group is then divided by the total population for that group of councils as measured by the mid year population projections. The minimum RNF per head across all councils providing the group of services is then subtracted by the RNF per head for each council. The sum of the RNFs above the minimum for each council is then calculated and this is then multiplied by the mid-year projected population. The control total for the Relative Needs Block is then distributed in proportion to this.

ii) *Relative Resource Amount*

The Relative Resource Amount is a negative figure. It takes account of the fact that areas that can raise more income locally require less support from Government to provide services. The negative Relative Resource Amount is balanced against the positive proportion calculated for each authority by the Relative Needs Amount.

This block recognises the differences in the amount of local income which individual councils have the potential to raise. This is done by looking at authorities' council tax-base data (a measure of the number of properties equivalent to Band D for council tax in an area).

The taxbase data are used to establish a minimum potential level of local income. Negative Relative Resource Amounts are then generated above the minimum, relative to council tax base per head. Again, to do this fairly, the Relative Resource Amount is applied to separate groups of authorities depending on the services they provide.

iii) *Central Allocation*

Once we have taken account of the Relative Needs and Relative Resources of local authorities, there is still an amount of money left in the overall grant pot for distribution to local authorities.

The Government shares this out on a per head basis; the per head amounts are based on the appropriate minimums for each authority already calculated for the needs and resources blocks.

iv) *Floor Damping Block*

The mechanism for damping grant changes remains the same as the previous grant distribution system.

Following the calculations in the three blocks described above, each authority will have a grant amount allocated to it. However, Government intends to ensure that individual local authorities receive a reasonable grant increase year-on-year.

In order that authorities are protected from detrimental grant changes, the Government sets a guaranteed minimum increase in grant, compared to the previous year on a like-for-like basis. This is known as the grant 'floor' and is calculated separately for different groups of authorities, again depending on the services they provide.

As all the Formula Grant to be paid to local authorities must come from within the finite overall pot, the cost of providing the guaranteed floor must also be met from this pot. In order to do this grant increases above the floor are scaled back. The amount of grant scaled back is then used to pay for the floor guarantee.

Grant Allocation

The actual amount of Grant which an authority receives is calculated using the four blocks detailed above. Full details of how the calculations work are set out in the Local Government Finance Report which is approved by Parliament each year.

Appendix 2.

Leicestershire Police Authority - Budget 2006/07

	2005/06 Estimate	2005/06 Revised Estimate	2006/07 Estimate
	£	£	£
Staffing *	216,603	227,432	218,648
Members allowances and other costs	189,660	189,233	199,600
Print, post, stationery	39,500	37,650	39,500
Subscriptions	20,740	19,657	20,740
Police Authority Best Value	5,000	0	5,000
Internal / external audit	102,020	102,130	105,080
Tribunals	2,000	500	2,000
Consultation initiatives	4,500	3,200	4,500
Web development	2,500	2,500	2,500
Advertising	6,000	4,935	6,000
Legal expenses	1,500	375	1,500
Technical support	3,000	3,200	3,000
Custody visitors	4,500	4,500	6,500
Other	12,000	13,796	12,000
Contingency	6,319	6,320	5,670
Totals	615,842	615,428	632,238

* Pay inflation is covered by the overall inflation contingency

Appendix 3.

		Option 1 - 5% Increase			Option 2 - 7.5% Increase		
2005/06 Approved Budget £	Budget Heading	2006/07 Revenue Budget £	2007/08 Revenue Budget £	2008/09 Revenue Budget £	2006/07 Revenue Budget £	2007/08 Revenue Budget £	2008/09 Revenue Budget £
80,386,108	Police Pay & Allowances	83,808,467	87,601,744	90,108,081	83,808,467	87,601,744	90,108,081
20,578,900	Police Pensions	19,377,070	20,277,714	20,831,839	19,377,070	20,277,714	20,831,839
6,373,017	Central & Financing Items	6,776,173	5,071,404	5,499,170	6,776,173	5,071,404	5,499,170
44,951,722	Delegated Budgets (inc. Police Authority)	49,023,764	53,694,801	55,212,393	49,023,764	53,694,801	55,212,393
1,742,605	Police Community Support Officers	2,714,148	6,654,148	6,772,348	2,714,148	6,654,148	6,772,348
154,032,352	Subtotal	161,699,622	173,299,811	178,423,831	161,699,622	173,299,811	178,423,831
(7,601,395)	Less : Specific Grants	(10,002,451)	(13,942,451)	(14,060,651)	(10,002,451)	(13,942,451)	(14,060,651)
146,430,957	Subtotal	151,697,171	159,357,360	164,363,180	151,697,171	159,357,360	164,363,180
140,000	Police Service Growth	-	-	-	-	-	-
769,943	Police Service Realignment Proposals	968,976	-	-	968,976	-	-
(500,000)	Under Provision on Police Pensions	-	-	-	-	-	-
286,122	Funding Amendment (Police Grant)	544,618	-	-	544,618	-	-
(40,000)	Less : Efficiency Savings	(1,446,050)	(1,090,313)	(992,422)	(1,446,050)	(1,090,313)	(992,422)
(623,503)	Less : Utilisation of Prior Year Underspends	(1,000,000)	-	-	(1,000,000)	-	-
(188,000)	Transfer from Reserves	(2,494,000)	(256,000)	-	(1,530,000)	(1,220,000)	-
-	Funding Gap	-	(3,400,000)	(2,865,000)	-	(370,000)	(680,000)
146,275,519	Total Budget	148,270,715	154,611,047	160,505,758	149,234,715	156,677,047	162,690,758
£	Funding	£	£	£	£	£	£
65,595,990	Police Grant	61,364,008	62,812,898	64,697,285	61,364,008	62,812,898	64,697,285
26,868,599	Revenue Support Grant	7,470,727	48,658,891	50,118,658	7,470,727	48,658,891	50,118,658
15,252,745	Business Rate	38,701,290	-	-	38,701,290	-	-
370,158	Collection Fund Surplus	272,051	272,051	272,051	272,051	272,051	272,051
38,188,027	Precept	40,462,639	42,867,207	45,417,764	41,426,639	44,933,207	47,602,764
146,275,519	Total Funding	148,270,715	154,611,047	160,505,758	149,234,715	156,677,047	162,690,758

		Option 1 - 5% Increase			Option 2 - 7.5% Increase		
2005/06 Approved Budget £	Budget Heading	2006/07 Revenue Budget £	2007/08 Revenue Budget £	2008/09 Revenue Budget £	2006/07 Revenue Budget £	2007/08 Revenue Budget £	2008/09 Revenue Budget £
£	Precept by Billing Authority	£	£	£	£	£	£
3,901,042	Blaby	4,097,863	4,341,385	4,599,694	4,195,492	4,550,620	4,820,981
6,435,822	Charnwood	6,837,409	7,243,735	7,674,731	7,000,306	7,592,849	8,043,953
3,868,645	Harborough	4,109,665	4,353,890	4,612,942	4,207,576	4,563,728	4,834,866
4,506,503	Hinckley & Bosworth	4,760,527	5,043,430	5,343,509	4,873,944	5,286,500	5,600,580
9,414,471	Leicester City	9,989,878	10,583,545	11,213,255	10,227,881	11,093,623	11,752,713
2,246,766	Melton	2,390,345	2,532,397	2,683,072	2,447,294	2,654,446	2,812,151
3,851,695	North West Leicestershire	4,053,252	4,294,124	4,549,620	4,149,818	4,501,080	4,768,497
2,228,816	Oadby & Wigston	2,344,838	2,484,184	2,631,991	2,400,703	2,603,911	2,758,614
1,734,267	Rutland	1,878,862	1,990,517	2,108,950	1,923,625	2,086,450	2,210,409
38,188,027	Total	40,462,639	42,867,207	45,417,764	41,426,639	44,933,207	47,602,764
302,990.26	Tax Base	305,761.96	308,513.82	311,290.44	305,761.96	308,513.82	311,290.44
£	Precept by Band	£	£	£	£	£	£
84.0248	Band A	88.2225	92.6316	97.2677	90.3244	97.0961	101.9471
98.0289	Band B	102.9263	108.0702	113.4790	105.3785	113.2787	118.9383
112.0330	Band C	117.6300	123.5088	129.6903	120.4325	129.4614	135.9295
126.0371	Band D	132.3338	138.9474	145.9016	135.4866	145.6441	152.9207
154.0454	Band E	161.7413	169.8246	178.3242	165.5947	178.0095	186.9031
182.0537	Band F	191.1488	200.7018	210.7468	195.7029	210.3748	220.8855
210.0619	Band G	220.5563	231.5790	243.1693	225.8110	242.7402	254.8678
252.0743	Band H	264.6676	277.8948	291.8032	270.9732	291.2882	305.8414
£126.0371	Band D Council Tax	£132.3338	£138.9474	£145.9016	£135.4866	£145.6441	£152.9207
4.93%	% Increase	5.00%	5.00%	5.00%	7.50%	7.50%	5.00%
£5.92	£ Increase	£6.30	£6.61	£6.95	£9.45	£10.16	£7.28
11.4p	Increase per week in Pence	12.1p	12.7p	13.4p	18.2p	19.5p	14.0p

		Option 1 - 5% Increase			Option 2 - 7.5% Increase		
2005/06 Approved Budget £	Budget Heading	2006/07 Revenue Budget £	2007/08 Revenue Budget £	2008/09 Revenue Budget £	2006/07 Revenue Budget £	2007/08 Revenue Budget £	2008/09 Revenue Budget £
		£	£	£	£	£	£
	Use of Available Reserves:						
	Pension Reserve	1,750,000	1,750,000	-	1,530,000	220,000	-
	Capital Reserve	1,000,000	744,000	256,000	-	1,000,000	-
		<u>2,750,000</u>	<u>2,494,000</u>	<u>256,000</u>	<u>1,530,000</u>	<u>1,220,000</u>	<u>-</u>
	Reserves remaining at end of Year 3			-			-

Appendix 4.

Reserves & Provisions

	01-Apr-04 £	Out £	In £	31-Mar-05 £	
Pensions (specific)	1,762,000	- 1,181,000	908,000	1,489,000	Reserved for those eligible but not yet retired (to be kept)
Pensions (General)	601,000		150,000	751,000	To cover the budger deficit (Govt. from Apr-06) & death in service
C/fwds (specific)	241,000	- 241,000	694,000	694,000	Underspends from 2004-05 that have already been allocated to
C/fwds (general)	1,717,000	- 1,706,000	664,000	675,000	spending plans for 2005-06
Equip replacement	308,000		140,000	448,000	
Capital expenditure	1,961,000	- 101,000		1,860,000	Revenue contributions to capital
PCSO reserve	197,000		128,000	325,000	Community support officers grant in advance of expenditure
Fleet insurance	83,000	- 79,000	162,000	166,000	Self insurance fund
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	6,870,000	- 3,308,000	2,846,000	6,408,000	
				400,000	taken by ruth for capital programme
Police Fund (General Reserve)	3,445,000		136,000	3,581,000	Fed by underspends
BCU reserve	31,000	- 31,000	33,000	33,000	Specific grants for Basic Command Units
Proceeds of Crime Act	17,000	- 7,000		10,000	Seized assets