

LEICESTERSHIRE POLICE AUTHORITY

Meeting **POLICE AUTHORITY**

Date **THURSDAY, 15 FEBRUARY 2007 – 2.00 P.M.**

Report of **CHIEF CONSTABLE & TREASURER**

Subject **REVENUE BUDGET AND PRECEPT 2007/08**

Purpose of the Report

1. To set out the revenue budget and precept forecasts for 2007/08 to 2009/10, and to seek Members' approval to the budget requirement and precept for 2007/08.

Background

2. Members will recall that in January 2006 the Government announced a two year funding settlement for local authorities – 2006/07 and 2007/08. Other than changes to the Neighbourhood Policing Fund, the settlement for 2007/08 has now been confirmed and the details are set out below.
3. As part of the announcement the Government has made it clear that it expects to see average council tax increases of less than 5% in 2007/08 and that it is prepared to take capping action if necessary.
4. Major changes to the grant calculation methodology were introduced from April 2006 which resulted in a need for higher levels of Government grant for the Leicestershire Police Authority compared to the previous formula.
5. However, 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: -

	2007/08
	£m
Entitlement according to the formula	114.510
Actual grant	111.472
Loss of grant	3.038

The total loss for the two years since the introduction of the new formula is £5.864 million.

6. The actual grant entitlement for 2007/08 is detailed in paragraph 9 below.

7. 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.
8. The year commencing 1st April 2008 will be affected by the new three year Comprehensive Spending Review (CSR) covering 2008 – 11. Three year grant settlements are promised at that point. The potential implications of this in the context of Government priorities are discussed below.

Comparative Funding Settlement for 2007/08

9. 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	7.471	6.992		
Business Rate	38.701	41.667		
Total Formula Grant	107.536	111.472	3.936	+3.66

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

	2006/07	2007/08
	£m	£m
Special Formula Grant (comprising the former Rural Policing Grant, Special Priority Payments, and Forensic Grant)	2.26	2.26
Crime Fighting Fund	4.06	4.06
Neighbourhood Policing Fund	1.06	3.68
Police Community Support Officers (rounds 1-3)	0.66	0.68
Dedicated Security Grant	1.45	1.39
Drug Testing on Charge*	0.51	-
Total	10.00	12.07
BCU Fund	0.82	0.82

*Drug Testing on Charge grant transferred to Delegated budgets in 2007/08

Budget Setting Process

11. When the provisional budget for 2007/08 was estimated at this time last year a £3.4 million funding gap was identified. A Force Savings Strategy Group (which includes three Police Authority members) was established to seek a solution, and efforts have continued throughout the year to find savings.
12. The Strategic Financial Planning Group (formerly the Savings Strategy Group) has overseen the budget setting process. The group has met during the budget preparation 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.

Base Revenue Budget Changes 2007/08

13. The approach outlined in the previous paragraphs generates the 2007/08 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.

	£	£
2006/07 Approved Base Budget		160,753,574
		<u>(10,002,451)</u>
		150,751,123
Variations:		
Police Pay & Allowances		
Pay Award (Full Year Effect)	2,232,699	
Pay Increments	600,000	
2005/06 Growth (Full Year Effect)	305,007	
Modernisation	(989,604)	
Income from Funded Posts	(955,560)	
Establishment Changes	<u>(858,908)</u>	333,634
Police Pensions		537,983
Central & Financing Items		587,141
Delegated Budgets (inc. Police Authority)		
Police Staff Pay Award (Full Year Effect)	944,514	
Police Staff Pay Increments	386,630	
2005/06 Growth (Full Year Effect)	888,575	
Modernisation	1,129,419	
4-to-3 Area Restructuring	(147,662)	
Other Establishment Changes	895,979	
Price Increases	886,072	
Savings	<u>(665,954)</u>	4,317,573
Police Community Support Officers		
Pay Award (Full Year Effect)	116,276	
Pay Increments	98,784	
2005/06 Growth (Full Year Effect)	193,255	
Establishment Growth (Full Year Effect)	1,358,087	
Price Increases	<u>629,327</u>	2,395,729
Specific Grants		(2,061,414)
2007/08 Revenue Base Budget Requirement		<u>156,861,769</u>

(i) Police Pay & Allowances

The full year effect of the September 2006 pay award and pay increments is included for those officers eligible to receive them. The Full Year Effect of Growth includes Dedicated Security Posts and a Detective Sergeant (Intelligence Cell) within the Professional Standards Integrity Unit. Modernisation reflects the recently reduced Police Officer numbers within the Crime Support Department. Income from Funded Posts reflects those Police Officer posts that are now funded externally. Establishment Changes relate to (1) the decision to reduce the

Police Establishment by 30 officers from 2007/08 onwards and (2) a reduction in the number of Seconded Officers.

(ii) Police Pensions

Costs have increased in respect of Ill-Health and Injury-related pension payments which are met by the Force.

(iii) Central & Financing Items

The net increase in other non delegated corporate budgets includes provision for pay inflation from 1 September 2007 at 2.5% for both Police Officers and Police Staff.

(iv) Delegated Budgets (inc. Police Authority)

The full year effect of the September 2006 pay award and pay increments is included for those Police Staff eligible to receive them. The full year effect of 2006/07 growth initiatives is also included. Modernisation refers to the impact of changes made within the Crime Support Department to Police Officer numbers that have had a corresponding effect on Police Staff levels. The Police Staff salary savings arising from 4 to 3 Area restructuring have been included, as have other Police Staff establishment changes, together with all non pay related price increases and savings.

(v) Police Community Support Officers (PCSOs)

The full year effect of the September 2006 pay award and pay increments is included for those PCSOs eligible to receive them. Also included is the full year effect of an increase in the PCSO establishment together with a reduction in external funding and transfers from reserves.

(vi) Specific Grants

The increase in specific grants includes additional PCSO/Neighbourhood Policing funding together with a reduction in Dedicated Security Posts grant.

Police Authority Budget 2007/08

14. The proposed Police Authority Budget is detailed at page 10. The revised budget for 2006/07 predicts a saving on the original figure of £6,508 (1%). In addition, the fully reimbursed claim for abortive merger costs of £30,938 included an amount of £6,779 spent in 2005/06, thereby increasing the total saving for 2006/07 to a predicted £13,287.
15. The 2007/08 base budget has been reduced by 2% in line with the practice adopted throughout the force. The base has then been increased by £56,000 to include the additional items approved by the Police Authority at its meeting on 25 January, namely staff establishment changes, and accommodation and resources for both members and staff. It is proposed that the furniture and equipment cost associated with these changes (£6,500) be met from the £6,779 windfall mentioned above. The additional cost of implementing the recommendations of the Independent Remuneration Panel for members' allowances has also been included.

Revenue Consequences of the Capital Programme 2007/08

16. 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 £1.9m in 2006/07 to £2.4m in 2007/08, and to £2.9m in 2008/09.

Police Service Realignment Proposals 2007/08

17. In addition to the revenue base budget requirement, other service growth imperatives have been identified totalling £0.941m in 2007/08 (ongoing cost of full year effect is £0.786m in 2008/09 and beyond) which require funding through internal realignment of the revenue budget and reserves. These items are summarised as follows:

(i) Human Resources Department £342k

Consisting of : (1) HR Department Restructure £210k (£155k one off costs), and (2) Occupational Health Initiatives £132k.

(ii) Call Management Centre £200k

This consists of increased Police Staff numbers and additional Police Overtime expenditure required to sustain performance against national Strategic Performance Indicators and local Police Authority targets.

(iii) IT Systems Maintenance and Support £138k

Unavoidable contractual support costs previously funded by external bodies.

(iv) Estates Department £109k

Increase funding of Planned Maintenance is required to facilitate a reduction in the Priority 1 condition survey maintenance backlog thereby mitigating the cost of future reactive repairs.

(v) Special Constables £68k

The Force commitment to the Specials Capacity Grant requires 230 Special Constables to be in place by 31 March 2008. Additional costs will be incurred related to uniform, body armour and travel & subsistence.

(vi) Core Services £84k

Investment is required in the expansion of Citizen Focus surveys, a commitment towards a regional ACPO agreement on Analytical Trainers, a uniform name badge pilot and ex-gratia payments made in respect of low-level public complaints.

Savings Proposals 2007/08

18. The savings proposals identified to part fund the 2007/08 revenue budget requirement total £2.81m and are summarised as follows :

(i) Delegated Budgets £0.413m

Areas and Departments were invited to identify risk assessed savings from within their estimated 2007/08 base budgets. A total of £0.413m savings have been identified of which £0.388m are ongoing in 2008/09 and beyond.

(ii) Utilisation of Prior Year Underspends £2.4m

Based upon recent 2006/07 corporate budget monitoring information, it is considered that a further £2.4m of managed savings can be carried forward from 2006/07 to part fund the 2007/08 budget requirement. All of these savings are one off however and will not be achievable in 2008/09.

Beyond 2007/08

19. The budget setting strategy beyond 2007/08 will be heavily influenced by the three year Comprehensive Spending Review (CSR 2007) and all the indications are that settlements for the Home Office, and as a result the police service, will be more challenging than in the last two years.
20. Evidence suggests that of the 2.7% year on year cash increases identified for the Home Office, police will be competing for a share of the cake against prisons and immigration.
21. At the same time the capping regime may become more stringent, with the possibility that the cap may be more closely aligned with the rate of inflation.
22. It is also anticipated that the efficiency savings target of 3% (1.5% cash and 1.5% non-cash) may be increased.
23. Page 11 details the proposed budget and precept requirement for 2007/08, together with indicative figures for the following two years. In view of the challenging grant settlement, and the prospect of increased pressures beyond 2007/08, a precept increase of 5% is proposed for next year. A 3% capping level has been assumed in subsequent years. Government grant income has been increased by an assumed 2% per year from 2008/09 onwards.

Precept Requirement

24. 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 1.1% increase in the Band D equivalent tax base when compared with 2006/07.
25. Funding the total base budget requirement for 2007/08 identified in the report would require a precept increase of 13% on current 2006/07 Band D Council Tax, prior to utilising savings, reserves and balances. This reflects the impact of "damping" on Government Grant to which the Authority is entitled under the formula but will not receive.
26. A 5% increase for 2007/08 is unlikely to be capped but is an option that may not be available for 2008/09 onwards if capping levels are lowered as predicted. On the scenario detailed in page 11 there would still remain funding shortfalls of £4.285 million in 2008/09 and £6.530 million in 2009/10.
27. The setting of a precept increase in excess of 5% brings with it the threat of capping, and Ministers have made it clear that they will not hesitate to cap if necessary. The capping powers available to Ministers are not as simple as a straight 5% limit.
28. There are two forms of capping – designation or nomination. The Ministers (DCLG) may designate or nominate an authority for capping its precept if in their opinion its budget requirement is excessive.
29. Designation requires the authority to reduce its budget requirement and re-bill its population. Nomination effectively puts the authority on notice that the DCLG will stipulate a budget limit for the following year.
30. The DCLG 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.
31. 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.

32. Authorities have the right to challenge any cap, but in the past have enjoyed little success.
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. A 5% precept increase in 2007/08 plus 3% per year thereafter will not be sufficient to close the totality of the funding gap across financial years 2007/08 and beyond. Even if the capping limit remained at 5% in subsequent years there would still be a funding shortfall. It is therefore recommended that the 2007/08 budget set out in page 11 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 order to balance the budget. The reserves available are:-

- (i) Police Fund

The balance at 1 April 2007 is expected to be £3.581m. This represents 2.3% of the net revenue budget requirement for 2007/08. It is not proposed to utilise the Fund in 2007/08.

- (ii) Pensions (General) Reserve

The balance at 1 April 2007 is expected to be £0.751m. This sum is earmarked in 2007/08 to cover any ill health retirement costs not included in the budget. It is not proposed to utilise the Reserve in 2007/08.

- (iii) Equalisation Reserve

This represents the balance of any uncommitted savings not included in the Police Fund which can be used to part fund future budget requirements. The balance at 1 April 2007 is expected to be £0.826m. A reimbursement of £0.350m County PSA II funding is expected during 2007/08 of which £0.340m will be used to balance the 2007/08 budget. The remaining Reserve balance of £0.836m will be fully utilised in 2008/09.

The proposed utilisation of reserves and balances is detailed in page 13.

Treasurer' 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 and deliverable efficiency savings. The work of the Strategic Financial Planning 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 future savings are to be identified, and a recommendation to this effect is included below.
43. If an increase in excess of 5% is contemplated, serious consideration needs to be given to the threat of capping and its financial consequences. If the precept increase were to be capped then the funding shortfall over future years would increase by the cost of re-billing.

Conclusions

44. 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.
45. 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".
46. Whilst the grant 'damping' arrangements remain in force, Leicestershire will continue to be significantly under funded 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.
47. The scenario beyond 2007/08 is not only one of reduced income (both grant and precept) but also of increasing demand on the service.
48. Given these particular circumstances, together with a continuation of "damping" the grant formula, it is suggested that at this meeting the Authority needs to look beyond 2007/08.
49. This year may be the last opportunity for the foreseeable future to raise precept income by around 5%. Once a decision on the 2007/08 level is taken it will influence income streams for every year thereafter. The difference between 5% and 3% is £817,000 in 2007/08 rising to £881,000 in 2009/10, a total of some £2.5 million over the three years.
50. However, increasing the precept to the capping limit alone will not be enough to fund future shortfalls.
51. Clearly, current expenditure levels are not sustainable thus, it will be necessary to prepare to align budgets within available resources before 2008/09. It is proposed that the Strategic Financial Planning Group should oversee this work.

Recommendations

52. Members are recommended to:

- (i) Set the 2007/08 budget.
- (ii) Approve the Council Tax precept for 2007/08.
- (iii) Note the impact on reserves.
- (iv) Authorise the Treasurer to issue the necessary precept notices.
- (v) Agree that the Strategic Financial Planning Group, reporting to the Finance and General Purposes Committee, be asked to oversee the alignment of budgets to anticipated resources before the start of financial year 2008/09, and in the meantime identify opportunities for managed underspends wherever possible.

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

DCLG and Home Office Settlement Notification via the DCLG website.

Officers to Contact

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Leicestershire Police Authority - Budget 2007/08

	2006/07 Estimate	2006/07 Revised Estimate **	2007/08 Estimate
	£	£	£
Staffing *	218,648	220,560	277,300
Members allowances and other costs	199,600	200,830	210,620
Print, post, stationery, telephones	39,500	40,750	39,900
Subscriptions	20,740	19,725	21,365
Police Authority Best Value	5,000	0	0
Internal / external audit	105,080	100,565	110,700
Tribunals	2,000	5,000	2,000
Consultation initiatives	4,500	3,500	4,500
Web development	2,500	2,500	2,500
Advertising	6,000	6,000	6,000
Legal expenses	1,500	1,500	1,500
Technical support	3,000	3,780	3,000
Custody visitors	6,500	6,500	6,500
Other ***	12,000	13,020	16,995
Contingency	5,670	1,500	0
Totals	632,238	625,730	702,880

* Pay inflation is covered by the overall inflation contingency

** In addition £30,938 has been spent on abortive merger costs and fully reimbursed by the Home Office

*** It is proposed that £6,500 of the 2007/08 cost be met from the Home Office windfall of £6,779 from 2005/06

Leicestershire Police Authority
Budget and Precept 2007/08 to 2009/10

		Precept Increase	5%	3%	3%
2006/07 Approved Budget £	Budget Heading		2007/08 Revenue Budget £	2008/09 Revenue Budget £	2009/10 Revenue Budget £
101,437,230	Police Pay & Allowances		101,770,864	106,258,479	109,396,033
1,753,417	Police Pensions		2,291,400	2,349,280	2,408,896
6,367,329	Central & Financing Items		6,954,470	5,211,256	5,771,917
48,481,450	Delegated Budgets (inc. Police Authority)		52,799,023	56,049,595	57,727,395
2,714,148	Police Community Support Officers		5,109,877	5,109,877	5,109,877
160,753,574	Subtotal		168,925,634	174,978,487	180,414,118
(10,002,451)	Less : Specific Grants		(12,063,865)	(11,773,865)	(11,773,865)
150,751,123	Subtotal		156,861,769	163,204,622	168,640,253
-	Police Authority Growth		56,000	56,000	56,000
968,976	Police Service Realignment Proposals		941,307	785,607	785,607
-	Under Provision on Police Pensions		-	-	-
544,618	Funding Amendment (Police Grant)		-	-	-
(500,000)	Less : Efficiency Savings		(413,220)	(387,768)	(387,768)
(1,000,000)	Less : Utilisation of Prior Year Underspends		(2,400,000)	-	-
(2,494,000)	Transfer from Reserves		(340,000)	(836,130)	-
-	Funding Gap		-	(4,285,000)	(6,530,000)
148,270,717	Total Budget		154,705,856	158,537,331	162,564,092
£	Funding		£	£	£
61,364,008	Police Grant		62,812,898	64,069,156	65,350,539
7,470,727	Revenue Support Grant		6,992,483	7,132,333	7,274,979
38,701,290	Business Rate		41,666,408	42,499,736	43,349,731
272,051	Collection Fund Surplus		285,270	200,000	200,000
40,462,641	Precept		42,948,797	44,636,106	46,388,843
148,270,717	Total Funding		154,705,856	158,537,331	162,564,092

£	Precept by Billing Authority		£	£	£
4,097,895	Blaby	31,151.34	4,328,698	4,498,758	4,675,412
6,837,462	Charnwood	52,425.20	7,284,851	7,571,048	7,868,342
4,109,698	Harborough	31,292.60	4,348,327	4,519,158	4,696,613
4,760,564	Hinckley & Bosworth	36,207.10	5,031,231	5,228,891	5,434,215
9,989,956	Leicester City	76,593.00	10,643,137	11,061,269	11,495,615
2,390,050	Melton	18,221.50	2,532,005	2,631,480	2,734,810
4,053,283	North West Leicestershire	30,859.00	4,288,076	4,456,539	4,631,535
2,344,857	Oadby & Wigston	17,941.92	2,493,156	2,591,104	2,692,849
1,878,877	Rutland	14,388.00	1,999,314	2,077,860	2,159,452
40,462,642	Total	309,079.66	42,948,795	44,636,107	46,388,843
305,759.59	Tax Base		309,079.66	311,861.38	314,668.13

£	Precept by Band	Apportionment	£	£	£
88.2232	Band A	6/9	92.6380	95.4187	98.2810
102.9271	Band B	7/9	108.0777	111.3218	114.6612
117.6310	Band C	8/9	123.5174	127.2249	131.0413
132.3348	Band D	9/9	138.9570	143.1280	147.4215
161.7425	Band E	11/9	169.8364	174.9343	180.1818
191.1503	Band F	13/9	200.7157	206.7405	212.9421
220.5580	Band G	15/9	231.5950	238.5467	245.7025
264.6696	Band H	18/9	277.9140	286.2561	294.8430

£132.3348	Band D Council Tax	£138.9570	£143.1280	£147.4215
5.00%	% Increase	5.00%	3.00%	3.00%
£6.30	£ Increase	£6.62	£4.17	£4.29
12.1p	Increase per week in Pence	12.7p	8.0p	8.3p

	£	£	£	£
Use of Equalisation Reserve				
Opening Balance		826,130	836,130	-
Transfer To Reserve		350,000	-	-
Transfer From Reserve		(340,000)	(836,130)	-
Closing Balance		836,130	-	-
Reserve remaining at end of Year 3				-

Reserves and Balances

Reserves and balances available at 1 April 2006 (excluding Police Fund and Pensions (General) Reserve)	£m
- Pensions (Specific) Reserve	1.206
- Capital Reserve	1.475
- Under-spends from earlier years	<u>1.935</u>
	4.616
less utilised to balance the 2006/07 budget (est)	- <u>3.790</u>
	0.826
plus PSA grant received 2006/07	0.350
plus managed under-spend 2006/07 (est)	<u>2.400</u>
	3.576
	-
Applied to 2007/08 funding shortfall	2.740
	-
Applied to 2008/09 funding shortfall	0.836
	<u> </u>
Balance remaining at 31 March 2009	<u><u>-</u></u>