

LEICESTERSHIRE POLICE AUTHORITY

PAPER MARKED

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Meeting **FINANCE AND GENERAL PURPOSES COMMITTEE**

Date **TUESDAY 22 DECEMBER 2009 – 2.00 P.M.**

Report of **TREASURER AND CHIEF CONSTABLE**

Subject **FINANCIAL UPDATE**

Purpose of the Report

1. To update the Committee on a number of issues affecting future budget strategy.

Background

2. On 7 February 2008 the Authority resolved to set a council tax precept increase of 15.43%. At the same time an indication was given that increases in the following two years would be 4% per annum.
3. On 26 June the then Secretary of State for Communities and Local Government announced that she would nominate the Authority for capping action for 2009-10 and 2010-11. The effect of that nomination is to limit the increase in the budget for each of those years to a figure equivalent to a 3% increase in the council tax precept.
4. On 10 February 2009 the Police Authority adopted a budget for 2009-10 that reflected a 3% precept increase. The Authority also noted forecasts for 2010-11 and 2011-12 that assumed 3% and 5% precept increases respectively, and also assumed annual increases of 2.9% in government grant.
5. The effect of those forecasts was to exhaust the Budget Equalisation Reserve during 2010-11 and leave funding shortfalls of £2.010 million in 2010-11 and £5.240 million in 2011-12.
6. On 5 May 2009 the Police Authority learned that an underspend of £4.458 million had been recorded in 2008-09, £1.158 million more than the amount assumed in the 10 February budget report.
7. The additional £1.158 million was added to the Budget Equalisation Reserve in accordance with Authority policy, thereby reducing the 2010-11 shortfall from £2.010 million to £0.852 million.
8. On 30 June 2009 the Police Authority resolved to endorse the work of the Strategic Financial Planning Group in seeking to achieve savings to balance the shortfalls.
9. On 8 September 2009 the Finance and General Purposes Committee received and considered the Medium Term Financial Plan 2009-2012. That Plan, based upon the

assumptions set out in the covering report, together with savings already identified, forecast a surplus of £429,000 in 2010-11 and a shortfall of £7,545,000 in 2011-12.

10. Critically, those assumptions included a Council Tax precept increase of 5% in 2011-12 and a government grant increase of 0.7%. That led to a best case scenario quoted savings target of £8 million, with the range extending up to £15 million.
11. Since that meeting the Force Savings Group has been addressing the forecast shortfall. On 10 November 2009 the Audit Committee reviewed the processes in place and expressed confidence in the arrangements established.
12. The Strategic Financial Planning Group (SFPG) met on 14 October and on 1 and 15 December. On 1 December the Deputy Chief Constable presented the Constabulary's approach to the shortfall – "Delivering the Force Savings Strategy". Discussions at the 15 December meeting will be reported at today's Committee. During 2010 the Group will meet fortnightly.

Latest Position

13. It is now the considered view that a target of £8 million is optimistic, and a freeze on precept increases is not out of the question. Latest thinking on government grant settlements is for a 3% reduction in 2011-12 and frozen thereafter. This scenario leads to a shortfall of £15 million for 2011-12, and the SFPG and Savings Group have now adopted this figure for planning purposes.
14. However, as this report was being finalised the Chancellor of the Exchequer presented his pre-budget report. Included in the proposals is a 1% cap on public sector pay increases from 2011 which, if implemented, would reduce the savings target from £15 million to £13.5 million.
15. The assumptions now included in the forecast are:

	2010-11	2011-12
Police Pay inflation	2.55%	1.00%
Police Staff Pay inflation	2.58%	1.00%
Non-pay inflation	2.00%	2.00%
Govt grant inflation	2.90%	3.00% -
Tax base increase	0.40%	0.50%
Precept increase	3.00%	0.00%
Pensions inflation	0.00%	2.50%
No increase in the General Reserve		

16. If assumptions are adjusted the shortfall in 2011-12 will change by the amounts identified in Annex A. For example, if the Funding Settlement changes from a 3% decrease to a 4% decrease, grant income would reduce by £1.224 million.

2010-11 Grant Settlement

17. 2010-11 is the third year of the 3 year provisional funding settlement (Comprehensive Spending Review 2007). The Government has announced that the provisional grant allocations will stand, providing a 2.9 per cent uplift in the grant for the Leicestershire Police Authority. The loss of grant due to non implementation of the funding formula remains at £2.8 million. These figures are in line with the forecasts included in the Medium Term Financial Strategy (MTFS) presented to the Committee on 8 September 2009. The Capital Grant allocation for the year, provisionally set at £2.1 million, has yet to be confirmed.

2010-11 Capping Announcement

18. When the 15.43% precept increase for 2009-09 was accepted by the Government, provisional caps were applied of 3% to precept increases for each of the following two years. The cap for 2010-11 has now been confirmed and the Authority asked to either accept or challenge that decision. At a Members Discussion Day it was agreed to accept the decision. This reflects the precept income assumed in the MTFs.

2010-11 Budget and Precept

19. The draft budget for 2010-11 and associated Council Tax precept will be presented to the Authority on 9 February 2010.
20. In the meantime work is continuing in the Savings Team and SFPG to identify further efficiencies and savings that will contribute to reducing the shortfall in 2011-12 and beyond.

2011-12 Budget and Precept

21. The efficiencies and savings achieved to date, and reported in detail to the SFPG, have changed the 2010-11 surplus of £429,000 described in paragraph 9 to one of £1.098m. This will be carried forward in the Budget Equalisation Reserve to 2011-12, thereby reducing the shortfall by that amount. In addition, sustainable savings identified in 2010-11 will make a continuing contribution in 2011-12. The overall effect of these savings has been to reduce the shortfall by a total of £2.468 million.
22. A number of further initiatives have been categorised as “green” proposals which are assessed as low risk and capable of being implemented in the period up to 31 March 2010 without having an interdependency on any other part of the force structure. These proposals, which were endorsed by the SFPG on 1 December, will be added to those in paragraph 21 once confirmed.
23. Savings initiatives will continue to be categorised according to their status, with non-contentious items being banked as they arise. Others will be subject to a business plan and risk analysis for presentation to SFPG.
24. The role of Authority members in the exercise will be primarily threefold:
 - (i) Applying individual skills and knowledge to the exercise.
 - (ii) Receiving the business case and risk analysis for each contentious savings initiative.
 - (iii) Community consultation.
25. Speedy decisions will be important as work progresses. The Committee is therefore invited to agree on behalf of the Police Authority that delegated power be granted to the Treasurer, in consultation with the four SFPG members (Mr Rhodes, Mr Roper, Mrs Newton and Mr Render), to agree any changes to ensure a balanced budget for 2011-12. This is a wide power but the Treasurer will ensure that decisions pursuant to this power are auditable and supplied to members at regular intervals.
26. Much of the detailed examination will take place at SFPG and thereafter at this Committee. In addition, all Members will receive occasional briefings at Discussion Days and other events, and in newsletters. All Members are encouraged to keep in touch with SFPG members to communicate their own ideas and thoughts.

Other Issues

27. A number of other issues could impact upon the position over the next two years.

2009-10 Underspend

28. No account has been taken in the figures above of any underspend that might accrue in the current financial year. Should that occur, the underspend would be added to the Budget Equalisation Reserve and carried forward to help fund the shortfall.

Government Grant Distribution

29. The existing three year settlement (CSR 2007) gave grant figures for all three years, with no further implementation of the formula, meaning that the Authority continues to be disadvantaged by some £3m per annum. There is an expectation that there will be a gradual move to full implementation over time, although there is likely to be little impact in the immediate future.

General Reserve

30. The General Reserve, which is kept for emergency use, stands at £4.881 million, just under 3% of net revenue budget. This is towards the bottom end of the Authority's declared policy – "2 to 5%, aiming for at least 3%". As the budget requirement increases in future years the Reserve will represent a declining percentage of the net revenue budget.

Additional Pressures

31. The budget set on 10 February 2009, together with the forecasts for future years, assumed no further growth beyond 2008-09. No provision exists, therefore, for any additional pressures that may be identified in the future.

2010 Pay Award

32. The September pay awards are the final increases agreed as part of a three year settlement. The cost of that award makes a significant contribution to the shortfall described above.

Next Steps

33. The Force Savings Group will continue to identify options for discussion with the new Chief Constable. These in turn will be presented to SFPG and / or this Committee for approval.

Conclusion

34. The task facing the Authority and Force is a significant one. A collaborative approach between Authority and Force, and within the East Midlands region, will be critical to a successful conclusion.

Recommendations

35. Members are asked to:
- (i) Consider and note the contents of the report.
 - (ii) Approve the delegation of powers to the Treasurer as described in paragraph 25, in consultation with members of the SFPG.

Implications

Financial – within the report. Legal – none. Diversity – none. Risk management – linked to finance.

Background Papers

None.

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