

LEICESTERSHIRE POLICE AUTHORITY

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Meeting **POLICE AUTHORITY**

Date **TUESDAY 9 FEBRUARY 2010 – 2.00 P.M.**

Report of **CHIEF CONSTABLE & TREASURER**

Subject **REVENUE BUDGET AND PRECEPT 2010/11**

Purpose of the Report

1. To present revenue budget and precept information for the three years 2010/11 to 2012/13, and to summarise the proposed revenue budget allocations for, and seek Members' approval to, the budget requirement and precept for 2010/11.

Background

2. On 6 December 2007, as part of Comprehensive Spending Review (CSR) 2007, the Government announced the grant settlement for the three years 2008/09 to 2010/11. Once again the formula devised to allocate grant according to need was not fully implemented, with the result that the Authority has lost grant to which it is entitled.
3. The reason for this is that when the new formula was introduced some four years ago a number of authorities were faced with losing some of the grant they were already receiving. Rather than provide additional funds to protect these authorities the Government decided to take the cash from those who stood to benefit. The result has been a series of flat rate increases for all authorities based on their entitlement before the new formula was devised. Increases of 3.1% and 3.6% were applied in 2006/07 and 2007/08 respectively.
4. For 2008/09 and the following two years there has been a slight move towards formula implementation, with increases ranging from 2.5% per annum (the minimum or 'Floor') to 4%. For Leicestershire, the increases are 2.9% in each of the three years 2008/09 to 2010/11.
5. Had the formula been applied, the increases for Leicestershire would not have been 2.9% but 5.9% in 2008/09 and a further 2.5% on top in the two subsequent years.
6. The cash value of this loss of grant totals £9.3 million over the three years, in addition to the £5.9 million lost in the previous two years.
7. As a result of this loss of grant, and in response to the risks identified for the future, the Authority levied a precept increase of 15.43% for 2008/09 and indicated 4% increases for each of the following two years.
8. In April 2008 the Government declared that the Authority's budget increase for 2008/09, based upon a 15.43% precept increase, was excessive, and proposed to cap the increase to 10.22%.
9. The Authority appealed against that proposal and on 26 June 2008 learned that the appeal had been largely successful. The 15.43% increase was allowed to stand, but the Authority was

notified that budget increases in each of the two subsequent years would be limited “to the equivalent of an increase of 3% in council tax precept”. It is done this way because the primary capping power of the Secretary of State for Communities and Local Government is on the year on year increase in the budget requirement rather than the percentage precept increase.

Grant Settlement

10. The individual figures for the final year of CSR 2007 are as follows.

	2010/11
	£m
Entitlement according to the formula	124.187
Actual grant	121.382
Loss of grant	2.805

11. In addition, the former specific grants now known as ‘Rule 2 Grants’, have been frozen for all three years at £2.501 million. These grants comprise the former Rural Policing Grant, Special Priority Payments, IPLDP and Forensic Grants.

12. Finally, specific grants have been announced as follows:

	2010/11
	£m
Crime Fighting Fund	4.062
Neighbourhood Policing Fund	4.724
Dedicated Security Post Grant	*1.564
Total	10.310
BCU Fund	0.656

* DSP Grant still to be confirmed.

All specific grants have been frozen at these levels for some years now. As the posts are still in place this represents a real terms reduction in funding.

Capping Confirmation

13. The Secretary of State for Communities and Local Government has confirmed that the maximum budget that may now be set by the Authority for 2010/11 is:

	2010/11
	£
Maximum budget now set by Secretary of State	175,116,000

14. In order to calculate the precept increase required to fund that maximum budget, after taking account of Government formula grant, it is necessary to have regard to two figures. Firstly, the authority’s share of surpluses on the billing authorities’ collection fund and secondly the value of the council tax base for the area.

15. The collection fund surplus reflects the performance of the billing authorities in collecting council tax this year and the tax base reflects the number of households upon whom council tax can be levied.
16. Despite the recession both of these figures are higher than the forecasts made in the autumn and are also higher than the assumptions made by the Secretary of State when setting the maximum budget at a figure “equivalent to a 3% precept increase”.
17. The effect of this is that to fund the precept element of the budget requirement of £175.116 million will require a precept increase of less than 3%. The figure is 2.68%.
18. Members are reminded that the budget requirement is calculated after the use of reserves.
19. Consideration has been given to two other options for precept levels. One a standstill precept and the other a 2.5% increase.
20. A standstill precept, compared to the 2.68% allowed, would reduce precept income by £1.397 million. A 2.5% increase would cost £94,000.
21. In view of the fact that a 2.68% increase is permitted by the Secretary of State, and the importance of maintaining the Budget Equalisation Reserve at a level that will contribute to the challenging financial times ahead, a 2.68% increase is recommended.

Managing Risk – Budget Allocations

22. In 2008/09 the Force introduced a risk based approach to budget setting which sought to align the budget process with identified strategic operational priorities and risks.
23. In recent years the Authority has always considered key corporate risks when setting the budget. Essentially these risks are operational and organisational around managing people, infrastructure assets, information etc. The Force has maintained and kept up to date its Corporate Risk Register that sets out how it intends to control and mitigate these risks.
24. The Force continues to identify its Strategic Operational Risks as part of the National Intelligence Model (NIM). This has been used to inform resourcing strategies at both BCU and Departmental level.
25. During the year, the Force undertook a major exercise to review its operational risks which is set out within the “Force Strategic Assessment”. This work was also informed by the work of the Regional Collaboration Project Team looking at the extent of the protective services risk gap across the East Midlands.
26. The purpose of the Force Strategic Assessment is to identify those areas of greatest risk. Essentially a high risk area is where only limited resources had been allocated to address a substantial risk i.e. this creates a significant risk gap.
27. A key part of this work was to bring together the Police Authority and Senior Officers across the force to consider the key risks that the Authority and Force faces and how best to address them.
28. The revised 3 year financial forecast and in particular, the 2010/11 budget contained within this report, aligns the Force’s financial resources to risk and therefore is key to the Force’s performance management regime.

Efficiency Savings

29. The Force has achieved audited efficiency savings of £46.6 million (£21.8m cashable, £24.8m non cashable) for the period 1995 to 2009.
30. Home Office Guidance stipulates that Forces should achieve efficiency savings equal to 10.3% (£18m) of 2007/08 gross revenue expenditure over the CSR2007 period 2008/09 to 2010/11.
31. The Force achieved savings of 4.1% in 2008/09 and is expecting to achieve savings of at least 3.1% in both 2009/10 and 2010/11 to meet the 3 year target of 10.3%. A plan for 2009/10 has been approved separately by the Police Authority and to date, the Force appears to be on track to achieve the 3.1% savings target for 2009/10.

Budget Preparation Process

32. The Strategic Financial Planning Group (which includes four Police Authority members and the Treasurer) has met throughout the year to identify and quantify the strategic risks facing the Force, and to look at options for mitigating these risks. This process has been rigorous and the outcome has been instrumental in shaping the budget build for the next three years.
33. The fact that the 2010/11 maximum budget is capped at £175.116 million has been reflected in the approach to budget preparation for 2010/11 by 'cash limiting' the increases in both corporate and delegated budgets. The 'budget rules' applied to 2010/11 are as follows :
 - (i) pay awards and pay increments fully funded,
 - (ii) non pay increases limited to 2% inflationary uplift,
 - (iii) any excess inflationary pressures funded through compensatory savings where possible.

Consultation

34. The Police Authority consulted widely in late 2007 and early 2008 on the funding pressures it faced. The result was significant support for a larger precept increase in order to respond to emerging risks and pressures. That effectively shaped budget planning for the following three years.

Base Revenue Budget Changes

35. The first stage in the process to build a budget for 2010/11 is to calculate a standstill position. This includes the full year effect of pay awards together with other inflation, and excludes any growth.
36. The table below shows how that standstill figure is derived. A detailed breakdown can be found at Appendix 1.

	£	£
2009/10 Approved Base Budget		185,586,804
Less Specific Grants		(12,687,334)
		172,899,470
Variations:		
Police Officer Pay, Allowances & Income	340,818	
Police Officer Pensions	138,263	
Central & Financing Items	1,313,783	
Delegated Budgets	763,495	
Police Community Support Officers	313,773	
Police Authority	48,704	
Specific & Rule 2 Grants	(164,598)	
		2,754,238
2009/10 Revenue Base Budget Requirement (Gross)		175,653,708

(i) Police Officer Pay, Allowances & Income

This includes the full year effect of the September 2009 pay inflation, virements relating to workforce modernisation, and pay increments for those officers eligible to receive them, offset by savings in allowances, additional ACPO TAM income and a temporary police officer recruitment freeze during 2010/11. The recruitment freeze is likely to result in police officer full time equivalent numbers being reduced by up to 120 by March 2011. This is necessary to achieve savings over the short term whilst clarity is sought around the Force's medium term funding position and the impact this will have on its future structure. The recruitment freeze will not have a detrimental effect on local Neighbourhood Policing services. No permanent changes will be made to police officer full time equivalent numbers without the express permission of the Police Authority.

(ii) Police Officer Pensions

The Force's expenditure on injury awards has increased to meet the higher than budgeted annual inflationary increase in April 2009 and the increased cost of officers on the '30 plus scheme'.

(iii) Central & Financing Items

Premises utility costs are expected to increase during 2010/11 as a consequence of fluctuating demand and pricing. The increased cost of vehicle fuel and a further reduction in investment income arising from the economic downturn will add further cost pressures which are partly mitigated by insurance and Business Rates savings. The Force's contribution to EMSOU is £853k in 2010/11, an increase of £113k from the previous year.

(iv) Delegated Budgets

This includes the full year effect of the September 2009 pay inflation, pay increments for those Police Staff eligible to receive them, offset by non pay savings such as a £280k reduction in the cost of providing medical services to custody suites.

(v) Police Community Support Officers (PCSOs)

The full year effect of the September 2009 pay award and pay increments are included for those PCSOs eligible to receive them.

(vi) Police Authority

The proposed Police Authority budget is detailed at Appendix 2.

(vii) Specific & Rule 2 Grants

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

37. As part of the three year rolling planning process equivalent figures have been calculated for 2010/11 and 2011/12, giving comparative figures as follows (see also Appendix 3).

	2009/10	2010/11	2011/12
	£m	£m	£m
Base Budget Requirement	172.889	179.851	186.123

Revenue Consequences of the Capital Programme

38. The proposed Capital Programme is dealt with in a separate report on the agenda.

Growth Requirements

39. No growth items are included in the 2010/11 budget.

Use of Reserves and Balances

40. The 3 year Revenue forecast provides for the application of reserves and balances. The reserves available are:

(i) Police Fund (General Reserve)

Police Fund (General Reserve) The balance at 1 April 2010 is expected to be £4.881 million. This represents 2.79% of the budget requirement for 2010/11. It is not proposed to utilise the Fund in 2010/11. A recommendation appears elsewhere on the agenda to increase the balance to 3.0%.

(ii) Pensions (General Reserve)

The balance at 1 April 2010 is expected to be £0.751 million. This sum is earmarked in 2010/11 to cover any ill health retirement costs not included in the budget. It is not expected that the Reserve will be utilised in 2010/11.

(iii) Budget Equalisation Reserve

This represents the balance of any uncommitted savings not included in the Police Fund, and which can be applied to part fund future budget requirements.

Based upon the budgets presented in this report, use of the Budget Equalisation Reserve will be as follows:

	2009/10 £'000	2010/11 £'000	2011/12 £'000
Balance brought forward	7,872	5,285	5,080
Added in year	818*	333	0
Used in year	(3,405)	(538)	(5,080)
Balance carried forward	5,285	5,080	0

*The figure of £818,000 relates to the savings identified by the Savings Team and endorsed by the Strategic Financial Planning Group. It does not include any underspend that might be recorded for 2009-10. Once any final underspend is known proposals as to its use will be brought to the Police Authority. Members may wish to consider whether part of any such underspend should be earmarked, subject to a satisfactory business case, to the development of the Police Authority itself in the light of the HMIC inspection report.

Precept Requirement

41. The precept seeks to bridge the gap between the budget requirement and the external funding made available by the Government, although the application of the capping regime makes this difficult to achieve. Account has been taken of the Police Authority's share of the Collection Fund Surplus together with an increase in the Band D equivalent tax base.
42. Limiting the 2010/11 to the capped figure of £175.116 million requires the allocation of £537,708 from the Budget Equalisation Reserve (see para.40 (iii)).
43. The resulting precept increase of 2.68% for 2010/11 will increase Band D Council Tax to £169.63 (£165.21 in 2009/10). Further details can be found at Appendix 3.

Funding Gap

44. The revised 3 year financial forecast identifies a remaining funding gap in both 2011/12 and 2012/13 which totals, after sustainable savings identified so far of £4.7 million, £12.124 million for the two years. This is predicated on 0% and 3% precept increases for 2011/12 and 2012/13 respectively. A 3% settlement reduction is assumed for 2011/12 and a standstill figure for 2012/13.
45. It is imperative therefore that the Force identifies sustainable cashable efficiency savings beyond those already achieved in order to mitigate the funding gap over the medium term. This level of efficiency savings requirement will inevitably challenge the Force's future operational and organisational capacity and capability. The Strategic Financial Planning Group will lead the work on identifying further efficiency savings.

Treasurer's Comments

46. The Local Government Act 2003, Part 2 Section 25, requires additional statements by the Treasurer to be included in the budget report.
47. 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.
48. 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.

49. 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.
50. There is a detailed monthly budget monitoring system in place involving all budget holders and reports are provided to all Police Authority members.
51. The reserves and provisions as set out in this report are considered to be adequate for the year ahead.
52. Although the grant allocation in the three year settlement has been preserved for 2010/11 there are strong indications that 2011/12 will see some significant scaling back.

Conclusions

53. In view of the argument articulated in paras 19 - 21, only one budget option is presented for 2010/11. A net revenue budget requirement of £175.116 million, net of a £537,708 drawdown from reserves and taking account of a higher than forecast tax base, can be met by a 2.68% precept increase.
54. For 2011/12 a £5.3 million residual funding gap is forecast, assuming a 3% reduction in government grant and a 0% precept increase.
55. For 2012/13 a £12.1 million residual funding gap is forecast, assuming a 0% increase in government grant and a 3% precept increase.
56. Detailed figures are shown at Appendix 3.
57. Continued scrutiny by the Strategic Financial Planning Group, together with a regularly updated 3 year model, will be crucial to managing this situation.

Recommendations

58. Members are recommended to:
 - (i) set the 2010/11 budget,
 - (ii) approve the Council Tax precept for 2010/11,
 - (iii) authorise the Treasurer to issue the necessary precept notices,
 - (iv) note that the detailed arrangements for confirming and monitoring efficiency and productivity gains be referred to the Finance and General Purposes Committee via the Strategic Financial Planning Group, and
 - (v) note that the application of any underspend achieved for 2009/10, other than the efficiency gains recorded by the Savings Team, and other than the proposal to boost the General Reserve, be considered by the Police Authority after the end of the 2009/10 financial year. This could include a sum for Police Authority post-inspection development.

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.

Implications

Financial and Legal: as identified in the report. Diversity: none.

Officers to Contact

Chris Eyre, T/Chief Constable, tel.: 0116 248 2005

Paul Dawkins, Finance Director, tel.: 0116 248 2244

Chris Smith, Treasurer, tel.: 0116 289 8984

email: police.authority@leicestershire.pnn.police.uk