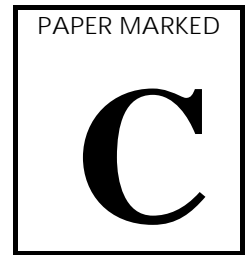


LEICESTERSHIRE POLICE AUTHORITY



Meeting **POLICE AUTHORITY**

Date **THURSDAY, 10 FEBRUARY 2009 – 2.00 P.M.**

Report of **CHIEF CONSTABLE & TREASURER**

Subject **REVENUE BUDGET AND PRECEPT 2009-10**

Purpose of the Report

1. To present revenue budget and precept information for the three years 2009/10 to 2011/12, and to summarise the proposed revenue budget allocations for, and seek Members' approval of, the budget requirement and precept for 2009/10.

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 three 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 remaining years of CSR 2007 are as follows. Although the 2009/10 figure is firm, that for 2010/11 is dependent upon a further announcement in late 2009.

	2009/10	2010/11
	£m	£m
Entitlement according to the formula	121.106	124.187
Actual grant	117.984	121.382
Loss of grant	3.122	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 were announced as follows:

	2009/10	2010/11
	£m	£m
Crime Fighting Fund	4.062	4.062
Neighbourhood Policing Fund	4.599	4.724
Dedicated Security Grant	*1.524	*1.524
Total	10.185	10.310
BCU Fund	#0.656	0.000
* To be confirmed		
# The BCU Fund will run for a final year In 2009/10. It is likely that any future funding beyond 2010 will be partly transferred into a wider Community Fund although this is subject to confirmation from the Home Office		

Capping Confirmation

13. The Secretary of State for Communities and Local Government has confirmed that the maximum budgets that may now be set by the Authority for 2009/10 and 2010/11 are as set out below.

	2009/10	2010/11
	£	£
Maximum budget now set by Secretary of State	170,189,000	175,697,000
Band D Precept	165.21	170.16

14. The Secretary of State's calculation provides for a maximum budget figure that is slightly higher than that included in the three year plan – some £166,000 in 2009/10 and £298,000 in 2010/11.

The reason for this is that the Secretary of State has made her own assessment of the likely figures for the increase in the Council Tax Base and the Collection Fund Surplus.

15. The implications of this are that for 2009/10 the Authority can set a maximum budget requirement of £170,189,000 (3.3% higher than 2008-09), based upon a band D precept of £165.21 (3% higher than 2008-09)
16. Members are reminded that the budget requirement is calculated after the use of reserves.

Managing Risk – Budget Allocations

17. Last year, the Force introduced a risk based approach to budget setting which sought to align the budget process with identified strategic operational priorities and risks.
18. 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.
19. 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.
20. During the autumn, 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.
21. 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.
22. 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.
23. The revised 3 year financial forecast and in particular, the 2009/10 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

24. The Force has achieved audited efficiency savings of £39.8 million (£19.7m cashable, £20.1m non cashable) for the period 1995 to 2008.
25. The Home Office efficiency savings target for the CSR period 2008/09 to 2010/11 has been set at 9.3% or £16.5 million based upon Gross Revenue Outturn Expenditure for 2007/08. Currently, the Force expects to achieve savings of 3.1% or £5.5m per annum in order to meet the three year target. This will largely be achieved through a combination of cashable procurement savings of circa £0.3 million per annum, together with productivity gains associated with mobile data and iR3, scheduled service roll out, benefits accruing from the Flanagan Review, and improved demand profiling. Estimated cashable efficiency savings are included in the revised 3 year budget forecast (see para. 35).
26. As this paper was being finalised an updated Efficiency and Productivity Strategy and covering letter from the Minister of State for Police became available.
27. This confirms the 9.3% mentioned above and also describes the role of the Police Authority in setting local targets and holding the force to account.

28. It is proposed to refer this issue to the Strategic Financial Planning Group and from there to the Finance and General Purposes Committee.

Budget Preparation Process

29. 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.
30. Given that the 2009/10 precept increase is capped at 3% (maximum increase allowed), the 2009/10 revenue budget requirement is itself effectively capped or 'cash limited'. This has been reflected in the approach to budget preparation for 2009/10 by 'cash limiting' the increases in both corporate and delegated budgets. The 'budget rules' applied to 2009/10 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

31. 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.
32. A Budget Forum with local authorities and representatives of the business community was held on 5 February. Feedback from that session will be presented at the Police Authority meeting.

Base Revenue Budget Changes

33. The first stage in the process to build a budget for 2009/10 is to calculate a standstill position. This includes the full year effect of pay awards together with other inflation, and excludes any growth.
34. The table below shows how that standstill figure is derived. A detailed breakdown can be found at Appendix 1.

	£	£
2008/09 Approved Base Budget		174,797,017
Less Specific Grants		(12,427,130)
		162,369,887
Variations:		
Police Officer Pay, Allowances & Income	6,483,616	
Police Officer Pensions	(107,000)	
Central & Financing Items	760,675	
Delegated Budgets	3,592,563	
Police Community Support Officers	40,746	
Police Authority	19,188	
Specific & Rule 2 Grants	(260,204)	10,529,584
2009/10 Revenue Base Budget Requirement		172,889,471

(i) Police Officer Pay, Allowances & Income

This includes the full year effect of the 105 growth posts approved in 2008/09, September 2008 pay inflation, virements relating to workforce modernisation, pay increments for those officers eligible to receive them, and the additional cost of transferred in officers offset by savings in allowances and budgeted ACPO TAM income.

(ii) Police Officer Pensions

The anticipated number of Ill-Health retirements has reduced in 2009/10, whilst Injury-related pension payments (which are met by the Force) have increased in accordance with annual inflation.

(iii) Central & Financing Items

Premises utility costs are expected to increase significantly in 2009/10 when existing contractual arrangements cease on 31 December. Increased debt charges and a significant reduction in investment arising from the economic downturn will add further cost pressures which are partly mitigated by insurance and vehicle fuel costs. The Force's contribution to EMSOU is also included in this budget which for 2009/10 is £740k rising to £888k in 2010/11 and 2011/12.

(iv) Delegated Budgets

This includes the full year effect of the 22 growth posts approved in 2008/09, September 2008 pay inflation, and pay increments for those Police Staff eligible to receive them. Non pay related price increases and savings are also included.

(v) Police Community Support Officers (PCSOs)

The full year effect of the September 2008 pay award and pay increments is 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.

35. 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 £m	2010/11 £m	2011/12 £m
Base Budget Requirement	172,889	179,851	186,123

Revenue Consequences of the Capital Programme

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

Growth Requirements

37. A number of high priority growth items have been identified during the budget preparation process. The cost of these growth items is £303k (£280k ongoing) in 2009/10, rising to £399k in 2010/11 and £523k in 2011/12.

(i) Service Confidence Strategy £104k

The Force has developed a Service Confidence Strategy in readiness for the implementation of the Home Office single target for public confidence (N.I.21) from 1 April. This will necessitate the move to monthly 'Crave' surveys and publication of this data on the Force's website.

(ii) NSPIS Custody & Case Preparation IT System £118k

The National Police Improvement Agency has advised all Forces in England and Wales that it is to taper the withdrawal of funding from 2009/10. The Force's licensing costs will therefore increase by £118k per year rising to £472k (at current prices) in 2012/13.

(iii) Force Medical Officer Costs £18k

National price increases in excess of headline inflation levels will have to be accommodated in 2009/10 and beyond.

(iv) IT Systems Maintenance Charges £32k

The increased cost of IT licences in excess of headline inflation levels is a Service wide issue and will have to be met in 2009/10 and beyond.

(v) MAPPA Contribution £23k

A one off increase in the Multi Agency Public Protection Arrangements contribution has been agreed by partners for 2009/10 only.

(vi) CCTV / ANPR Charges £8k

Additional CCTV and ANPR coverage in the City centre will increase the level of charges in 2009/10 and beyond.

Use of Reserves and Balances

38. 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 2009 is expected to be £4.881 million. This represents 2.9% of the standstill budget requirement for 2009/10. It is not proposed to utilise the Fund in 2009/10.

(ii) Pensions (General Reserve)

The balance at 1 April 2009 is expected to be £0.751 million. This sum is earmarked in 2009/10 to cover any ill health retirement costs not included in the budget. It is not expected that the Reserve will be utilised in 2009/10.

(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. The balance brought forward is £5.683 million to which can be added the 2008/09 uncommitted underspend of £2.0 million, the September 2008 pay award reserve transfer of £0.67m and the 2008/09 budgeted surplus transfer of £0.7m arising from the precept increase for that year.

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

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Balance brought forward	5,683	6,714	3,309	0
Added in year	3,370	0	0	0
Used in year	(2,339)	(3,405)	(3,309)	0
Balance carried forward	6,714	3,309	0	0

Precept Requirement

39. 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 annual 0.65% increase in the Band D equivalent tax base.
40. Funding the total base budget requirement for 2009/10 identified in the report would require a precept increase of 9.8% on current 2008/09 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.
41. Limiting the 2009/10 precept increase to the capped figure of 3% requires the allocation of £3.4 million from the Budget Equalisation Reserve (see para.38 (iii)).
42. The proposed precept increase of 3% for 2009/10 will increase Band D Council Tax to £165.21 (£160.40 in 2008/09). Further details can be found at Appendix 3.

Funding Gap

43. The revised 3 year financial forecast identifies a significant funding gap in both 2010/11 and 2011/12 which totals £7.25 million for both years. This is predicated on 3% and 5% precept increases for 2010/11 and 2011/12 respectively. A 2.9% Settlement increase is also assumed for both years.
44. Given the current economic downturn, it is highly likely that CSR 2009 will not yield a 2.9% increase in Government funding, thereby further exacerbating the funding gap.
45. It is imperative therefore that the Force identifies sustainable cashable efficiency savings beyond those already planned (see para. 25) 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 2009/10 there are indications that 2010/11 may see some scaling back, leading to a bigger deficit in that year.

Conclusions

53. In view of the capping decision applied to the Authority, only one budget option is presented for 2009/10. A net revenue budget requirement of £169.818 million, net of a £3.4 million drawdown from reserves and taking account of a lower than forecast tax base, can be met by a 3% precept increase.
54. For 2010/11 a £2 million funding gap is forecast, assuming a 2.9% increase in government grant and a 3% precept increase.
55. For 2011/12 a £5.2 million funding gap is forecast, assuming a 2.9% increase in government grant and a 5% precept increase.
56. Continued scrutiny by the Strategic Financial Planning Group, together with a regularly updated 3 year model, will be crucial to managing this situation.

Recommendations

57. Members are recommended to:
 - (i) Set the 2009/10 budget.
 - (ii) Approve the Council Tax precept for 2009/10.
 - (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.

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

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