

LEICESTERSHIRE POLICE AUTHORITY

PAPER MARKED

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Meeting **FINANCE AND GENERAL PURPOSES COMMITTEE**

Date **TUESDAY 08 SEPTEMBER 2009 – 10.00 A.M.**

Report of **TREASURER AND CHIEF CONSTABLE**

Subject **MEDIUM TERM FINANCIAL PLAN 2009-2012**

Purpose of the Report

1. To present a forecast of possible financial trends from 2009-10 to 2011-12.

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 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.

Latest Position

9. It is now clear that whilst a 2.9% grant increase in 2010-11 will be forthcoming a similar increase in 2011-12 is an unrealistic assumption. Government spending is set to increase by a maximum of 0.7% in real terms in that year. The appended calculations assume a grant increase of 0.7% in 2011-12. However, Home Office advice is that one option should be for an increase “significantly below” 0.7%.

Implications

10. Annex A sets out the budget for each of the three years 2008-12. It is the same model circulated to all members after the budget meeting in February (the “telling the story” document), now updated with subsequent developments. These include the 2008-09 underspend, the 0.7% grant increase assumed for 2011-12 and the results of the work carried out to date by the Strategic Financial Planning Group and the Savings Delivery Group.
11. The changes are detailed in Annex B and summarised, with a reference to the Annex B item number, in Annex A.
12. The net result to date is to turn the 2010-11 shortfall of £2,010,405 into a surplus of £429,139 (carried forward to 2011-12) and the 2011-12 shortfall of £5,240,399 into a shortfall of £7,544,955.
13. The assumptions made in the forecast are:

	2010-11	2011-12
Police Pay inflation	2.55%	2.50%
Police Staff Pay inflation	2.58%	2.50%
Non-pay inflation	2.00%	2.00%
Govt grant inflation	2.90%	0.70%
Tax base increase	0.40%	0.50%
Pensions inflation	3.00%	3.00%
No increase in the General Reserve		

Options

14. If assumptions are adjusted the shortfall of £7,544,955 in 2011-12 will change by the amounts identified in Annex C. For example, if the Funding Settlement changes from a 0.7% increase to a 0.45% increase, grant income would reduce by £306k.

General Reserve

15. 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.

Other Issues

16. A number of other issues could impact upon the position over the three years.

Government Grant Distribution

17. 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.
18. A new 3 year settlement (CSR 2009) had been anticipated in December 2009. The Government has indicated that this will not now happen, with a one year settlement for 2011-12 to be announced in 2010.
19. In view of the statements made by the Chancellor of the Exchequer and others, it can be anticipated that the settlement will not be a generous one.

Additional Pressures

20. The budget set on 10 February 2009, together with the forecasts for years 2 and 3, assumed no further growth beyond 2008-09. No provision exists, therefore, for any additional pressures that may be identified in the future.
21. Another unknown is how the capping regime will look in future. A recent statement by the Chartered Institute of Public Finance and Accountancy for capping to be dropped has been rebuffed by the Communities and Local Government Minister. Ministers continue to make it clear that they are looking for increases "well below" 5%.

Efficiency Savings

22. 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. 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.

Specific Grants

23. The Force continues to exploit opportunities around the award of specific grants. Recent successes relate to securing regional 'mobile data' and 'prevent strategy' funding totalling £2.5m, which will significantly enhance the operational capability and effectiveness of the Force.
24. Specific Grant funding has shown year-on-year increases over the past five years. However, in the current economic climate this is unlikely to continue. This underlines the need for all potential opportunities to be fully exploited in future.
25. The possibility of some grants ceasing over the next two years is a risk that the Force has identified and contingencies are being considered.

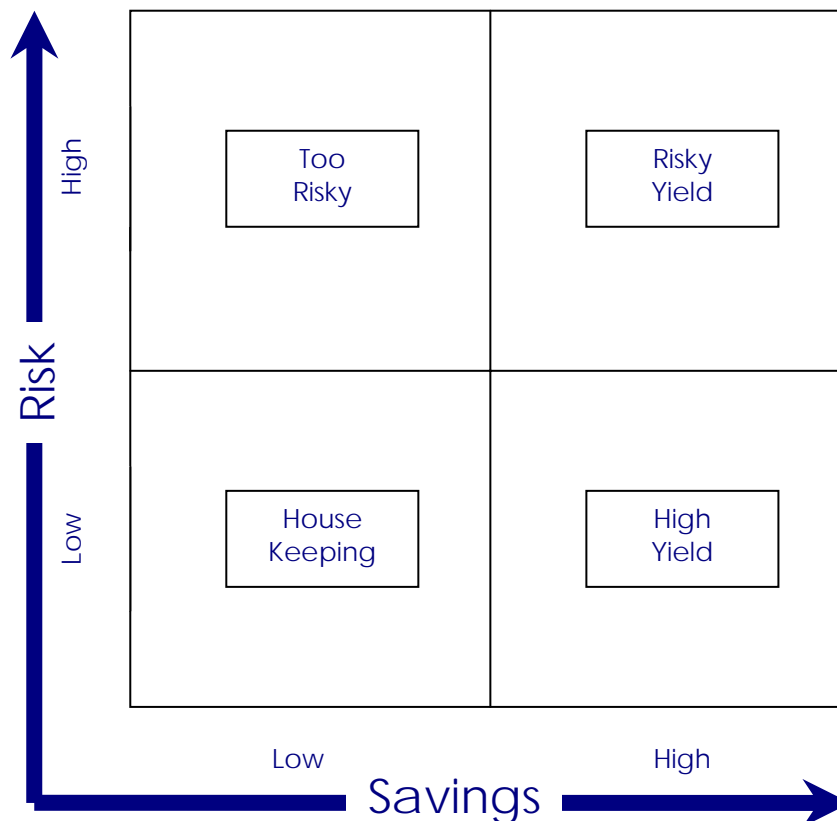
Council Tax

26. There are two variables which affect the calculation of the tax. These are:-
 - a) The billing authorities Collection Fund Surplus – each billing authority is required to declare, on an annual basis, the amount of tax they have collected in excess of that for which they have budgeted. As the Police Authority receives a share of the surplus, it can make a useful contribution to reducing the precept, although the amount has declined in recent years.

- b) The Council Tax Base is a key figure in determining the level of tax overall. The size of the Tax Base has increased by about 1 per cent per annum over the past few years and currently stands at £313,311 Band D equivalent chargeable dwellings (February 2009). The figures are supplied to the Police Authority by the various billing authorities as part of the budget process.

Strategic Approach to Achieving Savings

27. The first task adopted by the Strategic Financial Planning Group was to eradicate the remaining shortfall for 2010-11. This has now been achieved, details of which are set out in Annex B. Some savings are one-off in the current year that will be added to the Budget Equalisation Reserve, whilst others are sustainable into future years.
28. Work commissioned by the Strategic Financial Planning Group to identify further savings for 2011-12 is continuing. This is intended to generate sufficient sustainable savings to ensure the Force can live within its means, whilst simultaneously providing a 'Second to None' policing service to the citizens of Leicester, Leicestershire and Rutland, in support of the Policing Pledge and Confidence Target.
29. To this end, the approach will seek to balance risk with savings and will avoid areas of disproportionate risk. The matrix below summarises the 'risk based' approach which will focus on low risk 'house keeping' and 'high yield' opportunities in the first instance. Opportunities around regional/sub-regional collaboration, shared services, insourcing, outsourcing et al will also be considered.



30. Over recent months, Chief Officers have agreed that we should :
- simplify and improve the accountability of our Governance structures.
 - restructure Corporate Development to provide more effective strategic services to the Chief Officer Group and the Force.
31. As savings projects must be led and owned by Chief Officers within their Governance Boards, it is important that the savings strategy complements these changes and supports new ways of working. The new Governance architecture and the support arrangements provided by Corporate Development will be in place from 1st September 2009.

Beyond 2011/12

32. Unless the shortfall forecast for 2011-12 can be eradicated, either by additional grant and / or precept, or by savings, the Authority will be unable to balance its budget for that year.
33. Once the shortfall is eradicated by sustainable measures the new base budget will form the starting point for future years.

Capital Expenditure

34. The financial indicators set out under the Prudential Code, last reported in May 2009, demonstrate that the net borrowing and capital financing requirements arising from the current capital expenditure plans are affordable, prudent and sustainable.
35. Both the Information Technology and Estates strategies have been refreshed in recent months and will in turn, inform future decisions on capital expenditure priorities in support of 3 year strategic plan objectives. (See also the Capital Programme update report considered elsewhere on this meetings agenda).

Conclusion

36. The financial picture painted in this report is a bleak one. Unless income levels can be significantly increased (via, perhaps, a robust campaign from the police service generally and the East Midlands more specifically), some very difficult choices will be necessary over which activities receive funding.

Recommendations

37. Members are asked to:
- (i) Consider and note the contents of the report, and
 - (ii) ask the Strategic Financial Planning Group to monitor the financial model, and report back to this Committee, on a regular basis.

Implications

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

Background Papers

None.

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