

**LINCOLNSHIRE POLICE AUTHORITY
FINANCE & PERFORMANCE COMMITTEE
9th FEBRUARY 2010**

SUBJECT		2010/11 BUDGET & MEDIUM TERM FINANCIAL FORECAST 2011/12 – 2012/13
REPORT BY	TREASURER & CHIEF CONSTABLE	
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SUMMARY AND PURPOSE OF REPORT		
To provide details on the proposed Budget and Council Tax for 2010/11 and the Medium Term Financial Forecast		
RECOMMENDATIONS	<p><i>That the Committee:</i></p> <ol style="list-style-type: none"> <i>1. Considers the details contained in this report and determines what recommendations or advice it wishes to provide to the full Authority regarding the revenue budget for 2010/11.</i> <i>2. Recommends that the Authority adopt the Capital Programme for 2010/11 to 2013/14 outlined in this report.</i> <i>3. Adopts the Treasury Management Policy in accordance with Section 13 of the attached Budget Report.</i> <i>4. Supports the Reserves Policy outlined at Section 5 of this report.</i> 	

A. SUPPORTING INFORMATION

1. INTRODUCTION

1.1 Proposals for Lincolnshire Police Authority's Budget for 2010/11 are presented in the context of:

- Financial risk arising from the current economic climate and the likely constraints on public sector finances moving forward into 2011/12 and beyond.

- Reductions made to the revenue budget in respect of reviews of spend and risk in key areas.
 - The Force Decision Conferencing process, which identified business cases to help shape the organisation over the medium term including residual risks in public protection and the aspiration to increase the number of officers deployed on Neighbourhood policing.
- 1.2 This report sets out the financial impact of maintaining current policing services within Lincolnshire and makes proposals for addressing a range of the most pressing operational risks, both by reducing and reprioritizing existing spending and by seeking additional recurrent funding from Council Tax. It also considers the financial position over the medium term.
- 1.3 A budget report detailing revenue and capital budget issues is attached to this report.

2. BACKGROUND

- 2.1. The budget for 2009/10 was set on 25th February 2009 when the Authority agreed to an increase in Council Tax of 4.99%. The budget for 2009/10 included recurring investment of £1.1 million all of which was met by reprioritisation of the Force base budget. A number of pressing policing needs were identified as being not addressed, in particular in child protection, adult protection and Domestic Abuse with only two additional constables being funded to support Neighbourhood Policing.
- 2.2. In comparison with other Police Authorities' overall level of spend, or budget requirement, per head of population Lincolnshire remains the lowest spending Police Authority. The analysis shown below is based upon 2010/11 settlement figures and includes an assumption that each Authority sets a 3% precept increase and receives an increase in council tax base of 1.0%. On this basis Lincolnshire's overall spending would still be significantly below that for other Police Authorities. Indeed it is interesting to note that if Lincolnshire were to be funded at the level of the next lowest Force, Essex, the county would have an additional £1.2m available for policing.

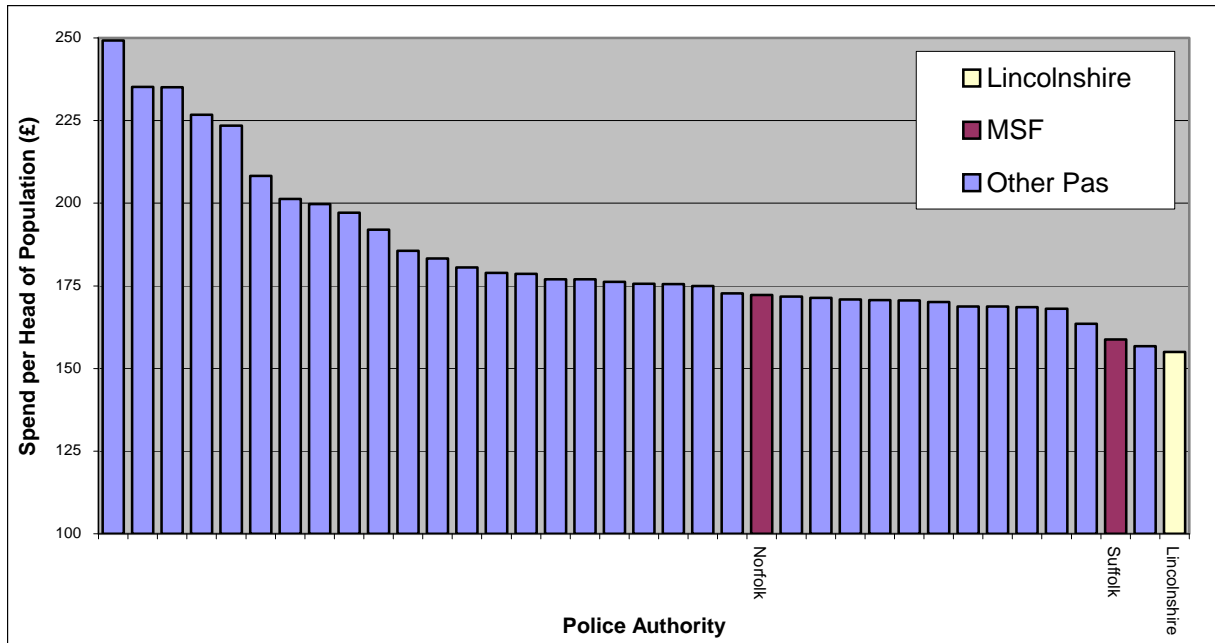


Figure 1: Spend per Head of Population (Settlement 2010/11)

3. MAINTENANCE BUDGET

3.1. Appendix A to this report provides a summary of the budget for 2010/11, which is presented on the basis of a 3% council tax increase. Further details of this budget are given in section 7 of the attached Budget Report. Key features of this are set out in the following paragraphs:

Police Officer Numbers

3.2. The Police Officer budget represents the single most significant element of the budget, accounting for more than 50% of gross revenue expenditure.

3.3. The key assumptions of the Police Officer Budget are:

- That the Police officer establishment is 1,195 officers. This is a net increase of 2 officers over 2009/10. Given that 6 police officer posts have been civilianized, this represents a gross increase of 8 police officer posts.
- The budget allows for 12 seconded officers during the year and the net position is shown in a separate line (21) on appendix A to this report. This line shows a net cost of £140k, resulting from seconded officers and staff whose costs cannot fully be recovered.
- The pay award of 2.55% from September 2010 has been included in the budget in accordance with the last year of the current multi-year agreement. The forward forecast includes provision for awards of 1.0% in 2011 and 2012. These amounts are a forecasting assumption and will be a key determinant of spend in future years. Projections are also based on the employers' contribution for Police Officer pensions being maintained at 24.2% for the next three years.

Police Staff

3.4. The Police Staff pay forecast has been set including a number of key assumptions:

- That the Police staff establishment is 1,136.5FTE staff representing an increase of 19.2 posts on the 2009/10 original budget establishment. Of this increase, 8 posts are funded by the civilianization of 6 police officer posts, 8 are fixed term posts funded by the Business Change Fund and 3.2 posts are growth in the establishment.
- The budget will allow for the projected number of staff on the establishment with a vacancy factor allowance of 7%. This is an increase from the 2009/10 budget figure of 5% and marginally lower than current levels of vacancies in the Force. Funded posts have been excluded from the vacancy factor along with custodians and the FCCC staff, since their recruitment patterns (which involve taking on blocks of staff together) will mean that they will be over establishment on occasions and under on others.
- The pay award of 2.58% from September 2010 has been included in the budget. As with Police Officers provision for awards of 1.0% in 2011 and 2012 have been included. The 2010 review of the Lincolnshire County Council Local Government Pension Fund is currently being undertaken. The budget and forecast have been calculated assuming a continuation of the current employers rate of 16% in 2010/11 increasing to 17% from 2011/12.

Non pay running costs

3.5. The running cost area of the budget is forecast to increase by 3.61% between 2009/10 and 2010/11; by 5.06% between 2010/11 and 2011/12; and by 3.87% between 2011/12 and 2012/13. This reflects a number of cost pressures arising in order to maintain current service levels (Further explanation is given in Appendices 6 and 9 to the main budget report). These include:

- Premises Costs; in particular electricity charges which are forecast to reduce in the original budget for 2010/11. In future years additional provision has been made in the forecast to address maintenance issues in the Force Estate.
- Transport Expenses; in particular the cost of fuel, vehicle maintenance and materials.
- Supplies and Services; in particular the ongoing costs of licenses and maintenance for ICT systems. The Force also anticipates increased cost pressure from the use of interpreters.
- Agency and Contracted Services; in particular the increased contribution to the East Midlands Special Operations Unit (EMSOU) arising primarily from the end of Home Office Grant in 2011/12.
- Police Authority running costs.

Capital Financing

3.6. A major review has been undertaken of the Capital Programme with all schemes having been subject to a business case submission and detailed review by the Chief Officer and Command Group. This has resulted in significant rephrasing of a number of existing projects. The new capital strategy being proposed has been

considered by members of the Finance Task and Finish Group. The details of the programme are included in section 12 of the main Budget Report.

- 3.7. The capital financing and revenue consequences of this programme have been included in the revenue budget. The effects of borrowing funds to finance capital expenditure occur in the year following the financial year in which the borrowing is undertaken.

	2010/11 £'000	2011/12 £'000	2012/13 £'000
Charges for Existing PWLB Loans	2,013.6	1,961.3	1,909.1
Charges for LCC Transferred Loan	74.2	73.1	70.8
Cost of Borrowing for 2009/10	523.2	518.4	502.8
Cost of Borrowing for 2010/11	-	1,316.2	1,276.7
Cost of Borrowing for 2011/12	-	-	752.6
Total	2,611.0	3,869.0	4,512.0

Table 1: Capital Charges

Government Grant

- 3.8. Details of the 2010/11 grants announced by the Department for Communities and Local Government (DCLG) and the Home Office are given in sections 3.9 onwards of the main budget report the following table summarises the amounts to be received in 2010/11.

	2009/10 Settlement £M	2010/11 Settlement £M
Notional Formula Grant Entitlement	67.021	69.001
Loss in respect of Floor Damping	(2.756)	(2.699)
Revenue Support Grant	4.662	25.539
Non Domestic Rates	20.201	
Principal Police Grant	39.402	40.762
Total Formula Grant Receivable	64.265	66.301
<i>Increase from Previous Year (%)</i>	<i>3.14%</i>	<i>3.17%</i>

Table 2 : Formula Grant - Grant Settlement

- 3.9. In relation to other grants, the following are expected:

	2009/10 £'000	2010/11 £'000
Total Specific Grants	5,594	5,669 ¹
Additional Grant Rule 2	3,268	3,268
Total	8,862	8,937
<i>Increase from Previous year (%)</i>	<i>0.84%</i>	<i>0.85%</i>

Table 3 : Other Grants - Grant Settlement

¹ The level of Home Office Security Grant to be received by the Force has yet to be announced, it has therefore been assumed that it will continue at the 2009/10 level.

Efficiency

- 3.10. At the Strategic Planning Committee on 3rd December 2009 a report was considered which detailed the imperatives for achieving VFM and efficiency, particularly as the pressure on public spending increased. In the light of these pressures it was resolved that a VFM Board be established to be jointly chaired by the Deputy Chief Constable and the Chairman of the Authority supported by the Authority secretariat and the Force Strategic Development Department. This Board has been tasked with overseeing a series of VFM reviews aimed at achieving significant savings from the Revenue budget. This work will form the focus of the future Efficiency Plan.
- 3.11. Details of the current position on the historic efficiency plan are provided at Section 8 of the attached Budget Report. The Force is examining altogether over 70 areas of productivity and efficiency gains; whilst these items are being quantified and developed it is not possible to provide the financial effect of many of the savings.

Medium Term Forecast

- 3.12. The Medium Term Forecast is based on a series of key assumptions. For the next two years this is made challenging due to the Government delaying the Comprehensive Spending Review until after the General Election. Details of the assumptions made and a range of possible budget scenarios are given in Section 7 of the attached report. Appendix A to this report provides an overall budget summary for the medium term, Table 4 below provides a summary of the Budget showing the original budget proposal for 2010/11 and the forecast position allowing for the mid range of assumptions. This shows the level of budget deficit going forward at £2.58 million for 2011/12 increasing by a further £2.25 million in 2012/13 to £4.83 million.

	2010/11 £'000	2011/12 £'000	2012/13 £'000
Employees	95,999	97,678	99,631
Premises	4,072	4,430	4,692
Transport	2,774	2,948	3,130
Supplies and Services	12,533	12,311	12,706
Agency Services	3,028	3,353	3,494
Gross Expenditure	118,406	120,720	123,653
Less income	(3,950)	(4,029)	(4,110)
Net Expenditure	114,456	116,691	119,543
Capital Financing & other items	4,135	5,410	5,961
Police Authority	1,100	1,127	1,155
Less: Investment Interest	(190)	(240)	(340)
Less: From Earmarked Reserves	(1,227)	(440)	-
Less: specific grants	(10,507)	(10,197)	(10,197)
Funding			
Government Grant	(66,302)	(66,302)	(66,302)
Council Tax	(41,995)	(43,469)	(44,994)
Net Expenditure	(530)	2,580	4,826

Table 4 : Summary Budget and Forecast

4. CHIEF CONSTABLE'S BUDGET PROPOSALS

Base Budget

- 4.1 The Force has undertaken a detailed process to determine the base budget for 2010/11, examining trends in Police Officer pay and other cost pressures and reductions in spend across all of the Force's activities. The Budget summary at Appendix 1 shows the proposed allocation of budget compared to the original budget for 2009/10.
- 4.2 The forecast budget for 2010/11 produced in February 2009, included an assumption of a 5% increase in Council Tax. At its meeting on 30th June 2009 the Committee considered a number of possible options with regard to future budget preparation taking into account the changes in the economic climate. It was highlighted that future restrictions on Council Tax would be likely. As a result it was resolved that budget options based on planning assumptions of 3%, 2% and 1% should be included for the purposes of preparing the 2010/11 budget. This resulted in a forecast budget deficit for 2010/11 of £2.56 million at that time assuming a 3% increase in Council Tax.
- 4.3 At that meeting the Chief Constable described a model, which he would utilise as a basis of balancing future budgets and driving reinvestment. The Force has taken action in accordance with this, firstly with regard to identifying reductions in the budget and secondly with regard to a decision conferencing process to identify investment requirements.
- 4.4 The following paragraphs describe the main areas of the budget reviewed and the changes made:

Police Officer Pay

- 4.5 The budget for Police Officer pay is based on average pay rate calculations. Average police officer salaries continue to decrease and to date the forecast is that they will be down 1% during 2009/10. Looking at the future trends in this expenditure and assessing the possible movements is an important part of the budget setting process. Work has been undertaken on testing out assumptions on average pay with a change in the process of pay calculation being adopted, senior officers from Chief Inspectors upward being calculated on an actual basis rather than as part of the average calculation. This is desirable due to the higher incidence of cost and the small number of officers involved. Further details on Police Officer pay are given in section 7.4 of the budget report.
- 4.6 The budget has been set based on the establishment of 1,195 police officers, this provides for an average rate of pay £48,068 per annum in 2010/11 compared to an original budget figure of £47,776 and latest forecast of £47,298 for 2009/10. Allowing for the agreed level of pay award in 2010/11 based on current averages the figure would have been £48,865. This shows a real terms reduction in costs of £797 per annum per officer.
- 4.7 Compared to the original budget for 2009/10 of £57.840 million this gives a total provision of £58.493 million an increase of 1.1%. The recent revised budget for 2009/10 provided a forecast of £57.701 million, which would be a year on year increase of 1.4%.

4.8 It is considered that this methodology for setting the budget is an improvement on the first year basis and as the process becomes embedded and refined it will enable budget accuracy to be improved.

Police Staff Pay

4.9 An important issue in the budget setting process is the level at which the Police Staff vacancy factor is set. As part of setting the budget and forecast last year the factor was increased from 3% to 5% with the intention that this would be reviewed in future years based on experience. Consideration has therefore been given to increasing the staff vacancy factor from 5% to 7%. Current monitoring in 2009/10 shows that vacancies are running at just over 7%. This change will put pressure on budget managers to achieve during the year. However, this change results in a saving of £275k.

4.10 In respect of Police staff overtime this has been frozen at the 2009/10 level for 2010/11 which will require budget managers to absorb pay award increases and additional bank holiday payments within existing allocations.

Police Officer Overtime

4.11 At the time of setting the three-year forecast in February 2009 an examination of trends in overtime expenditure indicated that an increase in 2010/11 of approximately 20% would be required on the Police Officer overtime budget. As the result of a detailed service review and the appointment of additional officers the Force has applied a 30% reduction in police officer casual overtime from the 2009/10 level. This change results in a reduction in costs against forecast of £987k and reduces base overtime budgets to the average level for a Force the size of Lincolnshire. As a result Police Officer overtime budgets are at their lowest level since 2005/06. Results of changes piloted in a number of areas indicate that such a reduction would be achievable and sustainable.

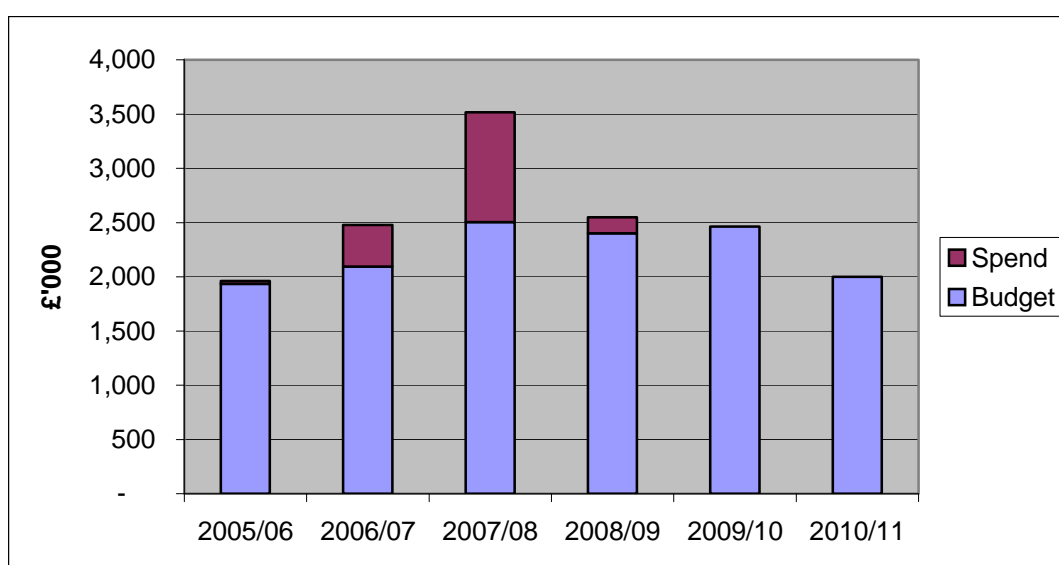


Figure 2: Regular Force Overtime Budget and Expenditure

4.12 An allocation is required in 2010/11 due to Christmas Day and Boxing Day falling on Saturday and Sunday. This accounts for an additional one off £147k of

overtime cost, as the Authority has established a Police Officer Bank Holiday overtime reserve this one off cost can be accommodated without impacting on Council Tax levels for 2010/11.

Contractual Issues

- 4.13 It has been previously reported to this Committee that the Force would be realizing savings in revenue costs from the new case and custody system. Additionally, the Authority's Insurance arrangements have been retendered with effect from 1st November 2009 have resulted in significant revenue savings against forecast. As a result savings of £448k have been included in the budget.

Capital Financing

- 4.14 The Capital Programme for 2009/10 is subject to an ongoing review at each Finance and Performance Committee, it has been reported that as a result of schemes being delayed or removed from the programme, a reduction in the overall programme spend will be realized. This will result in a reduction in the costs of financing capital expenditure, in 2010/11 against the original forecast a reduction of £779k has been experienced.

Home Office Capital Grant

- 4.15 The Home Office initially delayed the announcement of Police Service Capital Grant. It was initially anticipated that Authorities should expect a reduction in the level of grant. This has now been confirmed at the expected level of £1.2 million. This grant is principally used to finance the Fleet replacement programme. As the asset life of a vehicle is only three years it would not be viable to borrow to replace this funding and therefore this would be an additional demand on the revenue account. Future years forecasts include a provision against a loss of £120k.

Summary

- 4.16 Overall expenditure has been examined and a budget produced which balances cost pressures against the need for realizing savings in base budget costs. Appendix A line 26 shows that compared to the base position for 2009/10 the base budget proposal is 2.5% higher, slightly below the pay award increases incurred for the year. The following table summarises the differences between the forecast prepared during January 2009 and the current forecast:

Item	£'000
Police Officer Pay	709
Police Staff Vacancy Factor	275
Police Staff Overtime	59
Police Officer Overtime	987
Contractual Issues	448
Capital Financing Costs	779
Total	3,257

Table 5: Budget Reductions

Decision Conferencing

- 4.17 To prepare these proposals the Chief Constable tasked senior managers in the Force to identify the highest and most immediate areas of need, with an emphasis on meeting minimum required standards. Any proposals made had to be supported by a formal business case, and all such cases were challenged to ensure that they represented the absolute minimum investment required to make a positive impact on current levels of risk. It is important to emphasize that these proposals do not address the underlying gap established by the Sustainable Funding project that formed the basis of the original 2008/09 precept increase and subsequent reviews.
- 4.18 At the outset of the budget process eighty-five revenue and capital proposals were presented. These bids were subject to a first round of quality assurance by the DCC, Director of Finance & Administration, Head of ICT, Head of Strategic Development and Head of Finance. This resulted in five capital and twenty-two revenue cases being withdrawn.
- 4.19 Individuals were then notified of the requirement to complete a Full Business Case where relevant or to provide further clarification. The quality assurance group then met again to consider the cases and prioritise into “Must Do, Should Do, Could Do and Won’t Do” based on a ‘Prioritisation Matrix’. A further group of cases were removed from the process, noted for future action or progressed to the Decision Conference stage.
- 4.20 Decision Conferencing on these cases was then undertaken at the Full Command Group on the 3rd November 2009, with 20 revenue and 25 capital cases being considered. In addition to these cases the Command Group also considered the outstanding priorities from 2009/10 to enhance the number of Constables working within Neighbourhood Policing. As part of the 2009/10 budget, Neighbourhood policing investment was reduced from 9 sergeants and 39 constables to 6 sergeants and 21 constables.
- 4.21 A report together with a full set of the associated Business Cases and summaries was considered by the Finance & Performance Committee Task and Finish Group in January 2010.
- 4.22 The results of the Revenue Case Decision Conferencing exercise are summarised in the table below, banded in respect of Council Tax increase options. It should be noted that these are in addition to the changes explained in section 3 of this report:

Indicative Council Tax Increase %	Cost of Item £'000	Cumulative Cost £'000	Areas for Investment
1.0			
	28.5	28.5	MOPI / Genie Support officer
	28.5	57.0	Licensing for Corporate Gazetteer
	17.5	74.5	Prisoner Intelligence Notification System
	26.0	100.5	Permanent Specials Recruitment / Volunteer Coordination officer
	14.2	114.7	Replace existing Sgt with an Inspector in FCCC
2.0		114.7	
	332.8	447.5	8 Additional Constables for NPT
	83.2	530.7	2 DC's for PPU/CAPU
3.0		530.7	
	166.4	697.1	4 Additional Constables for NPT
	41.6	738.7	1 DC's for PPU/CAPU
3.51		738.7	

Table 6: Prioritised Revenue Requirements

- 4.23 It can be seen from these priorities that the sensitivity of the Council Tax increase is crucial to the level of investment, which the Force will be able to make in service provision. It should be noted that the first section of items at a cost of £114.7k are considered to be areas which cannot be further deferred and therefore would be looked at as priorities for the Force going into 2010/11 regardless of the funding available for reinvestment. To fund all of the Chief Constable's requested investment would require a Council Tax increase of 3.51%.
- 4.24 The Head of Crime Support is currently leading the development of a business case around the formation of a Major Incident Support Team. The purpose of the business case is to demonstrate how the under spends within the major incident budget could be used to bolster resourcing to major incidents and at the same time provide divisions with pro-active resources to combat serious and acquisitive crime.
- 4.25 This case, which will form part of the Chief Constables budget proposals, will involve the appointment of two sergeants and ten constables to form the Major Incident Support Team. A half-year effect has been included in the budget for 2010/11 as it will not be possible to recruit to the team until part way through the year.
- 4.26 The proposal fully fits the force's strategic aims of building trust and confidence through:

- Safer neighbourhoods
- Protecting the public
- Improving our services.

- 4.27 The abstraction of investigative resources from a division reduces both the capacity and capability of that division, to effectively manage and deal with serious acquisitive crime. Often such abstractions can be for the duration of the enquiry and often involve key roles such as exhibits officer, disclosure officer, family liaison officer and HOLMES major incident room staffing. Dedicated and trained Major Crime Unit staff has helped to address these issues, however there is still a requirement for divisional abstractions to these roles.
- 4.28 The proposal is for divisions to be resourced with Major Incident Support Teams, which total two sergeants and ten constables. These teams will be called upon to resource major investigations in times of need thus reducing abstractions but can also be utilised by divisions to provide specialist support to the investigation of serious and acquisitive crime.
- 4.29 Consultation is ongoing with regards the nature of any specialist skills necessary by the team in discharging their role within divisions and to major incidents. Planning is also ongoing with regards to the location of such teams, their terms of reference and profile.
- 4.30 It is believed that such arrangements would enhance safer neighbourhoods and protect the public from harm by offering an increased criminal investigative capacity. An increase in the quality of initial investigation and detections is likely to have a positive impact upon public trust and confidence.
- 4.31 The increase in resilience within major crime investigations will allow a structured abstraction regime for divisions, an increased capacity in divisional investigation, and an improved service in terms of the resolution of major crime cases.
- 4.32 The balance of the Major Incident fund would be left available for other special events/large investigations and the earmarked reserve.

5. TREASURER'S REPORT UNDER SECTION 25 OF LOCAL GOVERNMENT ACT 2003

- 5.1. The purpose of this section of the report is to provide Members with information on the robustness of the estimates and the adequacy of reserves, so that Members have authoritative advice available when they make their decisions.
- 5.2. Local Authorities decide every year how much they are going to raise from Council Tax. They base their decision on a budget that sets out estimates of what they plan to spend.
- 5.3. The decision on the level of the council tax is taken before the year begins and it cannot be changed during the year, so allowance for risks and uncertainties that might increase expenditure above that planned, must be made by:
- making prudent allowance in the estimates, and in addition;

- ensuring that there are adequate reserves to draw on if the estimates turn out to be insufficient.
- 5.4. Section 25 of the Local Government Act 2003 requires that an Authority's Chief Financial Officer reports to the Authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that Members will have authoritative advice available to them when they make their decisions. Section 25 also requires Members to have regard to the report in making their decisions.

Robustness of Estimates

- 5.5. The proposed budget presented in the attached paper "Revenue Budget 2010-2011 and Revenue Forecast 2011-2013 and Capital Strategy & Plans 2010-2014" is based upon robust figures, prepared by the Director of Finance & Administration and his team. The paper provides details of the revenue budget proposals for 2010/11 together with forecasts for 2011/12 and 2012/13. The budget proposals presented therein are based on maintaining the current base level of service provision together with further options for addressing the most pressing operational risk.
- 5.6. Detailed estimates for 2010/11 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 increases. The budget includes provision for known service pressures.
- 5.7. At its meeting on 18 December 2009, this Committee considered a report on Budget Strategy 2010-2013. That report noted that the prospects for increases in overall Police Funding going forward into the next Spending Review (SR) period are low; indeed there is a high probability that future settlements will be restricted to current cash values or increase significantly below inflation. If this occurs, it will lead to an on-going reduction in real terms funding for this and other Forces. Lincolnshire's Police Grant will follow the national trend, except to the extent that the Authority is successful in convincing the Government to increase Lincolnshire's share of the overall national funding pot.
- 5.8. The financial forecasts assume a freeze in government funding for the first two years of the next SR period – this may be an optimistic assumption. Notwithstanding this assumption, Members should be in no doubt that, based on the current forecast spending plans, any decision to invest further in policing services during 2010/11 will lead to the requirement to increase the Precept by 9.1% and 7.7% during Years 2 and 3 of the planning period, unless significant additional funding becomes available, or further savings are identified. Members should consider the sustainability of the Chief Constable's proposed spending plans into the medium term.

Reserves

- 5.9. In November 2008, CIPFA issued updated Guidance on Local Authority Reserves and Balances (LAAP 77). As part of the budget setting for 2009/10 the Authority approved an approach to reserves in the light of this guidance. The Finance and Performance Committee has regularly revisited this during the year.

- 5.10 CIPFA's Guidance makes clear that the adequacy of an Authority's Reserves should be assessed in the context of its strategic, operational and financial risks.
- 5.11 The following table, shows the current position on Police Authority's Reserves.
- 5.12 Two of the risk areas addressed are worthy of further explanation. Firstly whilst the County Council has indicated their continued support for Neighbourhood Policing in the County for 2010/11, 2011/12 and 2012/13, this remains an ongoing risk and has been therefore left in the calculation.
- 5.13 Secondly, at the Finance & Performance Committee meeting on 18 December 2009 a consultation paper from the DCLG on the impact on Local Authority Revenue accounts of the implementation of IFRS was discussed. It was highlighted that the Authority may not be required to recognize accruals for holiday pay etc in the revenue account. This would result in a reduction in the level of reserves required. Since the meeting information has been received that this adjustment may only occur in the first instance when the initial accrual is made and that future changes will be required to be recorded in the revenue account. For this reason the provision made in the reserves calculation has been maintained.

Reserve	Current Allocation £'000	Area	Risk addressed	Calculation basis		Proposed allocation		Previous Allocation	
				Min	Max	Min £'000	Max £'000	Min £'000	Max £'000
General	2,907	General balance	Final, just in case, coverage	0.75% BR (2012/13)	1.5% BR (2012/13)	835	1,669	900	1,800
General		Major Disaster	Threshold of first 1% of budget requirement to be met on major disasters	50% of potential impact	200% of potential impact	542	2,165	500	2,000
General		Council Tax	To provide for future non-payments, reducing yields etc.	1% of council tax (2010/11)	3% of council tax (2012/13)	420	1,350	400	1,320
General		I FRS	Allocation based around initial estimated costs of £1m	75%	125%	750	1,250	750	1,250
General		Partnerships	PCSO Funding of £1.5m from County	25% of Funding	75% of Funding	375	1,125	425	1,275
Earmarked	1,789	Major Incidents	Possibility of in year major incident costs exceeding provision in revenue budget	Reserve and budget to be sufficient to meet historic levels of Demands and costs	Reserve and budget to be sufficient to meet historic levels of Demands and costs	1,150	1,600	1,150	1,600
Earmarked	1,207	Insurance	Covers excess on insurance position	2 x current excess (per F&S 19/12/08)	4 x current excess	500	1,000	500	1,000
Total	5,903					4,572	10,159	4,625	10,245

Table 7: Outline Requirements and Funding for the Risk Based Reserve Model

- 5.14 Members will note that the range of required Reserves is assessed as £4.6m-£10.2m against existing Reserves of £5.9m. The proposed range of acceptability is wide with £5.6 million being the difference between the minimum and maximum acceptable levels. The Authority's current policy is that it should plan to increase the Reserves to a level commensurate with the mid-point of the acceptable range. This remains the Treasurer's advice, particularly given the prospects for public finances. In monetary terms, this would be equivalent to £7.4 million and would require further transfers to the Reserves amounting to £1.4 million.
- 5.15 In order to achieve this target, the Authority's policy is that unplanned underspends at outturn will transfer automatically to the General Reserve. This would normally exclude instances where the Chief Constable had taken planned action to control in-year expenditure to fund future year investment in planned items in order to address policing risks.
- 5.16 Members will wish to consider whether the implementation of this policy alone will suffice given the prospects for public finances.

6 COUNCIL TAX

- 6.1 This budget is presented at a 3% Council tax increase level and in line with guidance provided by Finance and Performance Committee details are also given of the impact of increases at 1% and 2%. A formal Council Tax Calculation is given in Appendix B to this report.
- 6.2 If adopted an increase of 3% would enable the Authority to fund in full the budget requested by the Chief Constable and detailed at Section 4. Table 7 shows both the immediate and the medium term impact of this option. The figures shown for 2011/12 and 2012/13 are those that would be required in order to maintain the new base established by the Chief Constable's proposals.

	Budget 2009/10	Forecast 2010/11	Forecast 2011/12	Forecast 2012/13
Police Precept	£174.06	£179.28	£194.45	£208.23
(Increase %)	-	(3.0%)	(8.5%)	(7.1%)
(Per Annum)	-	(£5.22)	(£15.17)	(£13.78)
Budget Requirement (% Increase over prior year)	£104.7m	£108.3m 3.4%	£112.1m 3.5%	£115.6m 3.1%

Table 8 : Impact of 3% increase on Precept (Prices Shown at Band D)

- 6.3 It is important to remember that the Chief Constable and his senior managers have endeavored to balance the most immediate and essential policing needs of the Force against the prevailing financial circumstances. Ideally the Chief Constable would have recommended a 3.51% Council Tax increase that would have enabled all of the investment needs shown at Table 6 to be met. A 3% increase will require the Force prioritizing the budget changes into front line services. This would enable the following investments to be made:

	Annual Investment £'000
<u>On-Going Investment</u>	
MOPI / Genie Support officer	28.5
Licensing for Corporate Gazetteer	28.5
Prisoner Intelligence Notification System	17.5
Permanent Specials Recruitment / Volunteer Coordination officer	26.0
Replace existing Sgt with an Inspector in FCCC	14.2
8 Additional Constables for NPT	332.8
2 DC's for PPU/CAPU	83.2
Total On-Going Investment	530.7

Table 9: Ongoing Investment

- 6.4 It is important to note however that even with this level of investment the Chief Constable will still need to defer the appointment of five Police Constables who were highlighted as a priority area by the Force Command Group Decision Conferencing and no significant progress will be made in addressing other policing issues identified as part of the process.

	Deferred Investment £'000
4 Additional Constables for NPT	166.4
1 DC's for PPU/CAPU	41.6
Total Deferred On-Going Investment	208.0

Table 10: Deferred Investment

- 6.5 This level of investment would require an increase in Council Tax of 0.51% equating to 88p per annum for a Band D dwelling.
- 6.6 The Committee has previously indicated that it would consider council tax increases in the range 1%, 2% and 3%. The following table shows the impact on the proposed investment of levying a 1% increase.

		£'000
Council Tax Increase %	1.0	
Resultant Budget Deficit		284.0
Savings required for Priority items :		
MOPI / Genie Support officer		28.5
Licensing for Corporate Gazetteer		28.5
Prisoner Intelligence Notification System		17.5
Permanent Specials Recruitment / Volunteer Coordination officer		26.0
Replace existing Sgt with an Inspector in FCCC		14.2
Total Savings required		398.7

Table 11: Impact of 1% Council Tax Increase

- 6.7 This level of tax would require the Force to make further reductions in budget of £398.7k and would result in the following deferral of investment:

	Deferred Investment £'000
8 Additional Constables for NPT	332.8
2 DC's for PPU/CAPU	83.2
4 Additional Constables for NPT	166.4
1 DC's for PPU/CAPU	41.6
Total Deferred On-Going Investment	624.0

Table 12: Deferred Investment - Not Progressed at this time

- 6.8 It can be seen that at this level the further investment which has been identified by the Force is not possible and further reductions in expenditure of £398.7k will be required to balance the 2010/11 budget.

- 6.9 The following table shows the impact on the proposed investment of levying a 2% increase

		£'000
Council Tax Increase %	2.0	
Resultant Budget Surplus		123.0
Priority items funded:		
MOPI / Genie Support officer		28.5
Licensing for Corporate Gazetteer		28.5
Prisoner Intelligence Notification System		17.5
Permanent Specials Recruitment / Volunteer Coordination officer		26.0
Replace existing Sgt with an Inspector in FCCC		14.2
Total Savings required		(8.3)

Table 13: Impact of 2% Council Tax Increase

- 6.10 This option while funding the immediate priority items and not requiring any further reductions in budget would however result in the following deferral of investment:

	Deferred Investment £'000
8 Additional Constables for NPT	332.8
2 DC's for PPU/CAPU	83.2
4 Additional Constables for NPT	166.4
1 DC's for PPU/CAPU	41.6
Total Deferred On-Going Investment	624.0

Table 14: Deferred Investment- Not Progressed at this time

- 6.11 It can be seen that while not requiring further reductions in the budget a 2% increase will limit the level of investment to those priority items only with the issue of additional officers not being addressed.

7 COUNCIL TAX CAPPING

- 7.1 Detailed information on the Government's Council Tax Capping policy is provided at Section 6 of the attached Budget Report.

- 7.2 Local Government Minister Barbara Follett set out the Government's policy stance on Council Tax in her Ministerial Statement on 20th January 2010. Ms Follett said,

"I have also laid an order for the House's approval to cap Warwickshire police authority in advance for 2010-11, at a budget requirement, which equates to council tax increases of around 3% in both 09-10 and 10-11. I am also putting all authorities on notice that the Government will not hesitate to cap any excessive council tax increases set by individual authorities in 2010-11 and that it would be a mistake for any authority to presume they will not be capped if they stay within the capping principles which applied in 2009-10. We have already initiated capping action against three police authorities in advance for 2010-11 to limit their council tax increases to around 3%. No other decisions have been taken on capping for 2010-11, but we have made clear that we expect the average Band D council tax increase in England to fall to a 16 year low. The Government has maintained the three-year settlement in challenging economic circumstances and there can be no excuse for any authority setting an excessive council tax increase in 2010-11".

- 7.3 Whilst announcements on Council Tax capping focus on the level of Council Tax increases for technical reasons the legislation only requires consideration to be taken of the increase in the budget requirement but enables other additional factors to be considered as deemed appropriate. In previous years such considerations have always included the scale of Council Tax increase and occasionally additional factors such as the Band D precept being above the Police Authority average². For 2009/10 when capping was imposed on two Police Authorities the factors were:

- Council Tax increase exceeding 5% and
- Budget Requirement increase exceeding 4%.

- 7.4 It should be noted that for action to be taken both criteria need to be breached. For Lincolnshire a 3% Council Tax increase would equate to a 3.4% increase in the Authority's Budget Requirement.

- 7.5 The risks of Capping action, and particularly its consequences, vary in accordance with the extent to which the Authority breaches Government Council tax policy i.e. the greater the increase in Budget Requirement, or Council Tax level, the greater the risk of Capping action being taken and the more serious the consequences. The risk of capping action is also dependent on Council Tax decisions taken by Police Authorities nationally; an increase in Council Tax

² 2004/05

beyond the “norm” for a particular year will increase the risk of Capping action being taken. An oral update on the Council Tax decisions taken by other Police Authorities will be given at the Police Authority meeting.

- 7.6 In terms of the consequences of Capping action taken by the government, Designation, which involves rebilling, is more serious than Nomination. Capping action also becomes more serious depending upon the Budget Requirement set by the government, i.e. the greater the reduction in Budget Requirement implied by the Government’s determination, the more serious the consequences.
- 7.7 In the past, Ministers have taken final decisions on Capping in July, at which point a formal Capping Notice is issued and Designated Authorities are required to rebill. This would result in costs being incurred by the District Councils in terms of:
- Calculating, printing and posting revised council tax bills;
 - Calculating, printing and posting revised benefit notifications;
 - Abortive recovery actions on 2009/10 Council Tax debt.
- 7.8 This year the capping timetable might well be affected by the timing of a General Election and the difficulties of allowing time for proper consideration of all of the relevant factors during a period of election purdah. This may have implications for the number and range of Authorities capped.
- 7.9 Following the Designation of the Police Authority in 2008/09, the costs of rebilling in Lincolnshire amounted to £0.435 million.

8. FUTURE GOVERNMENT BUDGETS

Following the General Election in the spring/early summer, the incoming Government might wish to review the spending plans of the country for the current financial year. In this event the grant allocations previously announced could be revised downwards, although this is unlikely given the impact on local authority services and finances. The implications and proposals to address any changes would be reported to the September round of meetings.

9. CONSULTATION & COMMUNICATION

An oral update on the results of Consultation will be provided at the meeting.

B. FINANCIAL CONSIDERATIONS

These have been included in the main report.

C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

The authority is required to set a balanced budget, determine the rate of the Council Tax and issue a precept in accordance with the Local Government Finance Act 1988 and the Police Act 1996.

Under section 19 of the Police Act 1996, the Authority may only issue a precept if:-

1. at least half of the members of the total membership of the Authority approve; and
2. more than half the Councillor members appointed to the Authority approve.

Accordingly, at least nine members must approve including at least five councillors.

D. PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES

There are no personnel, equal opportunities or diversity issues arising from this report.

F. RISK MANAGEMENT

The risk of a shortfall in funding resulting in severe financial difficulties for the Authority and Force is highlighted in both the Authority and Force Risk Registers.

F. REVIEW ARRANGEMENTS

The budget will be monitored regularly at meetings of this Committee throughout the financial year.

G. LIST OF BACKGROUND PAPERS

Date	Description	File
	None	