



**REVENUE BUDGET 2010-2011,  
REVENUE FORECAST 2011-2013  
AND  
CAPITAL STRATEGY & PLANS  
2010-2014**

## TABLE OF CONTENTS

<b>A. SUMMARY AND CONTEXT</b>	
1. Executive Summary	3
2. Strategic Context	5
<b>B. FUNDING CONTEXT</b>	
3. National and Local Funding Context	6
4. Comparative Information	11
<b>C. COUNCIL TAX INFORMATION</b>	
5. Council Tax Base	14
6. Council Tax Capping	16
<b>D. PLANNING ASSUMPTIONS (REVENUE)</b>	
7. Revenue Budget 2010-2011 and Revenue Forecast 2011-13	19
8. Efficiency Plan	34
9. Police Authority Revenue Budget	37
<b>E. PLANNING ASSUMPTIONS (CAPITAL)</b>	
10. Capital Programme – Prudential Code	38
11. Capital Programme – Capital Strategy	39
12. Capital Programme – Proposed Investments 2010-14	40
13. Prudential Indicators, Borrowing Limits and Minimum Revenue Provision	43
14. Schedule of Appendices	45

## **A. SUMMARY AND CONTEXT**

### **1. Executive Summary**

- 1.1 This report provides details of the revenue budget proposals for 2010/11 together with forecasts for 2011/12 and 2012/13. These proposals are based on an underlying requirement to maintain the current base level of service provision. They also outline proposals from the Chief Constable to provide reductions in revenue expenditure to address some of the outstanding operational needs. These proposals do not, however, provide sufficient resources to enable the Chief Constable to make significant inroads into all of the issues that have been identified.
- 1.2 The budget presented in this paper has been formulated following a comprehensive and rigorous review of the financial forecasts, which are detailed at Appendix 1. This summarises the current budget proposals for 2010/11 together with revised financial forecasts for 2011/12 and 2012/13. The assumptions underpinning this projection are detailed in sections 3 (Grant prediction) and 7 (expenditure). The budget and Council Tax in 2010/11 together with the medium term are detailed in the accompanying Committee report.
- 1.3 The budget is based on three main areas of analysis and work:
- The report highlights Central Government Formula Grant funding of £66.3M in 2010/11, an increase of 3.17% (this is the last year of the current Comprehensive Spending Review). Other Specific Grants and Additional Rule 2 Grant receivable total £8.9M, a reduction in real terms over 2009/10. These are detailed in paragraph 3.11.
  - The revenue budget has been examined in detail and section 7 of the report highlights the spending pressures that have been examined and reflected in the budget.
  - The paper shows that the Council Tax base has increased by 1.07% between 2009/10 and 2010/11, reflecting additional properties in total across the County. However the magnitude of change varies greatly with one District demonstrating a 2.93% increase and another only 0.33%. The District Councils have confirmed an overall Collection Fund surplus of £61k. This is a reduction of 64% compared to the £168k received in 2009/10.
- 1.4 The Chief Constable is asking for an investment in services that will enable him to meet the most pressing policing needs currently facing the County. Such investment would require a Council Tax increase of 3.0% leading to a Budget Requirement increase of 3.42%.
- 1.5 The Treasurer's view is that the Authority should avoid being involved in the capping process. Experience in respect of 2008/09 demonstrated that being capped leads to a period of great uncertainty over the level of the budget with a consequent impact on service delivery during that period. It is her opinion

that a 3% Council Tax increase will minimise the risk of capping action being taken against the Authority.

- 1.6 Against this risk, Members should be aware of the prospects for public finances in the medium term. It might be wise, at this stage, to maximise potential future funding streams from Council Tax to mitigate the risk of future government funding decreases. Similarly, Members should consider the sustainability of spending plans into the medium term; early opportunities to minimise potential future demands on Council Tax funding by, for example, realising savings or identifying alternative funding streams will be key.

## 2. Strategic Context

- 2.1 The Police Authority is charged with providing an efficient and effective policing service for the people in Lincolnshire. In order to achieve this before the beginning of each financial year a policing plan must be issued setting out:
- The Police Authority's policing objectives for the policing of its area during that year; and
  - The proposed arrangements for the policing of that area for the period of three years beginning with that year (i.e. 2010-13).
- 2.2 At a special meeting on 5<sup>th</sup> January 2010, the Police Authority, considered the Authority's strategic objectives making comments and suggestions to a revised set of Strategic objectives. These were collated and further considered by the Strategic Planning Committee on 19<sup>th</sup> January 2010. These were then submitted together with the Force priorities to the Police Authority meeting on 29<sup>th</sup> January.
- 2.3 The plan recognises that the Home Secretary has stated that improving trust and confidence in policing is now the only target set for the Police Service. The Force has identified three priority areas to increase Trust and Confidence:
- **Safer Neighbourhoods**  
Working closely with communities, listening to people and working alongside them and our partners to help solve problems that concern them.
  - **Protecting the Public**  
Ensuring that people particularly the most vulnerable, are able to live their lives free from fear and are protected from those who would prey upon them.
  - **Improving our Services**  
Improving the quality of everything that we do, concentrating particularly on those things that matter most to you.
- 2.4 The timeline for the production of the Policing plan allows for further consideration of local priorities and the plan draft at the Authority meeting on the 23<sup>rd</sup> February. The final approval being considered at the meeting on 26<sup>th</sup> March. This is important, as it will allow for the targets to be set in conjunction with the level of resources allocated as part of the budget setting process.

## **B FUNDING CONTEXT**

### **3 National and Local Funding Context**

- 3.1 On 26th November 2009, the Minister of State for Local Government announced the provisional grant allocations for 2010/11. The final settlement figures for 2010/11 were then confirmed on 20<sup>th</sup> January 2010. This left Lincolnshire's funding allocation unchanged from that announced in November.
- 3.2 In accordance with the commitment made in previous years the Government has confirmed the funding figures announced as part of the Comprehensive Spending Review (CSR) period. The intention was that this would continue for the coming three year period, however the CSR has been delayed until after the General Election resulting in only an annual allocation being announced.
- 3.3 At a national level the key figure are as follows:
- General grant increases by 2.7% to £8,504 million in 2010/11;
  - Government funding for police authorities increases by 2.7% in 2010/11 to £9,741 million;
  - All police authorities will have an increase in formula grant of at least 2.5% in 2010/11, with authorities above this grant floor seeing increases up to 3.75% in 2010/11.
  - Existing Rule 2 grants continue to be allocated according to the historical distribution rather than in accordance with the funding formula and are maintained in cash terms at £209 million
  - The Crime Fighting Fund remains as a Specific Grant and is set at £277 million for 2010/11.
  - The Neighbourhood Policing Fund (NPF) totals £341 million in 2010/11 an increase of 2.7% over 2009/10 - it remains ring-fenced;
  - BCU funding will be maintained at £40 million in 2010/11;
- 3.4 For individual Forces the increase in funding varies from the Avon and Somerset, who receive 3.5%, to 16 Forces receiving a minimum increase, known as the floor, of 2.5%. Further details of this are provided in Appendix 2.
- 3.5 In the settlement it is indicated that this is the final year of the BCU Fund in its present form. This same statement was made in the 2009/10 funding settlement.
- 3.6 The settlement recognizes the importance of efficiency and productivity increases for police authorities. Police authorities will be expected to set

ambitious local targets for efficiency and productivity gains and to hold chief officers to account for delivery. The Efficiency plan is covered in more detail in Section 8 of this report.

- 3.7 The Settlement also set out the Government's policy stance on Council Tax. In her Ministerial Statement on 20th January 2010 Local Government Minister Barbara 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".

- 3.8 "Further information on Council Tax capping is included in Section 6 of this report.

#### **Lincolnshire's Grant Position**

- 3.9 The headline figures in the grant settlement for Lincolnshire are given in the following table:

	<b>2008/09 Settlement £M</b>	<b>2009/10 Settlement £M</b>	<b>Settlement 2010/11 £M</b>
<b><i>Notional Formula Grant Entitlement</i></b>	<b>65.054</b>	<b>67.021</b>	<b>69.001</b>
<i>Loss in respect of Floor Damping</i>	<i>(2.746)</i>	<i>(2.756)</i>	<i>(2.699)</i>
<b>Total Formula Grant Receivable</b>	<b>62.308</b>	<b>64.265</b>	<b>66.302</b>
Revenue Support Grant	2.961	4.662	3.238
Non Domestic Rates	21.270	20.201	22.301
Principal Police Grant	38.077	39.402	40.762
<b>Total Formula Grant Receivable</b>	<b>62.308</b>	<b>64.265</b>	<b>66.302</b>
<b><i>Increase from Previous Year (%)</i></b>	<b>3.06%</b>	<b>3.14%</b>	<b>3.17%</b>

**Table 1: Formula Grant - Grant Settlement**

- 3.10 This gives an increase of 3.17% in Formula grant over 2009/2010. However it should be noted that the Authority continues to be a net loser from damping at a cost of £2.699m in 2010/11. Appendix 2 provides a list of the 38 English Police Authorities and demonstrates which Authorities contribute to, or receive funding from, the floor.
- 3.11 Medium term financial projections based on the above funding announcements have been undertaken for the years 2010/11 to 2012/13 and are detailed at Appendix 1. As the grant figures are outside of the CSR period the forecast has been based on grant being frozen at 2010/11 levels, which would equate to a real terms cut in central government funding. This figure is subject to much speculation as a result of the current economic crisis and the affect that this will have on the next CSR.
- 3.12 In relation to other grants, the following are expected: -

	2008/09 £M	2009/10 £M	2010/11 £M	Change 2009/10 – 2010/11
Crime Fighting Fund	2.189	2.189	2.189	Frozen
Basic Command Unit Fund	0.310	0.310	0.310	Frozen
Neighbourhood Policing Fund	2.719	2.793	2.868	+2.7%
Security Grant	0.302	0.302	0.372	+23.2%
<b>Sub Total Specific Grants</b>	<b>5,520</b>	<b>5,594</b>	<b>5,739</b>	<b>+2.6%</b>
The Rural Policing Fund	2.057	3.268	3.268	Frozen
Special Priority Payments	0.636			
Forensic Grant	0.387			
IPLDP	0.188			
<b>Sub Total Additional Grant Rule 2</b>	<b>3.268</b>	<b>3.268</b>	<b>3.268</b>	<b>Frozen</b>
<b>Grand Total</b>	<b>8,788</b>	<b>8,862</b>	<b>9,007</b>	<b>+1.64%</b>
<b>Change from Previous year (%)<sup>1</sup></b>	<b>-27.7%</b>	<b>+0.84%</b>	<b>+1.64%</b>	

**Table 2: Other Grants - Grant Settlement**

3.13 The final grant settlement for the Other Grants is still awaited in particular it is understood that consideration is still being given to the Security Grant allocation, although overall little variation to these figures is anticipated. The BCU Fund 2010/11 has been included despite the announcement last year that it was to cease. It is understood that the fund may disappear in 2011/12 and has therefore been excluded from future forecasts.

3.14 It can be seen from the above tables that whilst the grant announcement provides an increase in formula grant it does not reinstate the Special Grant funding of £3.4m received in 2007/08. Additionally a number of specific and additional rule 2 grants have been held at the same value taking no account of inflationary pressures resulting in a real terms decrease in grant. In total grants for 2010/11 are still only 3.2% higher in cash terms than in 2007/08.

### **Crime Fighting Fund**

3.15 In relation to the Crime Fighting Fund (CFF), Lincolnshire received funding for 81 additional police officers between 2000/2001 and 2003/2004. The funding for these posts remains at £2.19M over the period of the CSR demonstrating an erosion of its real terms value. However, the rules which previously required the Force to continue to maintain its police officer numbers at or above the target set by the Home Office in order to qualify for the full grant

<sup>1</sup> The 2007/08 figures contained a one-off special grant of £3.4 million. Excluding this allocation grants increased by 0.4% between 2007/08 and 2008/09.

have been relaxed. This has enabled a Civilianisation programme to take place.

### **BCU Funding**

- 3.16 The Government has confirmed that BCU funding will continue at its existing level in 2010/11 with £50 million provided nationally. It is understood this will be reviewed for future years.

### **Neighbourhood Policing Fund**

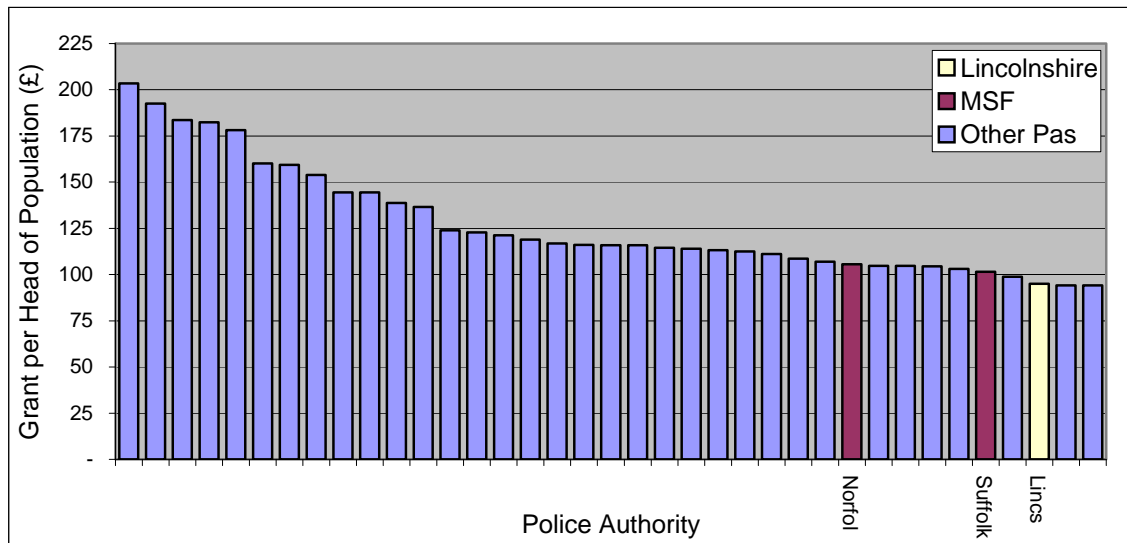
- 3.17 The settlement confirms the Government's commitment to part fund Neighbourhood Policing with further specific grants provided in the CSR period. The funding is based on a Lincolnshire maintaining its PCSO strength at no less than 149 PCSOs.

### **Other Grants**

- 3.18 Lincolnshire Police will continue to receive allocations from the former Rural Policing Fund, Forensic Grant and Special Priority Payments Grant. The Home Secretary decided to also include the grant receivable in respect of the Initial Police Learning and Development Programme which was previously separate and amalgamate these grants into the "Additional Rule 2 grant". The change purports to give the Authority/Force greater flexibility to move resources between these three programmes. Given existing commitments there will, in reality, be limited flexibility.

## 4 Comparative Information

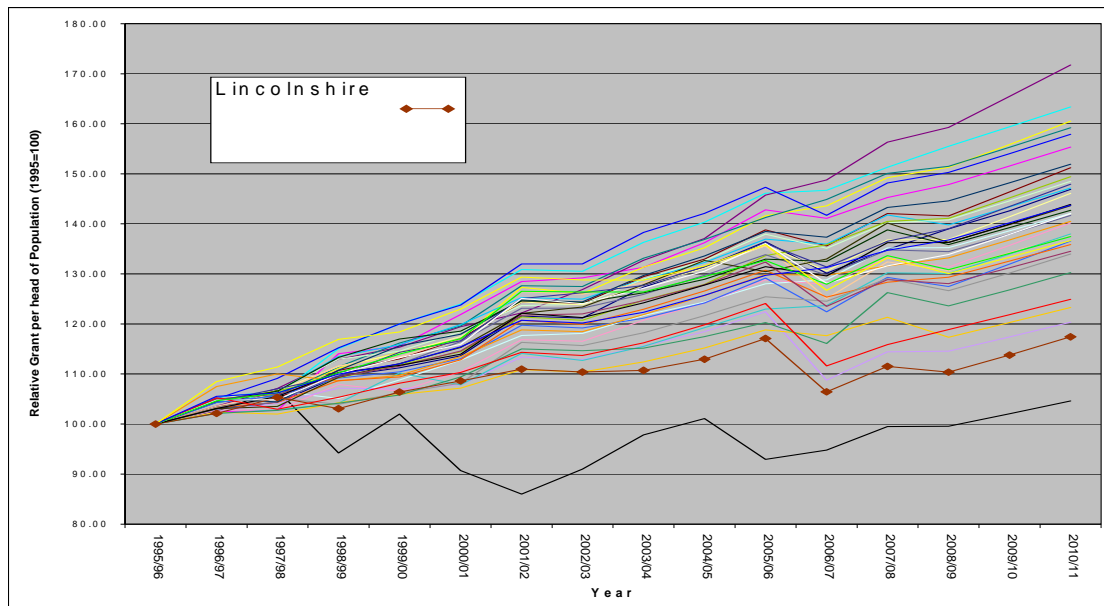
- 4.1 Lincolnshire Police has for many years been concerned about the low level of Formula Grant that it receives compared to other Forces. Up until 2010/11 the Authority's Formula Grant was the lowest grant per head of all shire police authorities. Due to Surrey and Dorset receiving a grant increase at the floor of 2.5% compared to Lincolnshire's 3.2% they have moved below Lincolnshire in the table. The following graph shows allocations for 2010/11<sup>2</sup>.



**Figure 1: Formula Grant per Head of Population (Settlement 2010/11)**

- 4.2 The following graph shows how the trend in relative grant per head of population has varied since the inception of Police Authorities. Each Authority is represented by a line on the chart with Lincolnshire being shown with blocks. It can be seen that since 1995/96, only one Force, Surrey, has had a lower increase in Grant per Head than Lincolnshire. It is worth noting that between April 1995 and December 2009 the Retail Price index increased by 44.2% compared to an increase in grant of 36.0%.

<sup>2</sup> As Lincolnshire's Most Similar Forces include two Welsh Forces only Norfolk and Suffolk are highlighted, as this data is currently unavailable for Wales



**Figure 2: Trend in Relative Grant per head of Population**

- 4.3 This low level grant has a direct impact on the overall level of funding available to the Authority, indeed the HMIC Value for Money Profiles for 2008/09 show Lincolnshire as having the lowest cost per head of population for all Forces. This is a position, which the Authority has unfortunately occupied for a number of years. It is also worth noting that this is despite the 26% Council Tax increase made by the Authority in 2008/09.
- 4.4 Previous budgets have included an analysis of the overall level of spend, or budget requirement, per head of population for all Police Authorities and highlighted Lincolnshire's relative position. This analysis has been updated to include the settlement figures and an assumption that each Authority sets a 3% precept increase and increase in council tax base of 1.0%. This shows that overall funding 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.



## C COUNCIL TAX INFORMATION

### 5 Council Tax Base

- 5.1 The Council Tax is distributed between the billing councils on the basis of the relevant tax bases notified by them. The tax base is calculated from the number of properties in each area allocated to each property band and discounted for single occupancy, non-payers, etc. The tax base is expressed as a "Band D" equivalent as follows:-

Councils	Band D Equivalent Properties		Percentage Change
	2009-10	2010-11	%
Lincoln City	25,590	26,341	2.93
Boston BC	19,219	19,365	0.76
East Lindsey DC	46,768	47,150	0.82
West Lindsey DC	30,200	30,300	0.33
North Kesteven DC	35,900	36,260	1.00
South Kesteven DC	45,738	46,252	1.12
South Holland DC	28,008	28,232	0.80
<b>Total Properties</b>	<b>231,423</b>	<b>233,900</b>	<b>1.07</b>

**Table 3: Council Tax Base**

- 5.2 The level of Council Tax assumed in the grant settlement is given in the table below compared to the actual set and with those assumed in our forecast. It is notable that Lincolnshire has fewer properties than forecast in the grant settlement and in 2010/11 this gap has will have grown to 5,736 properties. This reduction in the number of properties will need to be factored into the next CSR by the Government and could result in a loss in resources.

	Settlement Assumed Taxbase Band D Equivalent	Percentage Growth %	Actual Taxbase / Forecast	Percentage Growth %
2007/08	227,828	-	225,814	
2008/09	232,406	2.0	229,823	1.8
2009/10	235,992	1.5	231,423	0.7
2010/11	239,636	1.5	233,900	1.1
2011/12	-		235,069	0.5

**Table 4: Council Tax Base - Grant Settlement.**

- 5.3 The Authority's precept will be added to the figures for Council Tax for expenditure by the Parish, Town, District and County Councils and will form part of the Council Tax demand bills. Under the regulations, the billing authority must determine a schedule of instalments for payments to precepting authorities. The proposal is that the Councils will pay the Police Authority in 10 equal instalments on every fifth Friday.
- 5.4 The current precept requirement by the Authority is net of any Council Tax surplus declared by the District Councils and under existing arrangements any surplus on the collection fund is returned to the taxpayer through a reduced charge in the following year.
- 5.5 This surplus in respect of 2008/09 was £227,180 in 2009/10 was £167,811 and has fallen to £61,054 for 2010/11. This reduction in surpluses has a detrimental effect on the overall available budget for the year.
- 5.6 All the 7 District Councils decided to reduce the discount on Council Tax for Second Homes for 2005-06. The "unwritten agreement" was that the extra income generated for both the County Council and Police Authority would be returned to the District Councils. The additional income generated for 2009/10 in respect of the reduction in Discount on Second Homes is estimated to be £138K, which has been included in the budget summary.
- 5.7 From Executive papers for the 2<sup>nd</sup> February 2010, detailed below, it is understood that the County Council intends to review this policy prior to 2011/12, and members may wish to consider whether such a review would be appropriate for the Police Authority.

"Council Tax income includes additional income from district council decisions to reduce the council tax discount on second homes. The Council's policy is to agree to spend the additional income generated in each District on schemes, which will be of mutual benefit to both the County Council and the District Council. Grants to District councils for this purpose were approved by the Executive for the period 2008/09 to 2010/11. The Executive will need to review this policy prior to 2011/12". - Lincolnshire County Council Executive Meeting 2<sup>nd</sup> February 2010, Report Ref 6.0.

## **6 Council Tax Capping**

- 6.1 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".
- 6.2 This section of the report provides further information on the Capping Process, the criteria that have been used in the past to select Local Authorities for capping action and the issues that the Authority will wish to take into account when it makes its Budget and Council Tax decisions.
- 6.3 In previous years, DCLG Ministers have deferred their decision on whether to use their Council Tax Capping powers until after Council Tax levels have been set. To date, there has been no advance announcement of capping principles.
- 6.4 The Government's policy stance is that Council Tax Capping is not something that it undertakes lightly - it attaches great importance to local accountability and believes that first and foremost it is for local authorities to set their council tax and justify it to their local electors. However, the Government also has a duty to protect council taxpayers from increases that it believes to be excessive.
- 6.5 If Ministers decide to invoke their Council Tax Capping powers, they will determine the criteria that they will use to select Authorities for capping. In determining these criteria, Ministers are required to take account of each authority's Budget Requirement and may take account of other factors such as the type of authority, for example Police Authority.
- 6.6 The "Budget Requirement" for each Authority is defined as the total of two sources of funding: Formula Grant and Council Tax. The Government makes Regulations each year which define the Budget Requirement for each Local Authority for the previous financial year. Lincolnshire's Budget Requirement for 2009/10 was £104.7m.

- 6.7 As well as considering the Budget Requirement, Ministers are free to include in the principles any other matters they consider relevant. Such factors have consistently included the scale of the increase in the council tax for the individual precepting authority. It should be noted that in this regard each Authority is viewed as an individual entity and so historically the impact of lower increases in other precepting authorities has not been considered a mitigating factor even when this has resulted in an overall council tax increase for an area being below 5%. For example in 2006/07 the overall council tax increase for the City of York was 4.86% comprising 5.49% for the Council, 2.27% for the Police Authority and 2.56% for the Fire Authority. However, even with this composite impact the Secretary of State's position was that the Council's increase was excessive and nominated their element of the increase for 2007/08.
- 6.8 The criteria used by the Government to establish that Police Authorities' budgets were "excessive" in previous years are set out in the table in Appendix 15. In each year, all of the criteria had to be met by an Authority in order for it to be selected for Capping.
- 6.9 Authorities selected for Capping are notified during early April that they have been selected, whether they have been Designated or Nominated, and the level of their maximum Budget Requirement for the year. Designation means that the Authority must operate within the level of the maximum Budget Requirement that year and must therefore rebill. Nomination means that the Authority can continue to operate with its agreed budget for that year, but that budget increases for subsequent years will be measured against the notified maximum Budget Requirement. In the past, the decision on whether to Designate or Nominate has been based upon the costs of rebilling when compared with the reduction in Council Tax implied by the maximum Budget Requirement. Authorities then have 28 days within which they can challenge this decision. They may also submit further information to DCLG Ministers in support of their case.
- 6.10 The risks of Capping action, and particularly its consequences, may vary in accordance with the extent to which Authorities breach 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
- 6.11 In the past, Ministers have normally taken final decisions on Capping in July, at which point a formal Capping Notice is issued to the Treasurer 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 2010/11 Council Tax debt.

6.12 Following the Designation of the Police Authority in 2008/09, the costs of rebilling in Lincolnshire amounted to £0.435 million.

## **D PLANNING ASSUMPTIONS (REVENUE)**

### **7 Revenue Budget 2010-2011 and Revenue Forecast 2011-2013**

- 7.1 The proposed original Budget for 2010/11 together with forecast expenditure for the period up to 2012/13 is included at Appendix 1. Medium term financial projections are based on a range of assumptions with a best, worst and an assumed level for forecasting purposes being demonstrated. Particularly in respect of Government funding it is only really possible to look at a range of options, as clarity will not be available until the next CSR is announced some time after the General Election.
- 7.2 Appendices 5 and 6 provide a breakdown of the change between the 2009/10 and 2010/11 base budgets, while the assumptions underpinning the forecasts for 2011/12 and 2012/13 are given in paragraphs 7.58 onwards.
- 7.3 In determining the Revenue Budget Requirement for 2010-11 a number of key financial assumptions have been made.

#### **Police Officers**

- 7.4 The Police Officer budget represents the single most significant element of the budget, accounting for more than 50% of gross revenue expenditure. As such, the methodology used to budget for police officer pay is clearly very important. Last year, the opportunity was taken to examine the methodology used and to modify the way in which future costs are estimated in order to maximise number of police officer posts that can be funded from within the available resources.
- 7.5 During 2009/10 the Police Officer budget has been closely monitored to examine variances against the assumptions made when the original budget was set. Variation has been experienced against the assumed levels and the budget has required adjustment as the year has progressed. The latest available forecast of average pay is £47,298 for 2009/10, the budget being set based on the average rate of pay of £47,776. This difference has enabled the Force to fund an average strength of 1,203 for the year.
- 7.6 Moving to an average costing approach helps in explaining how the budget is set and also in monitoring in year variations, it is also understood to be an approach adopted by many other Forces. However, given the variations experienced a detailed review of the approach used has been undertaken, this has resulted in a refinement to the method of calculation and improvements in monitoring.
- 7.7 The Police Officer budget is based on the establishment of officers detailed in Table 6.

	<b>2009/10 Original Budget FTE</b>	<b>2010/11 Original Budget FTE</b>	<b>Change FTE</b>	<b>Narrative</b>
ACPO	4	4	-	
Chief Superintendent	5	5	-	
Superintendent	11	10	(1)	Removal of temporary Superintendent post from the Sustainable Funding Project.
Chief Inspector	11	15	4	Reorganisation of the Criminal Justice & Partnerships Department creating three Chief Inspectors & one temporary DCI in Protective Services.
Inspector	69	68	(1)	Changes to the Executive Staff Officers with two Inspector roles becoming Sergeant and a temporary Inspector post in Strategic Development
Sergeant	182	185	3	Changes to the Executive Staff Officers with two additional Sergeants and a sergeant funded externally.
Constable	911	908	(3)	Civilianisation of six constable roles and three constables appointed from the Fleet review funding.
<b>Total</b>	<b>1,193</b>	<b>1,195</b>	<b>2</b>	

**Table 5: Police Officer Numbers included in 2009/10 Budget**

7.8 The Police Officer pay budget has been set including a number of key assumptions:

- That the Police officer establishment is 1,195 officers.
- The budget excludes provision for 12 seconded officers during the year; the net cost is shown with recharges in a separate section of the budget.
- An allowance the equivalent of one percent of the police officer budget (in 2010/11 this equates to £421k) has been included to allow for fluctuations in average officer costs due to long-term sickness and maternity.
- Inspectors, sergeants and constables have been based on the average pay rates. This will vary during the year. We are anticipating a small reduction in average pay as top of the scale constables who qualify for higher allowances are replaced by new staff. Close monitoring will be required during the year to ensure compliance with the budget.
- Budgets for officers at Superintendent rank and above have been based on the staff currently in post and a calculation of their expected salary costs in each year.
- The pay award of 2.55% from 1<sup>st</sup> September 2010 has been included in the budget. The forward forecast includes provision for awards of 1.0% in 2011 and 1.0% in 2012.
- That the employers' contribution for Police Officer pensions is maintained at the level of 24.2% for the period of the budget forecast.

7.9 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.

7.10 The HMIC Value for Money profile produced in the autumn and based on statistics from 2008/09 shows that Lincolnshire spends the least amount on Police Officers per Head of population of all Forces. Consequently Lincolnshire is shown to have the second lowest number of officers per head of population of all Forces.

7.11 Police officer overtime has been reviewed by the Force, the following table summarises the forecast budget:

	<b>Original Budget 2009/10 £'000</b>	<b>Original Budget 2010/11 £'000</b>
Casual	1,771.4	1,202.2
Bank Holiday	645.4	808.4
Rechargeable	146.9	136.4
<b>Total Police Overtime</b>	<b>2,563.7</b>	<b>2,147.0</b>

**Table 6: Police Officer Overtime**

- 7.12 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.
- 7.13 It can be seen that an increase in Bank Holiday Overtime is included to ensure that 11 days are included in the base budget, to allow for additional bank holidays falling at a weekend. This has increased costs in 2010/11 by £147k. This will be managed through the specific Bank Holiday provision. It should be noted that a contribution from the provision in the summary part of the budget has been included.
- 7.14 The HMIC Value for Money profile shows that in terms of police officers overtime Lincolnshire spends an above average amount per Head of population. The reductions made to the base level of spend will bring Lincolnshire in line with other Forces.
- 7.15 Allowance has been made in the forecast budget for Special Priority Payments to be made in accordance with the Home Office scheme requirements. It should be noted that the Home Office no longer provide a separate figure for this grant in their analysis, based on previous years figures there will be a cost to the Authority of the scheme in the order of £200k.

### **Police Staff**

- 7.16 The Police Staff pay forecast has been set including a number of key assumptions:
- That the Police staff establishment is 1,136.5 staff. This includes 149 PCSO's.
  - The budget will allow for the projected number of staff on the establishment with a vacancy factor allowance of 7%. 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 1<sup>st</sup> September 2010 has been included in the budget. The forward forecast includes provision for awards of 1.0% in 2011 and 1.0% in 2012.

7.17 If any assumptions prove to be lower then this will release additional in year resources and impact on required funding levels in future years.

7.18 Police staff movements are as follows:

	<b>Establishment. FTEs</b>
<b>Total 2009/10</b>	<b>1,084.3</b>
Original Budget 2009/10	33.0
Other Changes	19.2
<b>Total 2010/11</b>	<b>1,136.5</b>

**Table 7: Police Staff Establishment Movements**

7.19 A breakdown of movements in the Police Staff Budget is given in Appendix 3.

7.20 The Triennial Review of Police Staff pensions scheme was undertaken as at the 31st March 2007. The actuary suggested that no reduction in employers' contribution was made at that stage. The forecast does not include any provision for changes in contribution rate, which may follow the 2010 review, this will not be known until later in the year.

7.21 A separate schedule has been included at Appendix 4 showing the position on the Time Limited Funds being utilised by the Force. These include the following external funding streams that have been received by the Authority and transferred to this earmarked reserve.

	<b>£'000</b>
Home Office Funding in respect of Service Improvement	500.0
Home Office Funding in Respect of Protective Services	125.0
	625.0

**Table 8 : Fixed Term Funding**

7.22 The HMIC Value for Money profile shows that in terms of police staff costs Lincolnshire spends significantly below average amount per Head of population and has a below average number of police staff per head of population.

#### **Police Staff Overtime**

7.23 In respect of Police staff overtime this has been frozen at the 2009/10 level for 2010/11 with budget managers being required to absorb pay award increases and additional bank holiday payments.

7.24 The HMIC Value for Money profile shows that in terms of police staff overtime costs Lincolnshire spends significantly below average amount per Head of population. When looking at the relative overtime rate as a percentage of salary costs the Force is at the average of all Forces, this shows how much the Force relies on overtime in relation to the overall pay bill.

#### **Other Employee Expenses**

7.25 This area of the budget principally covers the costs associated with training this area of the budget has been effectively frozen at 2009/10 levels. Work is on going to ensure that training needs for 2010/11 are properly prioritized and delivered within the allocated levels of funding.

#### **Police Officer Pensions**

7.26 In accordance with Home Office rules concerning the financing of Police Officer Pensions provision has been included in the forecast revenue budget for the following:

- Injury award ongoing payments
- Capital equivalent sum for medical retirements.

7.27 In the light of an increase in the number of medical retirements currently being experienced the number of medical retirements budgeted for has been increased from eight to fourteen per annum. In addition in order to meet the cost of other pension awards an increase of £74k per annum has been included.

#### **Premises Costs**

7.28 Significant savings have been identified following the end of long term agreements for the cost of electricity supply. Savings have also been realised from a review of Business Rates.

7.29 Other areas of saving include revised Insurance costs.

7.30 The HMIC Value for Money profile looks at premises costs in terms of analysing costs as a percentage of overall staff costs as they believe that there is a relationship between the number of staff and these costs. In this regard Lincolnshire's spend is just below the average level for all Forces.

### **Transport Expenses**

- 7.31 The main change in this area of the budget reflects the increasing pressures in the provision of vehicle maintenance and running costs of the fleet in terms of tyres and other equipment, overall an additional £157k has been recognised in the budget.
- 7.32 A small increase in fuel costs has been allowed for across the Force (£22k), these costs have been offset by the savings on the new Insurance tender together with budget adjustments relating to the Fleet review.
- 7.33 The HMIC Value for Money profile looks at transport costs in terms of analysing costs as a percentage of overall staff costs. In this regard Lincolnshire's spend is just above the average level for all Forces, which is reflecting the large area of the County.

### **Supplies and Services**

- 7.34 There are a number of increasing changes in this area of the budget. The following points highlight the main factors:
- In the light of recent trends in expenditure and the level of claims being faced by the Force the budget for the settlement and costs associated with claims against the Force has been increased significantly by £165k.
  - Interpreters Fees continue to be an ongoing demand on the budget with a projected increase of £129k.
- 7.35 The HMIC Value for Money profile looks at supplies and services in terms of analysing costs as a percentage of overall staff costs. In this regard Lincolnshire's spend is significantly above the average level for all Forces. A review of spend across this area of the budget with a view to rebalancing the spend in a number of areas has been undertaken.
- 7.36 This has resulted in £270k being removed from the devolved budget. This reduction will help to bring the Force more into line with other Forces. During the year work will be undertaken to establish whether there are any issues concerning the definition of spend to be included in this category.

### **Agency and Contracted**

- 7.37 The main increase in this area of the budget relates to the Authority contribution to the East Midlands Special Operations Unit (EMSOU) as a result of the reduction in Home Office Grant being received, the Authority's contribution increases by £85.3k.

### **Capital Financing**

- 7.38 The forecast budget for capital financing costs is based on the Capital Programme proposed in Section 12 of this report.
- 7.39 The new borrowing has been calculated based on the following assumptions:

- That the full amount of capital grant allocated by the Home Office is utilised each year. Allowance has been made in future years against an erosion of this amount.
- That £100k of capital receipts are received and utilised (from the sale of life expired vehicles).
- That the available general grants and receipts be applied to short life assets in the first instance.
- That borrowing is undertaken for twenty-five years in the case of Buildings related assets, five years for ICT related schemes and other equipment and three years for any vehicles.
- That the costs of borrowing will be assumed to commence at the start of the following financial year.
- That the current PWLB rates of interest will be applied.

7.40 The following table summarises the capital financing costs included within the forecast budget:

	<b>2010/11 £'000</b>
<b>Existing PWLB Loans</b>	2,013.6
<b>LCC Transferred Loan</b>	74.2
<b>Borrowing 2009/10</b>	523.2
<b>Total</b>	<b>2,611.0</b>

**Table 9: Capital Charges**

7.41 The costs associated with the proposed capital programme have been included on a separate line in the budget (Revenue effect of Capital Programme) and will be included within actual budget heads as the schemes are commissioned.

7.42 The information relating to the Code of Prudential Borrowing has been included in Section 9 of the Report.

#### **Income**

7.43 A reduction has been included in the income from Investments of £40k reflecting the recent falls in interest rates. This is also affected by the tightening of Treasury Management policies following the crisis in the financial markets. An easing of this position has been assumed in later years of the forecast.

#### **Contribution from Lincolnshire County Council**

7.44 The forecast budget includes the continuation of the funding towards Neighbourhood Policing over the period of the forecast assuming that the

current service level agreement is continued throughout the life of the plan at the level of £1.5 million.

### **Second Homes**

- 7.45 An Allowance of £138k has been included within the forecast budget for the same amount of Second Homes payments to be made in 2010/11; this has been estimated and will need to be reassessed following receipt of the final Council Tax information.

### **Major Incidents**

- 7.46 For planning purposes it has been assumed that an annual revenue budget of £1.5 million is to be maintained and that any in year over or under spends are offset against the dedicated Major Incident Reserve, which currently stands at £1,790k.
- 7.47 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
- 7.48 This case, which forms 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.
- 7.49 The proposal fully fits the force's strategic aims of building trust and confidence through:
- Safer neighbourhoods
  - Protecting the public
  - Improving our services.
- 7.50 The abstraction of investigative resources from a division, reduce 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.
- 7.51 The proposal is for divisions to be resourced with Major Incident Support Teams, which may total two sergeants and ten constables although these figures are under consideration and are not finalised. 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.

- 7.52 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.
- 7.53 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.
- 7.54 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.
- 7.55 The balance of the Major Incident fund would be left available for other special events/large investigations and the earmarked reserve.

#### **Summary**

- 7.56 The implications of the above assumptions together with required incremental changes on the Medium Term Revenue Forecast are summarized below and Appendix 5 reconciles the movements in the budget between 2009-10 and 2010-11, which are further analysed in Appendix 6.

	<b>2010/11 £'000</b>	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
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
<b>Gross Expenditure</b>	<b>118,406</b>	<b>120,720</b>	<b>123,653</b>
Less income	(3,950)	(4,029)	(4,110)
<b>Net Expenditure</b>	<b>114,456</b>	<b>116,691</b>	<b>119,543</b>
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)
<b>Net Expenditure</b>	<b>107,767</b>	<b>112,351</b>	<b>116,122</b>
<b>Funding:</b>			
Government Grant	(66,302)	(66,302)	(66,302)
Council Tax	(41,995)	(43,469)	(44,994)
<b>Net Expenditure</b>	<b>(530)</b>	<b>2,580</b>	<b>4,826</b>

**Table 10: Summary Budget and Forecast**

7.57 A number of options for addressing the budget gap and their future implications are detailed later in the report.

#### **Medium Term Forecast**

7.58 The robustness of the forecasts for 2011/12 and 2012/13 is of particular importance during this budget round. The assumptions made in the forecast do not have the benefit of a three year CSR announcement which coupled with uncertainty over levels of pay award and movements in other costs makes the forecast subject to many variables. For this reason a range of forecasts has been included from best case to worst case. The assumptions underpinning these forecasts have been detailed in Appendix 7.

7.59 The following notes described the assumptions underpinning the middle assumed option. As well as taking account specific inflationary pressures, the forecasts include an element of service development to respond to known

service demands; a summary of the service developments for 2011/12 and 2012/13 is included at Appendix 8 with a further breakdown given in Appendix 9.

### **Police Officers**

7.60 The following assumptions have been made:

- The establishment has been based on 1,195 officers.
- Pay awards have been included at the rates of 1.0% in 2011 and 1.0% in 2012.
- For police officer overtime, a freeze in expenditure has been assumed.
- A provision equivalent to 9 Bank holidays has been allowed in each year of the forecast.
- Employers' pension contributions have been assumed to remain at 24.2% over the period of the forecast in line with the settlement information. This has been set up to and including 2010/11 but may be subject to change for the start of the new CSR.

### **Police Staff**

7.61 The following assumptions have been made:

- Establishment has been based on the continuation of the budgeted establishment for 2008/09.
- Pay awards have been included at the rates of 1.0% in 2011 and 1.0% in 2012.
- For police staff overtime, a freeze in expenditure has been assumed.
- Employers pension contributions have been assumed to increase by 1% in 2011/12 and 2012/13. This may be subject to change for 2011/12 following a further review of the fund.
- A vacancy factor of 7% has been maintained over the period of the forecast.

### **Other Employee Expenses**

7.62 This area of the budget is principally external training costs as highlighted in paragraph 7.29 above, Training requirements are increasing year on year in force with increasing costs for legislative and regulatory changes, however the provision made in the original budget 2010/11 has been maintained over the period of the forecast.

### **Police Officer Pensions**

7.63 This area of the budget allows for those costs not covered by the Home Office Pension account, recent trends suggest that provision should be included for 14 ill health capital equivalent sums, this has been made in 2010/11 and this has been assumed to reduce back down by two officers per annum in 2011/12 and 2012/13.

### **Premises Costs**

7.64 The forecast for this area of the budget has taken into account:

- Allowance for inflation in particular additional provision for volatility in the electricity and gas markets.

- The results of the Asset Strategy is likely to identify spending pressures in this area of the budget for which allowances of £250k in 2011/12 and £150k in 2012/13 has been included in the forecast.

### **Transport Expenses**

7.65 The forecast for this area of the budget has taken into account:

- Allowance for inflation in the areas related to the cost of oil based fuel.
- Following the insurance tender exercise and a change in the number of fleet vehicles an allowance of £20k per annum has been made to meet additional insurance premiums,
- An allowance of £25k per annum has been made to provide for increasing labour rates from outsourced maintenance contract.

### **Supplies and Services**

7.66 The forecast for this area of the budget has taken into account:

- In order to provide for the specific contractual changes in ICT agreements an additional £90k in 2011/12 and 2012/13 has been provided.
- Additional insurance premiums, following the annual review of the insurance arrangements, £50k in 2011/12 and 2012/13.
- Operational demand has increased in a number of key areas for; payments to informants (£25k per annum), additional operating costs of Airwave communications (£50k per annum), and other prosecution costs (£25k per annum).
- Interpreter's fees have been increased by £100k in 2011/12 and 2012/13 to allow for the predicted cost increases following the new regional tender exercise.

### **Agency and Contracted**

7.67 The forecast for this area of the budget has taken into account:

- Increased provision for the costs of forensic science testing, of £100k in 2011/12 and 2012/13 has been provided.
- Further pressures in the National Policing contribution budget have been included at £30k per annum.
- Provision for increases in the contribution to EMSOU have been included at an increase of £195k in 2011/12 and £11k in 2012/13, due to the reduction in Home Office grant being received by the Unit.

### **Capital Financing**

7.68 The capital financing costs included in the forecast are detailed in the table below:

	<b>2010/11 £'000</b>	<b>2011/12 £'000</b>
<b>Existing PWLB Loans</b>	1,961.3	1,909.1
<b>LCC Transferred Loan</b>	73.1	70.8
<b>Borrowing 2009/10</b>	581.4	502.8
<b>Borrowing 2010/11</b>	1,316.2	1,276.7
<b>Borrowing 2011/12</b>	-	752.6
<b>Total</b>	<b>3,869.0</b>	<b>4,512.0</b>

**Table 11: Capital Charges**

### **Revenue implications of capital schemes**

- 7.69 As part of the preparation of the Business cases for capital schemes managers were asked to detail the ongoing revenue consequences of their proposals. These costs were evaluated as part of the Decision Conferencing process by the evaluation team and Command Group. The resultant costs, which include staffing and running costs of new systems, have been included in line 18 of the budget.

### **Income**

- 7.70 General Income has been increased by 2% throughout the period of the forecast, as much of this income is recharge / cost recovery based and will follow the expenditure side of the budget. Other income from fees and charges is demand driven and therefore has been forecast to increase at a similar level.

### **Investment Income**

- 7.71 The turmoil in the worlds financial markets in 2008 is continuing to have a major effect on the anticipated returns on the investment of cash flow surpluses. In 2010/11 these are forecast to fall further to £190k in line with current returns being experienced. The Medium Term Financial forecast assumes that there will be a gradual recovery over the period of the plan both in interest rates and the stability of the financial markets. With a prediction of returns of £340k per annum by the end of the period.

### **Other Items**

- 7.72 Second Homes payments are assumed to continue at their current level allowing for the changes in the level of precept.
- 7.73 The contribution from Lincolnshire County Council towards Neighbourhood Policing has been assumed to continue for the period of the forecast at £1.5 million.

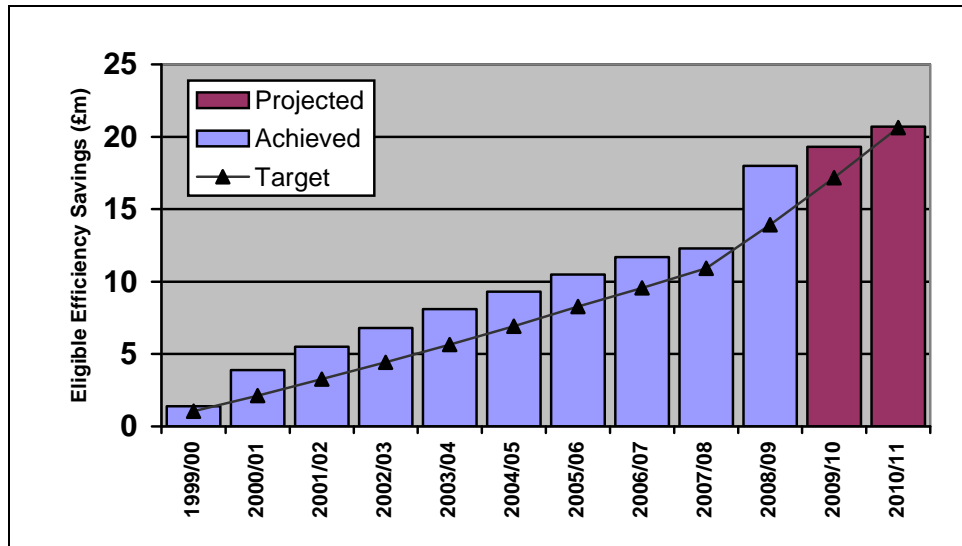
### **Funding**

- 7.74 The postponement of the three year provisional CSR settlement has resulted in a series of assumptions being included in the forecast, with a cash freeze being assumed for the main forecast.
- 7.75 Council Tax figures are based on
- A 0.5% increase in the Council Tax base in 2011/12 and 2012/13.
  - A Collection Fund Surplus of £61k per annum.
  - A council tax increase of 3% per annum.

## **8 Efficiency Plan**

- 8.1 The requirement to develop annual efficiency plans in the police service was introduced in 1999/2000, with an annual efficiency target of 2% being 1% cash releasing efficiency savings and 1% non-cash releasing (productivity improvements).
- 8.2 The target was increased in 2005-06 to 3% annual efficiency savings with half of these being cash releasing. Given the historic underfunding of the Authority Lincolnshire Police has exceeded the annual targets, but in the latter years these have been achieved through budget cuts.
- 8.3 The Efficiency Plan requirements for the period 2008/09 to 2010/11 are that compared to 2007/08 police authorities will be expected to deliver 9.3% cashable increases in efficiency and productivity by the end of 2010/11. The Government has established a Workforce, Efficiency Finance (WEF) Working Group to take forward work on the police efficiency targets. The WEF is a strategy group replacing the old Police Efficiency Group representing ACPO and the APA, which includes, as part of its remit, the development of the technical note on police efficiency and productivity for the Comprehensive Spending Review years.
- 8.4 Guidance on the new target for the Police Service Efficiency and Productivity Strategy was issued in February 2008, it is understood that:
- The value of the target is compounded; cumulative net cashable efficiency or productivity gains worth 9.3% of 2007/08 Gross Revenue Expenditure to be achieved by the end of 2010/11.
  - As the target is a cumulative one to be achieved by 31/03/2011 there is no requirement for gains to be spread evenly across the CSR years. As such rather than laying down significant requirements in 2008/09 the challenge placed on the Authority is to deliver appropriate efficiency gains by the target date.
  - Capital spending remains outside the scope of the target, though gains made in relation to capital expenditure, for example through better procurement can still be taken into account.
  - The definition of a cashable saving is being widely drawn; indications are that it is doubtful that there will be many gains, which can be classed, as “non-cashable”. It is indicated therefore that it is no longer necessary that cashable efficiency gains should be reflected in a reduction in base budget.
  - The key measurement issues in relation to cashable gains are likely to be demonstrating that outputs have been maintained where the resource has been removed; demonstrating that outputs have been increased if the resource has been re-applied; demonstrating that in each case the overall quality of output has been maintained.

8.5 As Figure 7 demonstrates that between 1999/00 and 2008/09 the Authority has been successful in delivering £12.3m of cash releasing efficiency savings. It should be noted that due to the underlying fiscal position of the Authority in some circumstances these efficiencies have been used to balance the budget and so were not reinvested in service provision.



**Figure 6: Cumulative Efficiency Targets 1999/00 to 2010/11**

8.6 The Efficiency and Productivity Strategy announced by the Home Office places a requirement on Police Authorities to achieve Efficiency and Productivity gains over a three-year period (2008/09 – 2010/11) of 9.3%. This is calculated based on Gross Revenue Expenditure for 2007/08. The level of Gross expenditure can be adjusted for seconded officers and for special grants.

8.7 The calculation would result in gains of £12.4 million be required over the three year period which would be reduced by £0.3 million if the special grant is excluded. It should be emphasised that the requirement is based on the gains being made prior to 31.3.2011 and not an annual target each year. This is a blanket target for the Police Service with no account taken of previous savings made or the financial position of an Authority.

8.8 Savings from the previous CSR period may be brought forward into the new arrangements. At the end of the 2007/08 year cashable savings of £2,033k and non cashable of £1,312k were available. The amount of gains claimed may also be affected by the recurrent nature of some of the gains for example a gain in year one which results in a saving that is ongoing can be counted in each of the following years.

8.9 The Force is currently examining altogether 78 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. The following table summarises the position identified to date.

<b>Area of Efficiency and Productivity gain</b>	<b>Gain £'000</b>
<b>Cashable</b>	
Carry –Forward	3,345
Reduction in Cost of Officers	2,500
Workforce Modernisation	1,694
Original Budget Risk Areas 2009/10	1,267
Procurement savings	445
Other	444
General Inflation	375
Fleet Review	120
Mobile Phone Contract	109
ICT Link Long Bennington	85
Police Staff Posts	78
Mobile Phone Analysis	50
Payroll contract	50
Training Meals	40
Police staff Posts	78
Origin HR	70
<b>Non Cashable</b>	<b>594</b>
<b>Total</b>	<b>11,344</b>

**Table 12: Efficiency and Productivity Gains Identified.**

- 8.10 Outside of these internal efficiency opportunities the Authority needs to also be aware that opportunities also exist to deliver efficiency savings as part of the collaborative agenda, these will be included as they are realised.
- 8.11 The recent budget settlement and announcements by the Chancellor of the Exchequer indicating that Britain faces the biggest cuts in public spending for 20 years means that efficiency and productivity improvements will need to be driven across the police service.
- 8.12 At the Strategic Planning Committee on 3<sup>rd</sup> December 2009 a report was tabled 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 an Authority member supported by the Authority secretariat and the Force Strategic Development Department. This Board will oversee 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.

## **9 Police Authority Revenue Budget 2010-11**

- 9.1 The proposed budget for 2010/11 is £1,100k, which is an increase of 18.6% over the base budget for 2009/10. This is due principally to the changes introduced by the new Scheme of Members Allowances, which was approved by the Authority at its meeting on 25<sup>th</sup> September 2009 and came onto effect on 1<sup>st</sup> October 2009. Further provision has also been made for staffing issues within the secretariat.
- 9.2 The detailed budget for the Police Authority is attached at Appendix 10.

## **E PLANNING ASSUMPTIONS (CAPITAL)**

### **10 Capital Programme – Prudential Code**

- 10.1 Given the prudential regime, it is important for the Authority to prepare and approve a statement of its Capital Strategy. The statement is intended to describe how the Authority and Force collectively determine their programme of capital investments including how it identifies the key priorities.
- 10.2 The Committee has previously been advised of the changes to Capital Management which resulted from the introduction of the Prudential Code for Capital Finance in Local Authorities produced by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 10.3 Following the enactment of the Local Government Act 2003, the capital regulations became effective from April 2004. These new provisions replaced the previous complex regulations governing Local and Police Authorities' borrowing powers.
- 10.4 Prior to the Prudential regime the Authority had little discretion over its level of capital spending. Capital Grant together with a level of 'credit approval', which effectively gave permission to borrow, was allocated to the Authority. At the time the Authority was selling its police houses, which helped to supplement the programme. Increasing capital demands in the property and ICT areas have resulted in an increased level of capital programme funded principally from borrowing.
- 10.5 The Prudential framework is one based largely on self-regulation. Police Authorities are free to borrow to fund capital expenditure provided their plans are affordable, prudent and sustainable. CIPFA has recently updated its Prudential Code for Capital Finance in Local Authorities. The prudential code framework requirements are detailed at Appendix 11.

## **11 Capital Programme - Capital Strategy**

- 11.1 Given the new prudential regime, it is important for the Authority to prepare and approve a statement of its Capital Strategy. The statement is intended to describe how the Authority and Force collectively determine their programme of capital investments including how it identifies the key priorities.
- 11.2 The Capital Strategy is important because:-
- a) It promotes the most effective use of the Authority's capital resources by ensuring that the capital investment programme is closely aligned to its key priorities;
  - b) Its assessment by HMIC and External Audit contributes to both the financial and operational management of the Police Service.
- 11.3 The Capital Strategy is based on the Authority's policing priorities and has been prepared in the context of the Authority's agreed financial framework and an Asset Management Plan (which needs to be prepared).
- 11.4 A major review of the Capital Programme process in Force has been undertaken. This review has resulted in a total rebuilding of the capital programme. All schemes have been subject to a business case submission and detailed review by the Chief Officer and Command Group. This has resulted in significant reductions in spend and a rephrasing of projects.
- 11.5 The Capital Strategy Consists of 4 elements and is detailed at Appendix 12
- a) Investment in the estate.
  - b) Investment in ICT.
  - c) Investment in vehicles.
  - d) Investment in equipment.

## 12 Capital Programme – Proposed Investments 2010-13

- 12.1 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 rephasing 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 Force is proposing a capital investment programme of £26.4M over the next 3 years, which is detailed at Appendix 13 and summarised below this is a reduction of £8M from the previous plan:

	2010/11 £M	2011/12 £M	2012/13 £M
Property	1,599.5	2,500.0	6,500.0
ICT	4,619.6	1,361.7	1,746.9
Vehicles	1,271.0	1,297	1,386.0
Replacement Programmes	1,370.0	1,250.0	1,520.0
<b>TOTAL</b>	<b>8,860.1</b>	<b>6,408.7</b>	<b>11,152.9</b>

**Table 13: Proposed Capital Investments**

- 12.2 The capital expenditure over the next 3 years includes the continuation of investment in the Force Estate and ICT Infrastructure.
- 12.3 The Property spend is to provide funding for the results of the Asset Strategy review. It should be noted that whilst spending levels of £9 million are projected in this area over 2011/12 and 2012/13 there is a likelihood that a significant proportion of this expenditure will slip by one or more years. This will have a positive impact on revenue budgets in 2012/13 and 2013/14.
- 12.4 Whenever possible, capital grants and capital receipts will be used. However, it will be necessary to borrow significantly to finance this level of programme. If no significant capital receipts are realised then the borrowing requirement would be as follows:-

### £'000

2010/11	£7,589.1
2011/12	£5,111.7
2012/13	£9,776.9

- 12.5 A summary of the capital financing proposals is set out in Appendix 13. Provision has been made in the Revenue Budget in order to match the asset

life of an asset to the length of loan being taken. For Property based expenditure the debt has been included in the debt charge calculations over a twenty-five year period. In respect of shorter life asset i.e. ICT purchases these loans should be made over a five year period. The costs of continuing with this policy have been included in the budget forecast shown in Appendix 1.

- 12.6 The debt outstanding at 31 March 2013, the end of the period is forecast to be £34.8 Million, at, repayable as follows:

	<b>2011 £M</b>	<b>2012 £M</b>	<b>2013 £M</b>
Within 12 months	2.81	3.27	3.71
12 to 24 months	2.81	2.95	3.37
24 months to 5 years	6.37	6.22	6.96
5 to 10 years	4.73	5.38	6.88
10 years and over	9.33	10.53	13.93
	<b>26.05</b>	<b>28.35</b>	<b>34.85</b>

**Table 14: Debt Repayment Schedule**

- 12.7 The cost of borrowing is estimated as follows: -

	<b>Capital Financing Charges £'000</b>	<b>Impact on Council Tax £</b>	<b>Increase in Council Tax each year £</b>
2005/2006	698	3.58	0.51
2006/2007	906	4.06	0.48
2007/2008	1,256	5.56	1.50
2008/2009	4,779	7.74	2.18
2009/2010	2,243	9.69	1.95
2010/2011	2,717	11.62	1.92
2011/2012	3,855	16.40	4.78
2012/2013	4,378	18.53	2.13

**Table 15: Cost of Borrowing**

- 12.8 The cumulative effect of the programme 2010-2013 is a 5.1% increase on precept.

- 12.9 As well as the cost of borrowing, the additional running costs must also be factored into the charge on the Revenue Account. These have been estimated and included as a separate line on the budget summary.

### 13 Prudential Indicators, Borrowing Limits and Minimum Revenue Provision (Appendix 14)

13.1 The Authority's borrowing requirements are governed by the prudential code and in accordance with this code the Authority must determine the following borrowing limits and treasury management guidelines. If there are any significant variations to the requested approvals below, these will be reported to the Authority as appropriate.

13.2 The limits and approvals that must be determined for 2010/11 are as follows:

- a) An Authorised Borrowing Limit for the year – proposed at £28M
- b) An Operational Borrowing Limit for the year – proposed at £26M
- c) The Authority is also asked to delegate authority to the Treasurer, to effect movement between the separately agreed figures for borrowing and other long-term liabilities (within the total Operational Boundary for any individual year, in a similar fashion to the Authorised Limit). Any such changes will be reported to the Finance & Performance Committee at its next meeting following the change.
- d) A limit on the proportion of total fixed interest debt payable by the Authority – proposed at 100%.
- e) A limit on the proportion of total variable interest debt payable by the Authority - proposed at 30%.
- f) The upper and lower limits for the maturity structure of debt (amount of projected borrowing repayable in each year that is fixed rate as a % of total fixed rate borrowing) as follows:

	Upper limit	Lower limit
Under 12 months	20	-
12 months and within 24 months	20	-
24 months and within 5 years	35	-
5 years and within 10 years	25	-
10 years and above	40	10

**Table 16: Maturity Structure of Debt**

#### **Minimum Revenue Provision**

13.3 All Local Authorities including Police Authorities are required each year to set aside a minimum amount from their revenue account to provide for the repayment of external loans. This amount is called the Minimum Revenue Provision (MRP). It was previously calculated by applying 4% to the Authority's Capital Financing Requirement (CFR) at the beginning of the year.

- 13.4 For the year 2007/08 and future years the previous calculation has been replaced with a requirement that Authorities calculate an amount of MRP that they consider to be prudent. This guidance is issued under the Local Government Act 2003 section 21(1A). The Authority is required to prepare an annual statement of their policy on making MRP for submission to the full Authority. The Authority is required to make this statement for 2009/10 before 31 March 2010 and it was agreed that this should be included with the review of the Prudential Indicators.
- 13.5 Regulation 28 of the 2003 Regulations requires the authority to calculate an amount of MRP, which it considers to be prudent. The aim of making a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits or, in the case of borrowing supported by Revenue Support Grant is reasonably commensurate with the period indicated in the grant settlement.
- 13.6 At its meeting on 25th June 2008 options for the calculation of the MRP were considered and the Policy was set for Lincolnshire Police Authority utilising option 2.
- 13.7 This method of calculating the MRP is based on 4% of CFR at end of the preceding year. It can only be used for capital expenditure incurred before 1st April 2008 and expenditure incurred on or after that date which forms part of the supported capital expenditure. Other unsupported expenditure will be treated in accordance with Option 3 (Equal Instalment Method).
- 13.8 It has therefore been calculated that the Authority needs to make a MRP of **£879k** in 2009/10 in order to discharge its duty to make a prudent MRP in the financial year.
- 13.9 It should be emphasised that in reality although a policy is set on making the MRP, the revenue budget is prepared based on making the actual debt repayments, which for 2009/10 are estimated to be £1,390k.

**Lincolnshire Police Authority  
2010-2013 Budgets**

***Schedule of Appendices***

- Appendix 1 Budget Summary and Forecast 2010-11 to 2012-13
- Appendix 2 Analysis of Floor Damping
- Appendix 3 Reconciliation of Staffing Changes
- Appendix 4 Time Limited Funding
- Appendix 5 Reconciliation of Changes on Revenue Budget 2009-10 to 2010-11
- Appendix 6 Detailed Analysis of Revenue Budget Changes 2009-10 to 2010-11
- Appendix 7 Budget Planning Assumptions
- Appendix 8 Reconciliation of Changes on Revenue Budget 2010-11 to 2011-12 and 2012-13
- Appendix 9 Detailed Analysis of Revenue Budget Changes 2010-11 to 2011-12 and 2012-13
- Appendix 10 Details of Police Authority Revenue Budget 2009-10 to 2010-11
- Appendix 11 Prudential Framework Requirements
- Appendix 12 Capital Strategy
- Appendix 13 Proposed Capital Programme and Financing Arrangements 2010-2013
- Appendix 14 Prudential Indicators and Borrowing Limits
- Appendix 15 Council Tax Capping Criteria