

To: Finance and Resources Committee

From: Chief Constable and Treasurer

Date: 20th January 2010

BUDGET PROPOSALS 2010/11 AND FORECASTS 2011/12, 2012/13

1. Introduction and Background

- 1.1 This report sets out the budget options for next year (2010/11) and the budget forecasts for the following two years for the Committee's consideration.
- 1.2 The Committee considered progress on the 2010/11 budget setting process on 14th December 2009, having particular regard to closing the £1.1m gap highlighted to the Committee when it considered the Medium Term Financial Plan on 20th October 2009.
- 1.3 The Chief Constable can report that, following the Star Chamber process (para. 1.10 below), the £1.1m gap has been closed and this report therefore sets out a balanced budget proposal. The Committee is asked to note that the budget proposal provides for the maintenance of police officer and PCSO numbers at 2009/10 levels; that the need to increase fuel and utilities budgets has been recognised and service pressures identified by budget managers amounting to £1.8m (Appendix 3) have been accommodated.
- 1.4 An analysis of the principal savings identified and budget pressures accommodated in closing the budget gap reported on 20th October 2009 is set out at Appendix 2.
- 1.5 The Authority underspent its budget in 2008/09, principally as the result of police officer and police staff vacancies. Following significant police officer recruitment rounds and a reshaping of the organisation to establish a workforce modernisation mix, underspending is not expected to recur in the current year. Indeed, a marginal overspend of £0.25m or 0.2% is forecast for 2009/10.
- 1.6 The most material assumptions in setting the Authority's budget are the projected level of pay settlements, grant settlements from Central Government and Band D Council Tax increases.
- 1.7 The 2010/11 budget proposal reflects the final pay rise of the 3 year pay deal struck in 2008/09 for police officers (2.55%) and police staff (2.58%). Forecast assumptions, based on indications for public sector pay restraint from Central Government, are for settlements of 1% in 2011/12 and 2012/13 (Appendix 1 lines 32 and 33 and para's. 3.1 and 3.3).
- 1.8 The Government has confirmed previous figures in making its provisional grant settlement announcement (para. 2) and these are included in the 2010/11 budget proposal (Appendix 1 line 31). Forecast assumptions are for grant settlements of 0% in 2011/12 and 2012/13.

- 1.9 The Committee is also asked to note that the 2010/11 budget proposal is presented on the basis of a 2.95% increase in the Band D council tax. At this stage figures for council tax base and collection fund surpluses or deficits are estimates only but as in past years only a marginal effect on the final budget/council tax is expected when final figures are available from the billing authorities.
- 1.10 In terms of process, the Constabulary has again produced a balanced budget proposal by requiring Budget Holders to submit budget plans within previously defined cash limits. Plans, including any bids for growth, are subject to rigorous scrutiny and challenge at Star Chambers. It is a requirement of this process that growth is funded either by substitution for existing plans or by identified efficiencies. The Committee is asked to note that the process was particularly rigorous this year given the need to close the budget gap.
- 1.11 The Star Chamber process gives Budget Holders flexibility to manage the resources under their control in order to deliver the outputs and outcomes for which they are accountable. Consequently, the Senior Management Team is confident that the budget proposals contained within this report clearly demonstrate a continuing commitment to the National Strategic Policing Priorities and to the Constabulary's Local Policing Priorities which are:
- a) to increase the trust and confidence of the public in the Constabulary and improve their satisfaction with the service delivered;
 - b) to deal with local policing issues which are of concern to the public, reduce crime and anti-social behaviour; and
 - c) to protect the public from serious crime and prevent people from being attracted to potential criminal activity.
- 1.12 An analysis of budget pressures and an indication of the quantum of efficiencies / savings required in the medium term are set out at Appendix 4.

2. Financing

- 2.1 On the 26th November 2009 the Government announced the Provisional Grant Settlement for 2010/11, the third and final year of the 2007 Comprehensive Spending Review, confirming previously announced figures. The Government is expected to confirm these figures as final after the consultation period on the provisional settlement closes on 6th January 2010.
- 2.2 For this Authority the three year Grant Settlement has provided increases of 3% year on year for the CSR period. This is above the average overall increase of 2.7%.
- 2.3 To stabilise funding to the police service the government has again applied minimum 'floor' increases. The floor is set at 2.5% for all authorities, with those above the floor having to pay for those below it. This Authority (which is above the floor) has again 'lost' £2.7m (year on year) in formula grant. This situation has pertained every year since 2004/05 and the total loss since then is £16.5m (average loss £2.4m per annum).
- 2.4 Total financing available for 2010/11 (and the forecasts for the two following years), is set out in row 26, Appendix 1.

- 2.5 The forecasts presented in Appendix 1 provide for a 2.6% increase in Net Revenue Expenditure in 2011/12 and 2.4% in 2012/13.
- 2.6 Prospects for Government funding for 2011/12 and subsequent years are dominated by a number of uncertainties: the political uncertainty of the forthcoming General Election; economic uncertainty regarding the strength of any economic recovery and the combined effects of political and economic uncertainty on public spending in general and spending on policing services in particular.

3. Budget Detail

The Budget for 2010/11 and Forecasts for 2011/12 and 2012/13 are shown at Appendix 1. A 2.95% council tax increase has been assumed at this stage for 2010/11 and 2% for 2011/12 and 2012/13. Reasons for the main budget to budget (2009/10 to 2010/11) changes are set out below:

Police Officers

- 3.1 Forecasts tabled in the 2009/10 budget setting process indicated a Police Officer establishment of 1,427 at 1st April 2010. It was also reported that budget holders were able to take advantage of the flexibility granted to them and deploy additional resource as police staff, staff in newly civilianised roles or other human resource. In the event, the 2010/11 budget is based on an agreed establishment of 1,404 reflecting, inter alia, a number of civilianised financial investigator posts.
- 3.2 The Committee is asked to note that the proposed establishment exceeds the 2008/09 "Crime Fighting Fund floor" of 1,368 by 36 posts.
- 3.3 The Police Officer budget reflects the final rise (2.55%) of the previously confirmed 3 year pay award. Increases of 1% have been forecast for 2011/12 and 2012/13. The cost of an additional 1% on the Police Officer pay bill is approximately £0.6m in a full year.

Police Officer Overtime

- 3.4 Provision for Police Officer overtime has been reduced again – for 2010/11 by £0.5m – reflecting continuing efforts to contain costs and ensure value for money in police officer deployment.

Police Staff

- 3.5 Police Staff budgets are based on an establishment of 1,021.7 fte posts reduced by a vacancy factor of 1%. A department by department analysis is set out below:

	2010/11 fte	2009/10 fte	Change fte
Safer Communities	229.4	223.7	5.7
Investigations	268.4	282.9	-14.5
Northern	63.4	60.2	3.2
Southern	70.8	61.5	9.3
Central	63.6	63.8	-0.2
ACPO/ Strategic Development / QAT	33.3	33.3	0.0
Corporate Communications	14.0	14.4	-0.4
Professional Standards Department	10.6	10.5	0.1
ICT	80.8	47.7	33.1
Fleet	21.0	21.0	0.0
Estates	25.7	21.7	4.0
HR	42.5	43.4	-0.9
Learning & Development	25.5	27.8	-2.3
Management of Police Information	30.2	31.4	-1.2
Finance	32.6	34.7	-2.1
Police Authority	8.0	8.0	0.0
Corporate	2.0	2.0	0.0
Total	1,021.7	988.0	33.7

- 3.6 The principal changes over the prior year relate to 24.6 posts in ICT previously funded from the capital account, 7 civilianised and 1 growth post in Southern, growth in the Estates establishment required to service the enlarged estate and a saving of 14.5 posts identified in the Investigations Directorate.
- 3.7 All growth posts have been accommodated within the pre-defined cash limits (see para. 1.10 above).
- 3.8 The pay award for Police Staff has also been agreed and is included in the draft budget. Pay rises are 2.6% for 2009/10 and 2.58% for 2010/11. The cost of an additional 1% on the Police Staff paybill is approximately £0.3m in a full year.

Training

- 3.9 The Training budget has decreased by 25% to £1.0m because there is a reduced provision for Citizen Focus training.

Police Pensions

- 3.10 Police Pensions comprise the Authority's (employer's) contribution to the Police Pension Fund which is currently set at 24.2% of serving Police Officer salaries, and the cost of ill-health and injury awards. Police Pension costs are forecast to rise broadly in line with Police Officer pay.

Premises

- 3.11 Budgeted premises costs have increased by 8.3% reflecting the revenue consequences of capital investment in prior years – principally Copse Court, Chord Park, Monks Wood and Cambourne. Additionally, budgetary provision reflects continuing pressure from increasing utility costs.

Supplies and Services

- 3.12 Provision for supplies and services has fallen by some £2.4m following a rigorous round of scrutiny and challenge as part of the Star Chamber process (para. 1.10 above) with budget holders identifying a range of savings and efficiencies in order to produce a balanced budget proposal.

Capital Financing Costs

- 3.13 The budget proposal and forecasts include the capital financing costs of the proposed Estates capital programme only, since the principal schemes are replacements and a planning assumption is that running costs can be contained within existing budgetary provision. Indeed, a replacement Southern BCU is expected to be more efficient than the existing building in terms of energy costs and cheaper in terms of rates payable. However, potential savings have not been included in budget projections as the project is still at a very early stage. Similarly, the principal IT schemes are replacements / upgrades and it is assumed that licensing and maintenance costs can be contained within existing budgets. Revenue consequences of past investment in the Authority's estate have been included in the 2010/11 budget and forecasts (para. 3.11).
- 3.14 The majority of capital financing is by way of borrowing since capital grants from Central Government run at around £1.5m a year. In addition, the opportunity to generate capital receipts from surplus assets is currently constrained by market conditions consequently a capital receipt of £5m is forecast in 2012/13 – year 3 of the forecast period.
- 3.15 The capital financing costs provided in the proposed budget are set out below:

	2009/10	2010/11	2011/12	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000
Principal repayment (MRP)	826	2,164	2,539	2,946	3,378
Interest - Existing Loans (annuity)	555	539	523	507	490
Interest - New Loans (maturity)	77	224	772	1,621	2,177
Revenue financing (contingent)	-	553	-	-	-
Total	1,458	3,480	3,834	5,074	6,045

- 3.16 The Committee is asked to note that Minimum Revenue Provision (MRP) is a charge to revenue (for repayment of debt) required by statute. It is calculated by reference to the cost and expected life of assets financed by way of borrowing at the start of the financial year after the asset is brought into commission. Assuming a replacement for Parkside is commissioned in 2012/13 it follows that MRP will not become chargeable until 2013/14 which is outside the forecast period.
- 3.17 In accordance with best professional practice, Cambridgeshire Police Authority does not associate borrowing with particular items or types of expenditure as explained in the Treasury Management Report (Agenda Item 9). However, indicative costs of borrowing to finance a replacement Parkside based on a number of assumptions about the timing of loans raised is set out below:

	2010/11	2011/12	2012/13	2013/14	2014/15	Ongoing
	£'000	£'000	£'000	£'000	£'000	£'000
Replacement Parkside - indicative borrowing costs ¹ (interest)	65	329	726	1,075	1,225	1,225
MRP charges ² (principal)	-	-	392	392	392	392
Total indicative financing costs	65	329	1,118	1,467	1,617	1,617

¹assumed 50 year loan
²assumed 60 year asset life

4. Use of Reserves

- 4.1 No use of reserves is proposed in this draft budget. In accordance with statute and CIPFA guidance, a section on Reserves will be included in the full budget report to the Authority on 11th February 2010.

5. Council Tax and Capping

- 5.1 The Government's stance on capping is well known. The capping rules are made after all local authorities (including police authorities) have set their budgets.
- 5.2 The following table sets out the capping criteria for the last few years with this Authority's decisions.

Table 1: Capping Criteria 2006/07 to date.

Year	Capping Criteria		Cambridgeshire	
	Budget increase not more than %	AND Council Tax increase not more than %	Budget increase %	Council Tax increase %
2006/07	6	5	~	5
2007/08	no capping	" less than 5%"	5	5
2008/09	5	5	4	5
2009/10	4	5	4.1	5
2010/11	3?	<i>less than the current year average of 3%?</i>	3.1	3?

- 5.3 The capping criterion in legislation is the budget increase. Government has, by regulation, added council tax increase as another criterion.
- 5.4 The Authority breached the budget increase criterion in 2009/10.
- 5.5 In the Treasurer's view there would be a risk of capping if an increase above 3% was approved for 2010/11.
- 5.6 The Government did not hesitate to cap Surrey Police Authority this year. Surrey had to pay £1.6m back to council tax payers at a cost of £1.2m for re-billing.
- 5.7 An early survey of council tax increases for 2010/11 shows over two thirds of police authorities likely to approve increases of 3% or less.

6. Recommendations

- 6.1 The Committee is asked to discuss the report and frame a budget recommendation for the Authority to consider on 11th February 2010.

BIBLIOGRAPHY

Source Document (s)	Contact Officer	Location
Budget Report Police Authority Agenda 18 th February 2008 Finance and Resources Committee Agenda 14 th January 2009	Niki Howard Director of Finance and Resources T. 01480 425049 E. niki.howard@cambs.pnn.police.uk John Hummersone Treasurer to the Police Authority T. 01638 667090 E. john@hummersoneconsulting.co.uk	Cambridgeshire Police Headquarters, Hinchingsbrooke Park, Huntingdon, Cambridgeshire, PE29 6NP.
<p>Originating Officer: Niki Howard, Director of Finance and John Hummersone, Treasurer</p> <p>Is it considered that this report contains 'exempt information' and should be considered in private? NO</p> <p>If the answer is "YES", please state the nature of the exempt information and the relevant clause (s) in Part 1 of Revised Schedule 12A to the Local Government Act 1972</p> <p>.....</p> <p>The attached report has been cleared with the undermentioned officers: (delete as appropriate)</p> <p>Chief Executive/Chief Constable/Treasurer</p> <p>Others</p> <p>Submitted on8th January 2010.....</p> <p>A report will not be sent to the Authority unless this box has been satisfactorily completed and all necessary consultation carried out - the responsibility for which rests with the originator (except for consultation with the Chairman and this will be undertaken by the Chief Executive).</p>		

Cambridgeshire Police Authority Budget 2010/11 and Medium Term Forecasts

	Ref	Budget 2009/10 £'000	Estimate 2010/11 £'000	Incr %	Forecast 2011/12 £'000	Forecast 2012/13 £'000
Police Officer Pay & Allowances	1	55,643	57,539	3.4	58,558	59,141
Police Officer Overtime	2	3,017	2,500	-17.1	2,525	2,550
PCSO Costs (net of funding)	3	2,076	1,958	-5.7	2,006	2,097
Police Staff	4	30,979	31,799	2.6	32,909	33,723
Police Staff Overtime	5	222	232	4.3	236	238
Training	6	1,344	1,005	-25.2	1,015	1,025
Other Employee Expenses	7	434	162	-62.6	164	166
Police Pensions	8	14,395	14,822	3.0	15,225	15,656
Total Employee Costs	9	108,110	110,017	1.8	112,638	114,597
Premises Costs	10	4,186	4,532	8.3	4,578	4,623
Transport Costs	11	2,054	2,042	-0.6	2,063	2,083
Supplies & Services	12	19,278	17,244	-10.5	17,417	17,591
Capital Financing Costs	13	1,459	3,480	138.6	3,834	5,074
GROSS REVENUE EXPENDITURE	14	135,088	137,316	1.6	140,529	143,968
Grant Income	15	-5,782	-5,334	-7.7	-5,386	-5,386
Other Income	16	-2,530	-2,473	-2.2	-2,498	-2,523
Total Income	17	-8,312	-7,808	-6.1	-7,884	-7,909
NET REVENUE EXPENDITURE	18	126,776	129,509	2.2	132,646	136,059
Contributions +To / - From Reserves	19	-1,169				
NET BUDGET REQUIREMENT (NBR)	20	125,606	129,509	3.1	132,646	136,059
Budget Increase Year on Year	21		3.1%		2.4%	2.6%
BUDGET GAP	22	-	-		-1,982	-4,212
Financed by:						
Total Formula Grant	23	81,043	83,501		83,501	83,501
Precept	24	44,466	46,007		47,162	48,346
Collection Fund - Deficit / +Surplus	25	97				
TOTAL FINANCING	26	125,606	129,509		130,663	131,847
Band D Council Tax £	27	£164.70	£169.56		£172.95	£176.41
KEY ASSUMPTIONS						
Council Tax base increases	28		0.50%		0.50%	0.50%
Council Tax Band D increases	29	4.99%	2.95%		2.00%	2.00%
Taxbase	30	269,984	271,334		272,691	274,054
Grant increase	31		3.03%		0.00%	0.00%
Police officer pay rise (w.e.f 01/09)	32		2.55%		1.00%	1.00%
Police staff pay rise (w.e.f. 01/9)	33		2.58%		1.00%	1.00%
General Inflation	34				1.00%	1.00%

NB above figures may not cast exactly due to roundings.

Analysis of the principal savings identified and budget pressures accommodated in closing the budget gap

	£'000
Original Budget Gap reported to Finance and Resources Committee 14th December 2009	-1,101
Reduction in Band D increase to 2.95%	-22
Restated Budget Gap	<u>-1,123</u>
Supplies & Services	
Reductions / efficiencies:	
ITC services and equipment	-842
Forensic	-270
Clothing & uniform	-265
Insurances & risk management	-263
Subscriptions	-187
Consultants	-181
Other savings <£50k	<u>-130</u>
Increases / budget pressures:	-2,137
Contributions - Partnerships	224
Interpreters fees	210
ACPO initiatives	<u>166</u>
	600
Total reduction in Supplies & Services:	-1,538
Other budget reductions:	
Training - efficiencies	-328
PCSO Costs - BCU funding confirmed in provisional settlement	-293
Police pensions - reduction in forecast costs	-235
Other movements <£50k	<u>-112</u>
	-967
Other increases / budget pressures:	
Capital financing costs	722
Grant income shortfall	292
Premises costs	266
Police staff	<u>101</u>
	1,382
Net budget reductions	<u>-1,123</u>

Growth / Budget Pressures accommodated through the Star Chamber Process

	£'000	£'000
ICT		
On call payments	60	
Specials System	<u>2</u>	62
Safer Communities		
Enquiry Office supervisors	60	
Helicopter Pilotage	34	
Rogue Trader Initiative - continued support	<u>10</u>	104
Fleet		
Budget pressure - fuel	100	
Budget pressure - tyres	13	
Budget pressure - bicycles	<u>8</u>	121
Southern		
Growth - Cambourne Enquiry Officer		20
Northern		
Budget pressure - electricity	50	
PCSO	21	
Budget pressure - telephone	<u>19</u>	89
HR		
Growth - HR Manager	50	
Budget pressure - staffing	<u>13</u>	63
Estates		
Growth - servicing new estate	587	
Growth - support staff	<u>33</u>	620
Strategic Development Department		
Growth - Quest post		40
ACPO		
Growth - Women's Group		10
Corporate Communications		
Growth - marketing	90	
Growth - Citizen Focus	<u>60</u>	150
Professional Standards Department		
Growth - IT resilience testing		5
Investigations		
Budget pressure - interpreters	260	
Budget pressure - SARC	200	
Growth - budget assistant post	<u>32</u>	492
Total Budget Pressures / Growth		<u><u>1,776</u></u>

**Medium Term Financial Plan 2010 to 2013
Main Budget to Budget Changes**

	Budget 2009/10 £m	Proposed 2010/11 £m	Forecast 2011/12 £m	Forecast 2012/13 £m
BASE BUDGET/FORECAST (NBR)	125.6	125.6	129.5	130.7
Budget Pressures				
Revenue effects of Capital Programme		1.3	1.0	0.7
Pay Awards		2.8	3.0	2.7
Pay Increments		1.2	0.7	0.8
Police Staff Pensions		0.1	0.3	0.3
Price inflation		0.6	0.6	0.8
Olympic Games			0.5	
Sub-Total		6.0	6.1	5.3
Budget Savings/Efficiencies				
Reduction in Overtime		-0.5		
ICT Collaboration		-0.5	-0.5	-0.5
Fleet Collaboration			-0.3	-0.2
Sub-Total		-1.0	-0.8	-0.7
Budget Savings/Efficiencies Achieved		-1.1	-	-
Budget Savings/Efficiencies Required		-	4.0	3.0
TOTAL FORECAST NBR	125.6	129.5	130.7	131.8
Financed by:				
Total Formula Grant	81.1	83.5	83.5	83.5
Precept	44.5	46.0	47.2	48.3
Band D Council Tax £	£164.70	£169.56	£172.95	£176.41
Council Tax Band D increases		2.95%	2.00%	2.00%
<hr/>				
Taxbase (final)	269,984	271,334	272,691	274,054
Grant increase assumption		3.03%	0.00%	0.00%
Council Tax base increases		0.50%	0.50%	0.50%