

**Devon and Cornwall Police Authority**  
**15 February 2006**

Open for the purposes of FOI  
Joint Report of the Treasurer and Chief Constable

**Revenue and Capital Budget Report 2006/07**

**Recommendations:**

- (i) That the Authority considers its budget requirements in the context of performance, efficiency, medium-term financial planning and the balance between neighbourhood policing and protective services;
- (ii) That such deliberations balance the needs of a strategic force with considerations of ability to pay and government exhortations on council tax;
- (iii) That the substantial savings identified be agreed as means of helping to limit council tax increases;
- (iv) That the full year funding of the Authority's target of 3,500 officers be welcomed and that 180 Police Community Support Officers be recruited starting immediately with one-off costs in excess of grant (up to £800,000) being met from reserves to enhance neighbourhood policing without impacting on next year's council tax;
- (v) That the uncommitted balance of the programme and project budget be contributed to the Invest to Save reserve to be managed by the Resources Committee so that investment is shown to be clearly dependent on robust business cases and implementation plans;
- (vi) That the budget and budget requirement for 2006/07 (as calculated in accordance with Section 43(4) of the Local Government Finance Act 1992) be determined, including provisions, reserves, balances and financing adjustments;
- (vii) That the seriousness of the medium-term situation be noted and that work start immediately on reviewing all commitments whether from revenue, buildings, vehicles, ICT or projects and initiatives;
- (viii) That revenue pressures and borrowing limits restrict the buildings capital programme with a reappraisal of schemes in the light of affordability and 'Meeting the Challenge' being brought to Resources Committee to determine the detailed programme within these limits;
- (ix) That spending limits be defined for vehicle and equipment purchases with a fundamental reassessment of usage, replacement, numbers, timing and specifications being undertaken before the detailed programme is determined;
- (x) That the council tax for each of the eight property bands and the precepts on billing authorities for 2006/07 be determined;
- (xi) That the prudential indicators as set out in Appendix A of this report be approved; (*Continued*)

**Recommendations:**

- (xii) That the Treasurer's conclusions on the robustness of the budget estimates, the adequacy of balances and reserves and issues of risk be considered;
- (xiii) That the potential outcomes from the medium-term financial plan be noted, including the use of provisions, balances and reserves, future revenue spending commitments, and the funding and resource implications for subsequent years;
- (xiv) That it be accepted that 'Meeting the Challenge' will involve significant changes requiring robust and dynamic resource management.

**1. INTRODUCTION**

- 1.1. This report summarises the spending proposals and key issues relating to the budget for 2006/07. It asks the Police Authority to consider and then determine the revenue budget requirement, capital programme and council tax levels for 2006/07, along with associated financing issues. A more detailed analysis is available in the budget booklet sent out with the papers for this meeting.
- 1.2. The main focus of this year's budget is to provide the full year funding for the Authority's target of 3,500 police officers, to begin funding an extra 180 Police Community Support Officers (PCSOs) and to provide a base for developing Devon and Cornwall as a stand alone strategic force.
- 1.3. The budget environment is tight as always, but this year's budget is more than usually strategically significant. The aim is to provide a sound resource base for the future whilst recognising that significant and continuing resource shifts will be necessary to meet the challenges of a strategic force.

**2. THE BUDGET PROCESS**

- 2.1 Work on this budget began almost as soon as the last was finished and has been overseen by the Budget Working Party. Savings targets were set many months ago and proposals have been developed through the Force's internal assessment framework. The draft budget illustrated for member discussion is once again based on systematic reviews of the Force's operational resource requirements within the Authority's medium-term Financial Planning Model. This builds on the savings made and issues identified in previous budgets, and clearly indicates areas of concern for the future.

2.2 As yet, the full financial impact of the “Meeting the Challenge” work is uncertain. What is certain is that the Force is starting from a position of strength which would be envied by many but will still need to undergo significant reconfiguration to close the ‘Protective Services’ gap by 2008/09 and to function as a stand alone strategic force. Processes must be put in place to manage significant changes in resource allocation.

### **3 REVENUE BUDGET 2006/07**

#### **Government Settlement and the national position**

3.1 The Police Grant Settlement has changed this year:

- For the first time, it covers two years’ funding (2006/07 and 2007/08);
- As in the previous grant allocation mechanisms, a “Floor damping” element protects authorities whose grant would drop significantly under changed formulae – in our case this is £2.8m for 2006/07;
- From 1 April 2006, instead of paying all pension costs in full each year, police authorities will pay a standard employers’ contribution into a pensions account. The Home Office will absorb any difference between this and the annual total paid out. This will make the yearly cost to authorities much more stable and predictable;
- Representations were made on the Provisional Settlement but the Final Settlement actually involves a small reduction in grant from that provisionally announced. The reduction is some £170,000 giving a 3.1% increase on the recalculated grant last year and approximately 3.6% for 2007/08;
- Funding streams such as the Rural Fund and DNA Expansion Programme now form a separate part of the general Police Grant and have been allocated as last year but with no provision for inflation.

#### **The 2006/07 revenue budget requirement**

3.2 The budget booklet attached shows an illustrative budget for consideration of £246.3m. Changes from 2005/06 are summarised as

	<u>£m</u>
Base budget 2005/06	243.7
Pensions and counter-terrorism grant adjustments	(6.8)
Inflation	7.4
Continuity commitments	3.6
External funding change	0.4
Police officers	1.7
Savings	<u>(7.0)</u>
Additional commitments	3.3
Illustrative Budget 2006/07	246.3

- 3.3 The illustrative budget provides for the full year cost of the extra police officers to reach the Authority's target of 3,500 officers which will be in place by the start of this budget year. This is a major achievement by all concerned and has not only made a major contribution to local policing but has also placed the Authority in a good position to be considered as a strategic force. Without it, the chances of Devon and Cornwall Police remaining independent would have been slim.
- 3.4 It is also proposed to recruit 180 Police Community Support Officers during the coming year. Government grant will only fund these with recruitment starting in the autumn. However, given the importance of PCSOs for neighbourhood policing and their pivotal role in resourcing a strategic force, it is proposed that they be recruited starting now with the one-off costs (up to £800,000) being met from reserves to avoid a further burden on the council tax.
- 3.5 Members will note the significant level of savings included yet again. Devon and Cornwall has an enviable record on efficiency savings but it is not getting any easier.

### **Council Tax**

- 3.6 Increases in government grant still leave a funding shortfall which can only come from the council tax payer. Members will be well aware of the sensitivity of council tax. Policing only represents some 10% of the total. Nevertheless, Devon and Cornwall is a low income area and residents have faced substantial increases in the past. The illustrative budget is based on a council tax increase of 4.9% or 11 pence a week for a band D tax payer. If members wish to consider alternatives, the financial implications are shown in the table.

<b>Budget Yield</b>	<b>Increased Budget Yield</b>	<b>Increased Budget Yield</b>	<b>Council Tax</b>	<b>Increase in CT</b>	<b>Increase in CT</b>
<b>£000</b>	<b>£000</b>	<b>%</b>	<b>£p</b>	<b>£p</b>	<b>%</b>
244,887	7,974	3.37	123.21	3.59	<b>3.00</b>
245,590	8,677	3.66	124.40	4.78	<b>4.00</b>
246,257	9,344	3.94	125.53	5.91	<b>4.94</b>
247,008	10,095	4.26	126.80	7.18	<b>6.00</b>
247,711	10,798	4.56	127.99	8.37	<b>7.00</b>

3.7 When setting the budget members need to be mindful of government capping powers to act to prevent what it sees as 'excessive' budget and council tax increases. Ministers have declared that they would like to see tax increases below 5% on average.

#### **4 MEDIUM-TERM PLANNING**

4.1 The budget has been put together in the context of a rolling medium-term financial plan. Parts of this are illustrated in the attached booklet before work on 'Meeting the Challenge'. Clearly these will change but they do show the scale of savings necessary to keep council tax rises under 5%. Many of the savings this year have been in financing and associated adjustments. These cannot be found again. All of the easier options have been taken.

4.2 The Force has a track record on savings second to none but serious doubts must be raised about the capacity of the organisation to continue to deliver savings on such a scale in 2007/08 and beyond. This means every effort must be made to limit future commitments whether these arise from revenue spending, the capital programme, projects or initiatives.

4.3 Major challenges on resource reallocation will be faced under 'Meeting the Challenge'. As well as the difficult decisions necessary to deliver that, substantial extra savings and extra income will be necessary unless future commitments are reduced. It is, therefore, strongly recommended that works starts immediately to review and revise all future commitments on top of, but in the context of, Meeting the Challenge. This must include buildings, vehicles, ICT equipment, vacancies/increments and all projects including Airwave.

## 5 CAPITAL

- 5.1 Local authorities can, in theory, now determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services, provided that their capital investment plans are affordable, prudent and sustainable. They must take treasury management decisions in accordance with a “Prudential Code” of good professional practice supporting prudence, affordability and sustainability.
- 5.2 The “Prudential Code” sets out a suite of ‘Prudential Indicators’ that must be used and the factors that must be taken into account. Authorities can decide their own indicators to support and record local decision-making and for comparison over time. The Police Authority must agree a number of these indicators before the start of each financial year. Specified indicators and suggested measures are noted in Appendix A for members’ consideration.
- 5.3 Members will be aware of the work on the estates strategy and the pressures on the buildings programme. However, borrowing to fund such a programme creates additional problems for the revenue budget. Interest charges, provisions for debt repayment and extra running costs of new buildings can cost some 10-20% of the capital cost. Thus a £10m building can add up to £2m to the revenue budget – equivalent to 3% on the council tax or £2m extra savings. There is a limit to the savings the Force can be expected to deliver and council tax sensitivities are well known. Given the demands on the revenue budget and the problems likely to be faced over the medium term to deliver a stand-alone force, it is clear that a large and growing buildings programme is not sustainable.
- 5.4 It is therefore proposed that borrowing be limited to avoid even more demands on the revenue budget and should total no more than £22m over any three year period. This will require existing capital proposals and potential new schemes to be reassessed in terms of timing, scale and priority in the light of ‘Meeting the Challenge’. This may mean some cherished proposals being completely rethought.
- 5.5 Possible schemes are shown in the attached booklet but these can only be regarded as illustrative pending further reports to Resources on which schemes should progress and when.

5.6 Further difficulties are likely over vehicles and equipment. The Treasurer takes the view that it is imprudent to borrow for short term assets. It is, therefore, proposed that investment in vehicles and equipment be restricted to that which can be funded from capital grants, reserves or revenue. Capital grants have been cut, reserves are limited and revenue funding will require yet more savings or council tax increases. This will mean reductions being identified compared with current intentions as set out in the budget booklet. This will require a fundamental reappraisal of usage, specifications, numbers and replacement policy for both vehicles and ICT equipment. Reports back to Resources Committee will be necessary proposing actual acquisitions within this limited total.

## **6 “SECTION 25” RESPONSIBILITIES**

6.1 Section 25 of Part II of the Local Government Act 2003 places specific responsibilities on the Police Authority Treasurer to report on the robustness of the budget estimates, the adequacy of balances and reserves and issues of risk.

6.2 The budget proposals have been rigorously tested against Force operational objectives, and the budget preparation process has been subject to close scrutiny from the Authority’s Budget Working Party. The Resources Committee will continue to monitor progress against the budget on a regular basis throughout the year.

6.3 This has been a particularly challenging period with uncertainties over Restructuring and changes in key staff. Nevertheless, where estimates are less certain, adequate reserves are in place.

6.4 The use of a rolling three-year financial model has contributed significantly to the robustness of each budget and the overall budget process. Having indicative targets for future years means that savings plans can be driven by (and contribute to) operational changes and efficiency improvements, rather than having to be imposed at short notice. Conversely, where the model shows resources are available for service improvements and new initiatives, the changes can be planned and programmed in advance. This will be fully tested during the coming months as changes are driven through to make the Force fit for purpose in the new world of strategic forces. It is essential that members are close to that process. Attention has already been drawn to the clear need to limit future commitments. Work on this must start soon.

- 6.5 Balances, reserves and provisions have been built up as part of the financial strategy of the Authority and now help provide for future liabilities and unforeseen events. It is never easy for any organisation to reconcile a sensible level of reserves with the need to keep tax increases as low as possible, but experience has shown how sudden calls on resources (such as major incidents) could leave the Force seriously short of funding and unable to meet its regular commitments to the local community. Major changes such as workforce modernisation also often call for “spend now to save later” if they are to be effective and sustainable. This is particularly relevant in the present environment of radical strategic change. In addition, funding the capital programme will delete reserves over time.
- 6.6 Each year, provision is made for spending on projects and programmes. Sometimes delays can lead to underspends and business benefits have not always been defined and realisable. Given the need to reallocate resources to ‘Meet the Challenge’, it is vital that all efforts are co-ordinated to achieve strategic capability and that projects should release resources for redirection. It is, therefore, proposed that the uncommitted budget provision be regarded as a contribution to the Invest to Save reserve managed by the Resources Committee who will need to ensure robust business cases exist and savings are delivered for redirection.
- 6.7 The current policy of the Authority is to set its general balances at between 2% and 3% of the net revenue budget. It is anticipated that balances as at March 2006 and March 2007 will be around the 2.5% level and will be maintained at a prudent, sustainable yet not excessive level over the medium term planning cycle.
- 6.8 Details of forecast movements in balances, reserves and provisions are shown in the budget booklet. All in all, the Authority is prudently placed in its level of balances, reserves and provisions to have some flexibility and control over its revenue and capital spending.
- 6.9 Risk is inherent in all functions of an organisation; some of these risks can be managed or mitigated, some cannot. The Audit Commission recently reported that here “a good financial management framework is in place, supported by sound procedures”.

6.10 The main financial risks that may impact upon the delivery of the 2006/07 budget are similar to the ones faced every year:

- exceptional demands placed upon the service, particularly from major incidents
- requirements of new legislation or government directives
- pay and price increases greater than allowed for
- delivery of major capital schemes and projects delayed or unsuccessful
- impact of interest rate movements from the 4.3% assumed.

6.11 Medium term risks include growing commitments, doubts over our capacity to keep finding increasing levels of savings and pressures on reserves and the council tax. There are also longer term risks such as keeping the goodwill of the community, council tax changes including that on second homes, removal of floors in the grant system, specific grants and so on.

6.12 All these risks are brought into sharper relief by 'Meeting the Challenge' making risk management and financial planning more difficult and more necessary and reinforcing the need for adequate reserves. Work is well underway on driving forward risk management throughout the Force and the Authority.

## **7 CONCLUSION**

7.1 Over the last five years members have been able to make significant additional investments in police officers, the extended police family, partnership arrangements and priority infrastructure such as property and ICT, all as part of a rolling medium-term financial strategy.

7.2 There is little doubt that performance and financial planning to date has left us better placed than many to face the challenges ahead.

7.3 The budget proposals described here should provide the Force with sufficient resources to achieve its vision and performance targets for the coming year. It sets very tough but realistic targets for savings at all levels, from corporate and strategic as well as from devolved operational budgets. Tough spending limits are recommended on capital. Individual elements within the budget will need to be amended to meet developing risks and to reflect the impact of the 'Meeting the Challenge' work.

7.4 The 2006/07 budget is not an end in itself. It should be seen as a positive step on a journey that by April 2009 will see Devon and Cornwall as a high-performing, strategic service for the communities of Devon and Cornwall and the Isles of Scilly at a time when the rest of the service is facing massive change.

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