

**Devon and Cornwall Police Authority**

**16 February 2007**

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Joint Report of the Treasurer and Chief Constable

**Revenue and Capital Budget Report 2007/08**

**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 development needs of the 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 budgeted capacity to resource and sustain 3,500 police officers and 356 police community support officers be welcomed;
- (v) That the budget and budget requirement for 2007/08 be determined, including provisions, reserves, balances and financing adjustments;
- (vi) That the challenge of the medium term resource background be noted and that work start immediately to identify possible future savings;
- (vii) That budget pressures, borrowing costs and feasibility of delivery limit the capital programme as shown in the Medium Term Financial Strategy and that the Force decision to undertake a fundamental review of capital programming be welcomed;
- (viii) That the council tax for each of the eight property bands and the precepts on billing authorities for 2007/08 be determined;
- (ix) That the prudential indicators as set out in the Medium Term Financial Strategy be approved;
- (x) That the Treasurer's conclusions on the robustness of the budget estimates, the adequacy of balances and reserves and issues of risk be considered;
- (xi) That the potential outcomes from the Medium Term Financial Strategy be noted, including the use of provisions, balances and reserves, future revenue spending commitments, and the funding and resource implications for subsequent years;
- (xii) That it be accepted that continuing Force development 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 2007/08. It asks the Police Authority to consider and then determine the revenue budget requirement, capital programme and council tax levels for 2007/08, along with associated financing issues. A

more detailed analysis is available in the Medium Term Financial Strategy sent out with the papers for this meeting.

- 1.2. The main focus of this year's budget is to support performance by resourcing and sustaining 3,500 police officers and 356 Police Community Support Officers (PCSOs), the greatest number of uniformed officers in the Force's history.
- 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 developing strategic force.

## **2. THE BUDGET PROCESS**

- 2.1 Work on this budget began even before the last was finished and has been overseen by the Budget Working Party. A savings target was set 12 months ago to identify £5.1m savings and proposals have been developed through the Force's internal assessment framework to deliver this target exactly. The draft budget illustrated for member discussion is also set within a Medium Term Financial Strategy so that decisions can be taken in the light of longer term considerations. It also builds on the savings made and issues identified in previous budgets and clearly indicates areas of concern for the future.
- 2.2 Members will be aware that the Force is in the process of rebalancing resources to enhance performance, to deliver both protective services and neighbourhood policing and to maximise front line policing. Further Force development will continue to require resource reallocation within agreed totals and the illustrated budget should be seen in that light. Change will need to continue and the Force and the Authority's management processes must be robust and sensitive enough to provide the necessary flexibility within an overall controlled process.

## **3. REVENUE BUDGET 2007/08**

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

#### **3.1.**

- The government has now confirmed the Provisional Finance Settlement for 2007/08. Grant figures for Devon and Cornwall are unaffected;
- Grant increases by 3.6% as expected but there are clear signs that future settlements will be more challenging;
- Allocations have effectively been made on a flat rate basis giving similar increases to all. The funding formula which would otherwise shift resources away from Devon and Cornwall has not been enforced giving an effective safety net to areas like this. It remains to be seen how long this can continue.
- 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.

- As previously reported, it is proving impossible to fund the 24,000 PCSOs hoped for nationally. The number is cut to 16,000. There will be no funding guaranteed for more than 356 PCSOs in Devon and Cornwall. It is therefore extremely fortunate that members agreed to bring forward the appointment of 99 extra officers from the 2007/08 intended intake, otherwise we would have lost funding for these too.
- Reductions in capital grant have continued;

### The 2007/08 revenue budget requirement

- 3.2. The appendices to this report show an illustrative budget for consideration of £256.814m. Changes from 2006/07 are summarised as

	<u>£m</u>
Base budget 2006/07	246.3
Inflation	7.4
Continuity commitments	8.9
External funding change	(3.5)
Additional commitments	2.8
Savings	<u>(5.1)</u>
Illustrative Budget 2007/08	256.8

- 3.3. PCSOs including an allocation for transport and accommodation. Provision has also been made to cover the tapering effect of government grant. PCSOs are funded 100% in year 1 but this tapers to 75% in year 2. This costs almost £1m in 07/08, equivalent to some 1.5% on the council tax. In spite of the cost, it was considered vital to respond to government requests to recruit PCSOs because of the significant contribution they can make to neighbourhood policing. It is a matter of some satisfaction to note that since 1999/2000, the Authority has put over 1,000 extra uniformed officers on the streets.
- 3.4. 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

- 3.5. In spite of significant savings, 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 4.94% or 12 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>Increase in CT</b>
<b>£000</b>	<b>£000</b>	<b>%</b>	<b>£p</b>	<b>P/week</b>	<b>£p</b>	<b>%</b>
254,993	8,719	3.54	128.67	6	3.14	<b>2.50</b>
255,737	9,463	3.84	129.92	8	4.39	<b>3.50</b>
256,814	10,540	4.28	131.73	12	6.20	<b>4.94</b>
257,980	11,706	4.75	133.69	16	8.16	<b>6.50</b>
258,724	12,450	5.06	134.94	18	9.41	<b>7.50</b>

- 3.6. 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 FINANCIAL STRATEGY**

- 4.1. The budget has been put together in the context of a rolling medium term financial strategy. The document is in the process of development and the current version is attached. This covers objectives, strategic budget movements, medium term budget, capital programme and financing, movements in reserves, risk, leases, efficiency plan, council tax calculations and so on. Further work is required but, even in its current state, the document represents the most comprehensive collection of financial information yet delivered during a budget process. Clearly the figures will change over time but it is hoped that, by supplying detailed analysis over 3 years, members will be able to take current decisions against this wider resource backdrop. As challenges increase during the life of the next Comprehensive Spending Review such a longer term view will be essential.
- 4.2. As can be seen from the document, 2008/09 will be a critical year. Government grant increases are forecast to be limited to 2% and substantial reallocation of people and resources are necessary to deliver Force development. This 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 2008/09 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 as well as a major re-examination of the way we do business. The status quo is not an option.
- 4.3. In spite of the challenges ahead, it is pleasing to note that reserves remain healthy and are not proposed to be used to prop up the revenue budget, uniformed staffing levels are sustained and front line policing is to be protected and enhanced. Few police authorities in the country are able to say the same and some are even planning cuts in officer numbers now.

## **5. CAPITAL**

- 5.1. Police 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 the Medium Term Financial Strategy document 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, it is clear that a very large and rapidly growing buildings programme is not sustainable.
- 5.4. Capital programme delivery problems have been experienced over several years. Management of the programme is to change and the Force is to undertake a fundamental review of the capital programme and programming. Under these circumstances, it is therefore proposed that borrowing and the programme be limited to avoid even more demands on the revenue budget and to allow for more realistic phasing. The capital programme illustrated in the Medium Term Financial Strategy shows spending of £15.3m next year with borrowing limited to £10m per year thereafter. Once the intended review has been completed and approved by members, these limits can be revisited if necessary.

## **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 tested 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 nationally and changes in key personnel here. Nevertheless, estimates of savings are prudent and a new staffing model has increased the reliability of staff based forecasts. 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 Force development changes are driven through.

- 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 could otherwise leave the Force seriously short of funding and unable to meet its regular commitments to the local community. In addition, we are entering a new resource world where new developments can only be undertaken by recycling existing resources. Healthy reserves are essential to oil the wheels of that process and ensure business continuity. 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 deplete reserves over time.
- 6.6. 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 2007 and March 2008 will be around the 2.4% level and will be maintained at a prudent, sustainable yet not excessive level over the medium term planning cycle.
- 6.7. Details of forecast movements in balances, reserves and provisions are shown in the Strategy. 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.
- 6.8. 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”.
- 6.9. The main financial risks that may impact upon the delivery of the 2007/08 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 5.4% assumed.
- 6.10. 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 a keeping the goodwill of the community, council tax changes including that on second homes, the Lyons review of local government funding, and the possible removal of floors in the grant system, specific grants and so on.

6.11. The Authority and Force have made good progress on risk management. We are well placed to cope into the future and better placed than many but risk cannot be eliminated. That is the nature of the policing environment.

## **7. GREEN ISSUES**

7.1. Members have suggested the need for transport savings in the budget and a saving of £250,000 has been included. In addition, work is progressing on the use of diesel engines and alternative fuels. The Chief Constable is keen to consider the green agenda further during the year as it affects policing both from the aspects of energy consumption and in recognising the Force's role in local purchasing. Further proposals will be developed during the year and the Treasurer believes that, at this stage, sufficient provision exists in reserves to fund worthwhile investments in such areas as video conferencing, especially when these lead to revenue savings in the longer term. Further reports will be brought to members later in the year.

## **8. CONCLUSION**

8.1. Over the last few 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.

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

8.3. 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 savings targets both to keep within capping limits and deliver on front line policing. Firm spending limits are recommended on capital.

8.4. The 2007/08 budget is not an end in itself. It should be seen as a positive step on a journey that by April 2010 will see Devon and Cornwall as a higher performing, strategic service for the communities of Devon and Cornwall and the Isles of Scilly.

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