

14 February 2012

## **REVENUE BUDGET AND PRECEPT 2012/13**

### **PURPOSE OF THE REPORT**

1. The purpose of this report is to present details of the financial framework within which the Authority will have to operate in 2012/13.
2. The report should be considered along with the outcomes from the Strategic Planning Day on 10 January 2012 where priorities, aims and objectives were agreed. This will be discussed at Agenda item 7. The latest proposals are contained within the Medium Term Financial Strategy (MTFS) 2012/13 – 2016/17 report at Agenda item 8.
3. The report confirms details of the Local Government Finance Settlement and Police Grant and sets out Revenue and Capital Budgets for 2012/13 for consideration. It includes three options, the two presented to the meeting on 10 January 2012 and discussed on 13 December and a further proposal requested at the Business Development Committee on 24 January 2012. The original options were for a 4% increase in precept in 2012/13 and later years and taking the one-off grant for freezing the precept in 2012/13 with 4% Council Tax increases in each of the following years. The third option for Council Tax increases at 2.5% for 2012/13 and later years in line with the MTFS approved in February 2011 was included in the MTFS presented to this meeting.
4. The report has been prepared in accordance with the Police Act 1996 to enable the Authority, having agreed its preferred option, to approve:
  - The financial resources available to support the Policing Plan; and
  - The level of precept for 2012/13
5. Members will be required to approve their preferred option including the Council Tax for a Band D property in 2012/13 (£166.47 in 2011/12), and to agree the corresponding level of the budget for the coming year.

### **INFORMATION**

6. A Strategic Planning Day was held on 10 January 2012 which followed a briefing on 13 December 2011 when resourcing issues were discussed. The Planning Day provided the opportunity for the Force and the Authority to consider feedback from local partners, including Local

Strategic Partnerships (LSPs), Crime and Safety Partnerships (CSPs) and Local Criminal Justice Board (LCJB) to develop shared priorities.

7. This meeting also considered feedback from the results of consultation exercises using the Authority's Citizens' Panel that has provided the Authority with statistically representative data on the public's views on local policing. This information has been supplemented by discussions in a series of focus groups.
8. The Strategic Planning Day was designed to agree priorities and consider aims and objectives for 2012/13 and later years. This in turn provides a basis for resource allocation to be aligned to those priorities which will be set out in the Policing Plan.
9. Members at that meeting were also presented with details of the risks currently being monitored within the Force's and the Authority's risk registers.
10. The Chief Constable took up the financial challenge set down and agreed by the Police Authority to come forward with proposals to balance the revenue budget as far back as 2009. Members have been regularly advised on the factors affecting underlying assumptions within the MTFS. The requirements are now well embedded and savings plans which have brought together ongoing initiatives in terms of Business and Workforce Modernisation (BWM) and the Choices Programme have been brought together under the banner of the CSR 2015 Savings Plan.
11. Savings have been implemented successfully and the targets set for the period to March 2012 have been exceeded.
12. The meeting on 10 January 2012 considered two scenarios proposed for the MTFS and were briefed on the impact on the savings plans that have been prepared by the Chief Constable. The financial implications of costs and savings in respect of Regional working were also discussed. At this stage no substantial savings have been hardwired into the MTFS until formal agreement has been reached by the Joint Police Authorities Committee (JPAC)
13. Work between the Force and the Authority has taken place in recent years to develop corporate planning processes that can be used to ensure that there is a focus on priorities and strategic aims and objectives; the means by which the Chief Constable and the Police Authority can ensure that the Policing Plan is delivered.
14. This year a draft of the MTFS was discussed at the Business Development Committee in advance of the budget-setting meeting. At its meeting on 24 January 2012, members of the Committee asked for a third option showing the impact of a 2.5% increase in Council Tax in 2012/13 and later years to be included. The original options compared a 4% Council Tax increase in 2012/13 and the later years for planning

purposes with a Council Tax freeze in 2012/13 and then 4% increases thereafter. All three options are detailed in the MTFS and are replicated within this report.

15. Members are aware that a programme of BWFM commenced in 2007/08 with the introduction of PCSOs and changes to custody staffing and other processes. The Choices Programme was introduced afterwards and was designed to review service provision within an agreed framework to drive for the identification of savings and efficiencies. Following consideration of the MTFS last year savings targets were revised and the BWFM and the Choices Programme were consolidated within a single CSR 2015 Savings Plan. This provides a menu of options as to how to balance the budget over the medium term. Progress on delivering savings together with information on staffing has been reported to both the Resources Committee and the Business Development Committee.
16. Members also know that the Integrated Business Management (IBM) model has become embedded within the Force. This has provided an ongoing robust and rigorous challenge when demands for additional service are identified and is designed to meet those demands from within existing resources whenever possible. The effect has suppressed bids for growth which have been noticeably lower compared to previous years. The process is now being used to deliver the CSR 2015 Savings Plan.
17. These factors provide some of the context for the forthcoming financial year and are complemented by the MTFS for 2012/13 – 2016/17.
18. Obviously as Members are well aware, the budget for 2012/13 will be the last to be agreed by this Authority. The decisions on the budget and planning assumptions within the MTFS will be important factors in contributing to the legacy that the Authority will leave for the incoming Police and Crime Commissioner (PCC).
19. In recent years there has been a reasonable degree of certainty in financial planning with detailed information from the original CSR 2010 largely being confirmed year on year. However beyond 2012/13 things are extremely uncertain with concerns about the wider economy requiring the period of austerity being extended. Locally the Authority will be abolished in November 2012 and at this stage the financial plans for an incoming PCC can only be a matter of conjecture. The underlying assumptions for 2013/14 are therefore only planning assumptions at this stage and will not commit the PCC. Fortunately the work that has been undertaken in recent years will mean that the Authority will leave the PCC in a strong financial position.
20. The 2011/12 Grant Settlement provided indicative information for 2013/14 and 2014/15 in respect of Police Grant but these have not been confirmed.

21. Last year the Government signalled its intention to complete a comprehensive review of how local government is funded. The Local Government Resource Review has been undertaken and has focused on Business Rate Retention by local authorities as opposed to the established arrangements which consist of funding from a combination of Revenue Support Grant (RSG) and Non-Domestic Rates (NNDR).
22. The proposed changes will come into effect in 2013/14 but it has been agreed that funding for policing will be held outside this process.
23. A review of the funding formula in respect of the distribution of General Grant to policing is also due to get under way.
24. Members will recall that under the present arrangements this Authority is contributing into a pool to pay for a 'floor' which provides support to those authorities that would lose substantially if the current formula was applied without this "damping".
25. It is likely that any change to the formula would also require a damping regime through any period of transition. The outcome of any formula review cannot be assessed at this time.
26. As reported last year, the Government has implemented the proposal to require a referendum to be held where proposed increases are regarded as excessive. The limit for police authorities is a 4% increase. This is higher than the level of other classes of authority.
27. In 2011/12 the Government offered a grant equivalent to 2.5% payable for four years to those authorities that agreed to freeze Council Tax at the same level as for 2010/11. This Authority along with every other local, fire and police authority agreed to a freeze.
28. For 2012/13 the Government has offered a grant to authorities that freeze their Council Tax once again. However this time the grant is a one-off payment equivalent to a 3% increase in Council Tax. As the grant is a one-off unlike an increase in Council Tax there is no permanent increase in an authority's base level of income.
29. Authorities are therefore left with the dilemma of whether or not to freeze the Council Tax and take the grant which could give rise to deeper cuts or steeper increases in tax in future years. Rejecting the grant would go against the Government's wishes. Clearly any increase in costs to the taxpayer at this time would be most unwelcome but additional savings leading to cuts in service would be equally unwelcome.
30. The exemplifications of each option detailed in this report and in the MTFS demonstrate the impact on the Council Taxpayer, the future financial position of the Authority/PCC and the need for cuts in service or use of reserves.

31. In making their decisions Members will need to recognise that Ministers have indicated that it is unlikely that there will be any offer of a further tax freeze grant in 2013/14 and that the criteria for triggering a referendum for 2012/13 should not be seen as a guide for 2103/14. It must also be noted that there is no guarantee that the tax freeze grant offered last year will continue beyond 2014/15.
32. As in previous years, officers will give a verbal update at the meeting on information from authorities that have already set their budgets and details of predicted Council tax increases based on the most up to date information from current surveys of police authorities and local government in general.
33. This year's Settlement has confirmed that the majority of specific grants received previously have been subsumed in to the main General Grants. Statements also confirm that the Neighbourhood Policing Fund/PCSO grant will be rolled into General Grant from 2013/14. This amounts to £4.7m in 2012/13. There is a danger that when this grant is rolled into main Grant in this way and the distribution mechanism is amended that the level of support that the PCC will receive could be much lower. Authorities are therefore lobbying for ring fencing to continue.
34. It should be noted that final details of information on funding for Counter Terrorism has yet to be confirmed.
35. In 2011/12 budget monitoring reports have been considered by the Resources Committee on a regular basis with the information continuing to be made available to both officers and members via the Force Intranet and the Police Authority web-site. This includes access to the full details of commentaries from budget holders. Reports have been considered in the "scorecard" format and the "Review and Revise" process introduced in 2010/11 has been continued along with closer working between Finance and Human Resources staff within the Force to better align the monitoring of financial and people plans.
36. The MTFS has been updated and members of the Business Development Committee have been provided with regular briefings on external factors affecting spending assumptions and on police spending generally. The draft MTFS for 2012/13 - 2016/17 was considered by the Business Development Committee at its meeting on 22 January 2012. At this meeting Members asked for a further option of continuing with the previous planning assumptions of 2.5% increases in 2012/13 and later years to be worked up. This has been done and is detailed in this report and the MTFS covered at Agenda item 8.
37. The latest budget monitoring report for the year is being submitted to the meeting of the Resources Committee on 7 February 2012 reflecting the most up to date forecasts of outturn for 2011/12 based on period 9 information. Any issues affecting MTFS and precept considerations will

be brought to the attention of Members. Full details of the period 9 results are available on the Members' website.

38. The Resources Committee will continue to have oversight of the final projected outturn figures at the meeting scheduled for 17 April. Requests for approval to carry forwards will be submitted to the Special Meeting of that Committee arranged for 22 May 2012.

## **PRIORITIES**

39. Information on the draft priorities, aims and objectives from the Strategic Planning Day on 10 January 2012 are set out in the MTFS and will be discussed at Agenda item 7. The Policing Plan will be formally approved at the next meeting of the Authority on 27 March 2012.

## **MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

40. The MTFS considered at Agenda item 8 is the sixth comprehensive strategy document that has been produced by the Authority and the Force.

41. It covers the financial years 2012/13 to 2016/17 and contains full details of the underlying assumptions and projections for spending during this period. It is based on the best information currently available on key variables and aims to provide the context within which Members need to make decisions on the annual budget and precept for 2012/13. The MTFS has been drafted following Member briefings, consideration of updated spending data by the Resources Committee and informal consultation with Members. This year there was an opportunity for a draft of the MTFS to be considered by the Business Development Committee. The draft MTFS has been updated for the latest information from the Force and sets out details of the three options that Members have asked to be considered:

- Option 1 - a 4% increase in Council Tax in 2012/13 and later years, rejecting the Council Tax freeze grant in 2012/13;
- Option 2 - accepting the Council Tax freeze grant in 2012/13 and planning assumptions of increases in Council Tax of 4% in the following years; and
- Option 3 - a 2.5% increase in Council Tax in 2012/13 and later years, rejecting the Council Tax freeze grant in 2012/13.

42. For 2012/13, the capping regime that has been applied to limit increases in Council Tax in previous years has been replaced within the provisions of the Localism Act 2011 with a requirement for a referendum where tax rises are considered excessive. For police authorities in 2012/13 any increase above 4% will be deemed to be excessive and arrangements would have to be made with the unitary authorities to hold a referendum if Members chose to approve an increase over this level.

43. A number of local councils in the Force area have already signalled their intentions on Council tax for the coming financial year and will be proposing a freeze.

44. In previous years the Authority has had to bear the following in mind when considering decisions on Council tax :-

- the financial gearing of the Police Authority (that is, the impact on the Council Tax of small increases in expenditure)
- the relative financial impact on local taxpayers of any increase in Council Tax
- the offer of a one-off grant from Government
- the significance of maintaining the Police Authority's tax base and the tax base for an incoming PCC
- the impact on reputation and confidence in the Police Authority and the Force
- the need to demonstrate that the Police Authority is focused on efficiency, effectiveness and value for money
- the pressures within the UK economy and the wider economic climate
- the impact of Government policies
- Police officer and Police staff pay increases
- Price Inflation and
- The legacy that the Police Authority will leave for the PCC

45. The Government's proposals for a one-off grant to encourage tax to be maintained at the level for 201/12, unlike the grant last year fails to recognise that a tax freeze affects not only 2012/13. Accepting this grant would result in a permanent reduction as any increases thereafter would be applied to a lower base.

46. The MTFS allows for financial modelling, which for a number of years has been based on a 5 year Financial Forecast. The impact on savings for each of the options described above are as follows:

4% Council Tax increase in 2012/13 and in future years					
	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000
Annual Savings target	(8,899)	(1,990)	(3,325)	(874)	
Estimated Savings from CSR 2015 Plan	6,791	4,359	3,040	1,107	
(Balance)/Surplus	(2,108)	2,369	(285)	212	626

Council Tax freeze in 2012/13, taking the grant with 4% increases in future years					
	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000
Annual Savings target	(9,398)	(3,613)	(3,546)	(1,135)	
Estimated Savings from CSR 2015 Plan	6,791	4,359	3,040	1,107	
<b>(Balance)/Surplus</b>	<b>(2,607)</b>	<b>746</b>	<b>(1,506)</b>	<b>(28)</b>	<b>376</b>

2.5% Council Tax increase in 2012/13 and in future years					
	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000
Annual Savings target	(9,653)	(2,840)	(4,283)	(1,981)	(573)
Estimated Savings from CSR 2015 Plan	6,791	4,359	3,040	1,107	-
<b>(Balance)/Surplus</b>	<b>(2,862)</b>	<b>1,519</b>	<b>(1,243)</b>	<b>(874)</b>	<b>(573)</b>

47. The information above shows the revised savings targets required to balance the budget set against the savings already identified by the Chief Constable via the CSR 2015 Savings Plan. It must be noted however that these predicted savings still require difficult decisions to be made in respect of Major Incident Teams, BCU Investigation and the structure on the South Bank of the Humber.

48. The build up of reserves has always been part of a deliberate policy to ensure that funds are available to cushion the impact of budget cuts as well as contributing towards the substantial costs of change. Members will know that reserves were rationalised some years ago when monies earmarked for funding capital projects were diverted into the Performance Improvement Reserve (PIR). The PIR has grown as a result of uncommitted underspends in previous years and monies from it have been used to avoid adverse impact on performance during BWFM and to meet the costs of a Voluntary Early Retirement and Redundancy (VER) Scheme as well as and to supporting retraining and redeployment initiatives linked to implementation of the Choices Programme.

49. When the reserves were rationalised the Authority had also recognised the potential impact of the loss of Neighbourhood Renewal Funding (NRF) in Hull and North East Lincolnshire on police projects. A

Partnership Reserve was created to help to ensure that NRF initiatives continued. The amount set aside was £1m. £295k of the reserve remains. In view of the pressure on partners and the increasing importance of partnership working now and when the PCC arrives, the MTFS proposes that further monies be set aside to top the Partnership Reserve back up to the original £1m.

50. The Authority has continued to focus on the increasing financial constraints on policing and the public sector in general as well as on the impact of the economic downturn. When the Coalition Government signalled its intention to concentrate its efforts in reducing the UK budget deficit public spending cuts were inevitable. The UK has benefitted from this policy action. Interest rates have remained low, the UK's AAA status has been maintained. As a result the UK has benefitted from safe haven status. However, growth within the UK economy has remained tepid at best with fears of slipping back into recession. It is a matter of some concern therefore that following the Chancellor's Statement that the age of austerity will continue beyond the next election that there is a strong likelihood that there will be further cuts in Government funding in future years. These concerns are compounded by worries about the plethora of changes within local authority funding regimes and the uncertainty that this generates, e.g. policing could suffer financially due to changes in the arrangements for housing benefits.
51. Whilst the future is uncertain, funding levels for 2012/13 have been confirmed as indicated in 2011. The formal Grant Settlement for 2012/13 will be confirmed formally by Parliament on 8 February 2012. No changes are expected from the Provisional Settlement announced in December on which the information in this report and the MTFS are based.
52. Last year Members were informed of the work that the Chief Constable had commissioned to look at options for savings in advance of announcements of front loaded reductions in Government Grants. This work resulted in the development of the CSR 2015 Savings Plan.
53. The implementation of the plan has been overseen by the CSR Implementation Board underpinned by the IBM process. The Police Authority has been involved in this Board and IBM at both member and officer level. This provides a significant degree of confidence in the Force's ability to deliver. This is also positively demonstrated by the fact that CSR 2015 savings are expected to exceed the targets set for the period to 31 March 2012. This has also meant that there has been no call on the flexible facility of up to £6m of reserves agreed last year to act as a fail safe if budget reductions could not be achieved. However, it has been recognised that it is becoming increasingly difficult to maintain the pace with which savings can be made and to reach the required quantum of permanent budget reductions.

54. Regional working has continued to progress at an operational level and in implementing projects to generate efficiencies and savings against current budgets.
55. An implementation plan has been approved and two projects, Scientific Support and Procurement moving forward. In addition a Regional MTFS has been drawn up. As has been reported previously and again at the JPAC meeting on 2 February 2012, unfortunately further work is still required before regional savings can be hardwired into the budgets and the medium term financial forecasts of each individual authorities.
56. The MTFS provides a mechanism by which risk and risk management is factored into spending and resource allocation decisions. This is vital when considering the adequacy of reserves.
57. It comments specifically on the risks associated with the assumptions used to complete the financial forecasts. In particular, it highlights issues in connection with the Neighbourhood Policing Grant. This covers a proportion of the funding for PCSOs given that the Authority currently employs its share of the original national target of 24,000 officers although the assumptions for funding relate to the reduced target of 16,000. As indicated above it may be difficult to continue to identify this funding in future. It was suggested to the Business Development Committee and repeated in this report that Members may therefore wish to consider earmarking £10m of the PIR to enable a firm commitment to be given for continued support for PCSOs for at least two years. There is unlikely to be clarity over the future of this funding until the 2013/14 settlement is announced in November/December 2012 at which point the continued need for this ring fencing could be reviewed.
58. Improved and transparent financial planning enables explicit decisions to be made about the way in which reserves can be used to either support base budget spending, for new initiatives, to spend now to reduce ongoing budget costs or to cushion and smooth out the consequences of budget cuts to make them more manageable. It must always be remembered that reserves can only be used once and their use to fund permanent spending is a short term expedient and unsustainable. It cannot therefore be recommended.
59. It is essential that the integrity of the base budget is maintained for the Authority, a factor that has been a key focus in every MTFS agreed to date.
60. During 2011, budget monitoring reports assumed that savings targets for 2011/12 would be achieved. Separate reports to the Resources Committee provided information on CSR Savings and staffing changes in the year. The Business Development Committee received reports on the MTFS, again with separate reports showing the progress against achieving targets over the remaining years of the CSR 2015 Savings Plan. The anticipated savings from the CSR savings plan are now

incorporated within the budget for 2012/13 and in the summary information for each of the options within the updated MTFSS at Agenda item 9.

61. The budget monitoring information provided to the Resources Committee has been used to challenge the base budget. An exercise has been carried out to examine savings to see if they are one-offs or permanent in which case they can be incorporated into the CSR 2015 Savings Plan. This budget realignment exercise has also used data from budget projections in the last three years to identify trends, further adding to the degree of challenge.
62. A key feature of a robust budget is that it must not contain unidentified savings without a viable fallback position. In agreeing the budget for 2010/11 the Authority introduced the concept of using reserves to underwrite any failure to achieve budget savings targets. As it proved, the amount earmarked for this purpose was not required and it therefore remains within the PIR.
63. As reported previously, the uncommitted balance of reserves within the PIR has provided the Force and Members with time and opportunity to reshape the service with the aim of bringing the budget back into balance in a controlled manner, without having to take over reactive and draconian measures being applied in some other authorities. In 2012 this will be an important legacy issue.
64. The MTFSS takes account of the costs of prudential borrowing which must be affordable, both in terms of servicing the cost of additional debt, repayments and interest, the Minimum Revenue Provision (MRP), and meeting all of the other revenue consequences of capital spending.
65. The fact that there is a robust MTFSS provides a sound basis for consultation with stakeholders and local communities at a time when they too are facing considerable financial challenges. It can also be used to explain financial and operational decisions to partners at local, regional and national level. The proposal to increase the level of funding within the Partnership Reserve can only assist in reinvigorating the increasingly important partnership agenda and add weight to the influence of the Police Authority during its remaining life and that of the PCC later in the year. Clearly criteria and conditions would need to be established for agreeing to the release of monies from this Reserve.
66. The MTFSS contains provision for the Authority's share of the costs of current Regional collaborative activity. Hopefully this can be reduced later in the year when there is a greater clarity over the potential savings that might properly be accrued.
67. The Authority and the Force remain fully committed to the partnership agenda and recognise that individual partners and the public sector in general are all facing similar challenges in seeking to address cutbacks

in central government funding. This involves working locally with LSPs and CSPs and alongside the other police authorities and forces in the Yorkshire and Humberside Region.

68. Regular briefings on factors affecting the MTFs will continue to be provided to members.

## REVENUE ESTIMATES

69. The revenue estimates provide for the day to day running costs to support the delivery for the Policing Plan.

70. This will be supported by Government funding coming to the Authority through a mixture of General and Specific Grants..

71. The assumptions on main and ring fenced grants have been confirmed as follows:-

	2012/13 £'m
RSG & NNDR*	53.337
Police Grant	69.459
<b>TOTAL</b>	<b>122.796</b>
Counter Terrorism**	TBC
<b>Ring Fenced Specific Grants</b>	
Neighbourhood Policing/PCSOs	4.700

\* includes £1.199m in respect of the 2011/12 tax free grant

\*\*Counter Terrorism funding has yet to be confirmed but it will cover the costs of CT activities on a £ for £ basis.

72. The balance of funding for the budget after taking account of use of reserves comes from the precept collected as part of the Council Tax by the four Unitary Authorities. The estimated Council Tax Base for 2012/13 is 289,206.86 Band D equivalent properties.

73. In previous years, Members have needed to make a balanced judgement when determining the budget and level of Council Tax after taking into account a range of factors including the need to raise additional resources to help to balance the base budget, the impact on Council Tax payers, and maintenance of the Authority's resource base. The level of general reserves and earmarked reserves and the potential calls on them have also been important considerations.

74. For 2012/13 Members will once again have to consider the Government's offer of a grant in return for freezing the Council Tax. Whilst Members had to consider a grant offer last year, the 2011/12 offer in exchange for

freezing the Council Tax at the same level as for 2010/11 compensated the Authority for 4 years. In 2012/13 it is just a one-off grant in that year.

75. The MTFs report at Agenda Item 9 considers the three options requested. It is open to Members to consider these or alternatives but it must be recognised that any increase in Council Tax in excess of 4%, however small, would trigger a referendum. In addition to the impact of losing any referendum, authorities have to bear the costs and would be liable for the substantial costs of rebilling. It must also be noted that any increase in Council Tax would render the Authority ineligible for the Council Tax freeze grant. The grant is equivalent to a 3% increase in Council Tax.

## FINANCIAL FORECAST

76. Details of the Financial Forecasts incorporated within the MTFs are replicated in the attached appendices. This provides information on the changes required to the budget for 2011/12 and expenditure projections and sets them against likely levels of available funding for each of the scenarios.

## CAPITAL INVESTMENT

77. The Capital Programme has been reviewed to ensure accuracy and achievability. The Programme will fully utilise all existing capital receipts, available Government grants together with borrowing.
78. A summary of the proposed Capital Programme and recommended financing proposals are set out below:-

<b>Capital Scheme</b>	<b>2012/13 £'000</b>	<b>2013/14 £'000</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>	<b>2016/17 £'000</b>
Estate Strategy	15,992	3,637	6,165	3,955	552
IT Equipment	2,842	3,452	2,362	2,442	4,950
Vehicle and equipment	540	784	930	870	870
<b>TOTAL</b>	<b>19,734</b>	<b>7,873</b>	<b>9,457</b>	<b>7,267</b>	<b>6,372</b>

79. The Capital Programme includes the latest information on the costs of the Estate Strategy.
80. As Members are aware the Authority is required to set Prudential Indicators. Any required revisions to the 2011/12 Indicators and proposals for 2012/13 based on the approved budget and MTFs together with the proposed Treasury Management Strategy for 2012/13 including the policy on MRP will be reported to the next meeting of the Authority on 27 March 2012.

## **LIQUIDITY**

81. The MTFS provides information on the modelling of the cash position of the Authority, its liquidity. This information is important in determining the timing of external borrowing as it demonstrates the capacity to be able to continue the practice of temporarily financing capital spending using internal cash balances (internal financing). Members know from the monthly Treasury Management investment reports that the Authority's cash balances are being run down. As a result, use of reserves will advance the timing of borrowing as it will be necessary to replenish the cash to back them, this will therefore have cost implications.

## **RISK MANAGEMENT AND RESERVES**

82. The MTFS explains the importance of linking risk management to financial planning with the aim of ensuring that the information and assumptions are robust. The budget monitoring arrangements and the IBM process both examine resources allocated to new initiatives in previous years together with validations of elements of the base budget to allow any unspent or un-required budget provisions and balances to be released into the financial forecast. This year this has been formalised through the budget rearrangements exercise referred to above. Choices and CSR reviews have also provided rigorous scrutiny of base budgets.
83. The Capital Programme has been reviewed to ensure that projects can be delivered within the timescales set out for each scheme.
84. The financial consequences associated with potential risks are identified and proper provision is made. The risks arising from operational issues are monitored with risk management issues being reviewed in the Integrated Reconciliation stage of the IBM process. The Authority considers financial issues and the achievement of budget targets within its own risk register.
85. The Force has continued to manage its finances within agreed budgets. The Risk Management Strategy identifies potential risks and the financial impact on the Authority and the Force. A Risk Management Reserve is in place and where appropriate, provisions have been made. The 5 year Financial Forecast within the MTFS has provided the basis for the Authority's position of relative financial strength.
86. The options for the budget and MTFS are exemplified within the report, have been prepared jointly by the Deputy Chief Executive and Treasurer and Assistant Chief Officer (Support). In their opinion, this provides the Authority with the information to set a robust budget for 2012/13.
87. The Authority and the Force seek to maintain reserves to manage the financial risks. The MTFS sets out details of the potential impact on reserves of each of the three options. In all cases, the requirement to

maintain the amount held in the General Reserve at a minimum of 3% of the revenue budget has been assumed.

88. Withdrawals from reserves can only be made once. It is not prudent to continue to use funding from reserves to support permanent recurring spending except in exceptional cases. However it is deemed prudent to use reserves to address the difficulties posed by the depth and pace of the cuts that are required in 2012/13 and later years. Use of reserves to support the base budget is not sustainable.
89. The options within the MTFs continue to identify earmarked reserves, particularly the PIR, which will provide flexibility in being able to fund performance improvement and service delivery.
90. The options within the MTFs are detailed above.
91. The clear intention over the medium term must be to continue to seek to deliver a base budget that can be sustained within the likely level of available external resources, without relying on the use of reserves.
92. There is substantial uncertainty surrounding the assumptions beyond 2012/13 in respect of external funding, potential changes to Police officers and Police staff terms and conditions emerging from the Winsor review and pension changes emanating from the Hutton Inquiry.
93. This uncertainty is compounded by the fact that the Police Authority will be abolished following the election of Police and Crime Commissioners in November 2012 and the views of the PCC on finance will not be known until he/she takes up post. The projections within the MTFs and the underpinning assumptions in respect of Council Tax increases must therefore only be seen as planning assumptions at this stage. They will be reviewed later in the year. Fortunately the level of reserves available will mean that the PCC will have, as the Authority has had, time and options available to them.
94. The levels of reserves in each of the options detailed in the report are considered by the Deputy Chief Executive and Treasurer and Assistant Chief Officer (Support) to be adequate in the context of the Authority's risk based approach and the ability of the Authority and the Force to manage its finances within approved budgets. If members propose alternative approaches then the implications on the financial assumptions set out in the MTFs will need to be considered and officers will give their views at the meeting.

## **CONSULTATION**

95. There is a duty to consult with representatives of non-domestic ratepayers in the area. The Authority has met with representatives of the business community during 2011/12. This report and the MTFs will be shared with

the Chamber of Commerce and the Federation of Small Businesses and any comments and observations will be reported to the meeting.

## PRECEPT LEVELS

96. The Authority is required to raise a proportion of its funding by precepting on the four Unitary Authorities in the Humberside Police area. Council tax is paid to the Police Authority by the Unitaries in 12 equal instalments.
97. As indicated above the estimated taxbase for 2012/13 used in the projections is for 289,206.86 Band D properties.
98. Since 2001/2002, the Band D precepts implemented by the Authority have been:-

	£ per annum (Band D)	% age Increase
2001/2002	85.77	42.24
2002/2003	95.40	11.23
2003/2004	113.04	18.49
2004/2005	129.96	14.97
2005/2006	135.72	4.43
2006/2007	142.47	4.97
2007/2008	149.58	4.99
2008/2009	156.31	4.50
2009/2010	162.41	3.90
2010/2011	166.47	2.50
2011/2012	166.47	NIL

99. The current Band D precept is £166.47. Option 1 would require the Council Tax (at Band D) to be increased to £173.12, there would be no change in option 2 and option 3 would see the Band D tax level increased to £170.63.

100. Details of the impact for tax payers within each Band are set out below:-

BAND	Option 2 (no change)	Option 1	Annual Increase £	Weekly Increase p	Option 3	Annual Increase £	Weekly Increase p
A	110.98	115.41	4.43	9	113.75	2.77	5
B	129.48	134.65	5.17	10	132.72	3.24	6
C	147.97	153.88	5.91	11	151.67	3.70	7
<b>D</b>	<b>166.47</b>	<b>173.12</b>	<b>6.65</b>	<b>13</b>	<b>170.63</b>	<b>4.16</b>	<b>8</b>
E	203.46	211.59	8.13	16	208.54	5.08	10
F	240.46	250.07	9.61	18	246.47	6.01	12
G	277.45	288.53	11.08	21	284.38	6.93	13
H	332.94	346.24	13.30	26	341.26	8.32	16

101.The Police Authority is required to produce a Council Tax leaflet that provides a prescribed range of information to tax payers. The leaflet is currently being produced within the Police Authority Secretariat and will be issued to the four Unitary Authorities for distribution to their Council taxpayers in March 2012.

## **OPTIONS/RISK**

102.The Authority has to set a balanced budget in order to be able to raise the funding necessary to financing policing during 2012/13.

103.The level of precept is a matter for the Authority. The MTFs and this report illustrate the implications of each of the three options discussed by members in December and January and requested by Members of the Business Development Committee.

104.The Chief Constable has already delivered substantial business change through BWFM and the Choices Programme and continued this by implementing the CSR 2015 Savings Plan. The depth and pace of savings has presented the Chief Constable with a significant challenge but targets up to 2011/12 have been achieved and the allocation of up to £6m of reserves over the next two years to underwrite any failure to achieve savings targets has not been called upon. The Authority has therefore a higher level of reserves than might have been expected last year and can continue to implement savings initiatives in a planned and orderly fashion whilst seeking to sustain performance.

105.Unfortunately, at this time the potential savings from the implementation of the initial phases of the Regional Efficiency and Productivity Strategy cannot be hard wired into the budget and financial forecasts. However, work will continue to establish robust estimates of the impact of Regional working on the budget for 2012/13. This information will form part of budget monitoring reports and reviews of the MTFs.

106.In the event that the CSR 2015 Savings Plan and the savings from Regional working fail to deliver against the targets set or other unavoidable spending pressures emerge, then the Authority must recognise that there will be further calls on reserves beyond those already proposed.

107.Each of the options presented in this report will leave the Authority with a substantial balance in reserves at 31 March 2013 to offset the impact of further reductions in Government support in future years to varying degrees.

108.It is vitally important to ensure that the Authority remains in a stable financial position during the period of transition through to the date of its

abolition in November 2012 and leave the Force and the Authority to the PCC in a financially healthy state.

## **FINANCIAL IMPLICATIONS**

109. The financial information in connection with each of the options exemplified for the budget for 2012/13 and later years are set out in this report and are covered in detail in the MTFS. Each proposal provides information on the level of savings required to balance the budget over the medium term and comments on the potential use of reserves if these savings cannot be found.

## **LEGAL IMPLICATIONS**

110. The Authority has a duty to ensure that proper procedures are in place for the management of its financial affairs. When setting the budget, the Treasurer is required to confirm that the budget is robust and that the level of reserves is adequate.

## **EQUALITY AND DIVERSITY AND HUMAN RIGHTS IMPLICATIONS**

111. The budget process has been the subject of an initial Equalities Impact Assessment.

112. There are no direct implications within this report in terms of the implications on the Authority's obligations in connection with Equality and Diversity although there may be implications in connection with individual savings options that will require separate consideration prior to implementation. This forms part of the IBM process.

## **RECOMMENDATIONS**

113. It is recommended that Members refer to all of the information provided at previous briefings, Member Development days and at the Strategic Planning Day on 10 January together with the MTFS updated following the Business Development Committee on 24 January 2012 to scrutinise the issues raised in this report.

114. It is further recommended that:

- i. taking into account the issues set out in the report, the requirements of the proposed Policing Plan and the information provided in the MTFS considered at Agenda item 8 Members approve one of the 3 options in relation to the level of precept/Council Tax they wish to set for 2012/13;
- ii. Members agree the budget set out in the approved option;

- iii. agree to the proposals to ringfence £10m within the Performance Improvement Reserve in relation to NPF/PCSOs as set out in the approved option;
- iv. consider and approve the proposal to top up the Partnership Reserve up to £1m;
- v. the precept payable by the Unitary Authorities should be in 12 equal instalments on dates to be agreed;
- vi. the Capital programme and funding proposals for 2012/13 and later years be approved; and
- vii. Members note that a separate report will be presented to the next meeting of the Authority on the Prudential Guidelines and Treasury Management Strategy and Policy for 2012/13, together with any adjustments needed to the Indicators for 2011/12 to reflect decisions on the budget and MTFS.

**TIM S HOLLIS**  
**Chief Constable**

**JOHN BATES**  
**Deputy Chief Executive and**  
**Treasurer**

Police Headquarters, Priory Road, Hull

Background Papers:-

1. 2012/13 Estimates File