

Humberside Police Authority

15 February 2011

Agenda Item **4**
Joint Report of the Chief
Constable and the Deputy
Chief Executive and Treasurer

REVENUE BUDGET AND PRECEPT 2011/12

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 2011/12.
2. The report should be considered along with the outcomes from the Priorities Workshop contained within the Medium Term Financial Strategy (MTFS) 2011/12 – 2015/16 report at Agenda item 3.
3. The report confirms details of the Local Government Finance Settlement and Police Grant and recommends Revenue and Capital Budgets for 2011/12 for consideration and approval.
4. The report has been prepared in accordance with the Police Act 1996 to enable the Authority to approve:
 - The financial resources available to support the Policing Plan; and
 - the level of precept for 2011/12
5. No increase in Council tax is proposed for 2011/12 to enable the Authority to take advantage of the specific grant introduced by the Government to compensate authorities that freeze their tax at the same level as that for 2010/11. The specific grant will be paid for four years and is the equivalent each year to a 2.5% increase in precept in 2011/12.
6. Members will be required to approve this proposal to maintain the Council tax for a a Band D property at £166.47, and to agree the corresponding level of the budget for the coming year.

INFORMATION

7. A Priorities Workshop was held on 18 January 2011. This workshop 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.

8. This meeting also considered feedback from various consultation events and questionnaires circulated during the year which supplemented information from the Authority's Citizens' Panel surveys that have provided authoritative and statistically representative information on the public's views on local policing and on their spending priorities. The aim of the workshop was to set the scene and to seek to identify priorities for the coming year, which in turn provide a basis for resource allocations to be aligned to those priorities which will be set out in the Policing Plan.
9. The workshop was also presented with details of the risks currently being monitored within the Force's and the Authority's risk registers.
10. In March 2009, 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 within five years. The factors affecting underlying assumptions within the MTFs at that time have been the subject of regular updates provided to the Finance Committee. The requirements are now well embedded and savings plans have been implemented successfully in preparation for the impending budget cuts for 2011/12 and beyond. It was therefore decided not to hold a separate Resources Workshop but to brief the Finance Committee at a meeting that was open to all members on 31 January 2011 on the current position. This meeting covered the proposed assumptions to be contained within the MTFs and on the additional 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.
11. 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 the strategic goals; the means by which the Chief Constable's Vision and that of the Police Authority can be delivered.
12. Workforce Modernisation has been underway for some time and the Choices Programme introduced in 2009, designed to review service provision within an agreed framework with the aim of being a key driver for identifying savings and efficiencies needed to balance the budget has already exceeded its targets for budget reductions for 2009/10 and 2010/11. The reviews already completed and those substantially complete will contribute further budget reductions in 2011/12 and future years.
13. During this period the Force has introduced a new way of working using the Integrated Business Management (IBM) model which is also now embedded. 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 in suppressing bids for growth has been noticeable compared to previous years.

14. These factors provide some of the context for the forthcoming financial year and are complemented by the MTFs for 2011/2012 – 2015/16.
15. This year it is perhaps more important than ever to recognise the medium term financial implications of budget and precept decisions given the almost unprecedented and front loaded cuts in central funding to support policing as the Service takes its share of the pain as a result of the Government's austerity measures. It is vitally important to ensure that the Authority continues to seek to be able to deliver sustainable budgets in the medium term.
16. Whilst uncertainty remains, in the system, the Government has provided details of its main grants allocations for the next two years. There is further certainty with the stance that the Government is taking to restrict public sector pay increases for 2011 and 2012., which is helpful in planning terms given the proportion of the revenue budget that is pay related. The Winsor review of police officer and police staff terms and conditions of service and the Hutton Inquiry into public sector pensions will also impact on pay related spending assumptions. Unfortunately both are due to report later in the year and so the financial implications cannot be quantified at this time and will need to be the subject of further reports as information becomes available. The positive features within the financial forecasts are partially offset by non-pay inflationary concerns and worries over interest rates.
17. The 2011/12 grant Settlement provides indicative information for 2013/14 and 2014/15 in respect of Police Grant but Government intends to complete a comprehensive review of how local government is funded later this year which could well have implications in those later years.
18. Government is also proposing that decisions on Council tax setting from 2012/13 will be subject to referenda.
19. For the Police Authority itself, the enactment of legislation in the form of the Police Reform and Social Responsibility Bill will see its abolition following the election of a Police and Crime Commissioner in May 2012.
20. The forecast position set out in the MTFs illustrates no rise in Council tax in 2011/12 with increases of 2.5% in later years for planning purposes.

21. Authorities can agree to increase Council tax in 2011/12 but Ministers have made it clear that they are expected to keep levels the same as in 2010/11. Ministers have also again announced their determination to use the Government's reserve capping powers where there are increases and where they deem spending decisions to be "excessive". They will also continue the practice of not announcing details of the specific capping criteria for 2011/12 until after budgets have been set. Under the Council tax referenda proposals the level at which increases will be regarded as excessive will be determined in advance as it will be required to be approved by Parliament.
22. When considering the level of Council tax members will recall that the Secretary of State for Communities and Local Government announced a "scheme" to freeze tax levels in the summer of 2010. Under this arrangement authorities will be compensated if they maintain Council tax at the same as that for 2010/11. To enable this to happen, the Government has agreed to introduce a new specific grant calculated by reference to a 2.5% increase applied to the 2011/12 taxbase. This grant will be paid at the same level for the four years of the Spending Review period. There is no indication at this stage as to whether the scheme will be extended or whether this grant will continue to be paid after 31 March 2015. It would appear from initial informal feedback from colleagues that the Government's proposals have had the desired effect as few authorities seem to be considering increases. The risk of the loss of the specific grant and the risk that they might be capped and in that event, as some police authorities have had to do in recent years, pay for the substantial cost of re-billing are obviously key considerations.
23. 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.
24. In this year's Settlement the majority of specific grants received previously have been subsumed in to the main General Grants. It should be noted that final details of information on funding for Counter Terrorism has yet to be confirmed.
25. In 2010/11 budget monitoring reports have been considered by the Finance 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 has also proved very valuable. The system has been further enhanced with the centralisation of a number of budgets, including pay budgets, which will help to facilitate closer working between Finance and Human Resources staff and will aid consistent alignment of financial and people plans.

26. The MTFS has been updated and members have been provided with regular briefings on external factors affecting spending assumptions and on police spending generally.
27. The final budget monitoring report for the year will be submitted to the March meeting of the Finance Committee, The assumptions in this report reflect the most up to date forecasts of outturn for 2010/11 included within the period 9 budget monitoring report. They take into account early indications of possible requests for carry over in accordance with the Financial Regulations. Full details of the period 9 results are available on the Member's website. The Finance Committee will have oversight of the final projected outturn figures at the meeting scheduled for 15 March. Requests for approval to carry forwards will be submitted in May 2010.

PRIORITIES

28. Information on the draft priorities from the Workshop on 18 January 2011 are set out in the MTFS and will be discussed at Agenda item 3. The Policing Plan will be formally approved at the next meeting of the Authority on 22 March 2011.

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

29. The MTFS considered at Agenda item 3 is the fifth comprehensive strategy document that has been produced by the Authority and the Force.
30. The Strategy is for the financial years 2011/12 to 2015/16. It contains full details of the underlying assumptions and projections for 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 2011/12. The MTFS has been updated following briefings with Members, consideration of updated spending data by the Finance Committee together with formal and informal consultation with Lead Members. The proposals contained within the MTFS are based upon an assumption that the precept/Council tax will be frozen in 2011/12 at the same level as 2010/11 with increases of 2.5% in each later year for planning purposes. Ministers have made it clear that they expect 2010/11 tax levels to be maintained and that they will cap any "excessive" increases.
31. A number of local councils and the Humberside Fire and Rescue Service have already signalled their intentions on Council tax for the coming financial year and will be proposing a freeze.
32. In previous years the Authority has had to bear the following in mind when considering decisions on Council tax :-

- the financial gearing of local authorities is lower than that of the Police Authority (that is, for the same percentage increase in precept any of the unitary authorities derive significantly more income than the Police Authority)
- the relative financial impact on local taxpayers
- the importance of maintaining the Police Authority's taxbase
- 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 and,
- Price Inflation

33. The Government scheme on Council tax recognises that a tax freeze affects not only 2011/12 and that it would result in a permanent reduction as each years increase thereafter would be applied to a lower base. The specific grant to be received will be based on the 2011/12 taxbase and paid at the same level for four years i.e. there will be no compounding and so the amounts that the Authority will receive will be lower than if the Council tax had actually been increased.

34. Members have been provided with regular reports on the issue of the Authority's investments in the UK subsidiaries which failed in 2008. Current projections suggest likely recovery rates of up to 85%. The arrangements for factoring impairments into future financial plans have been agreed and these are incorporated into the financial projections within the MTFS.

35. The MTFS allows for financial modelling, which for a number of years has been based on a 5 year Financial Forecast. The forecast has identified a total budget gap of £22m between projected spending and resources after taking account of savings delivered and identified of which £14.3m relates to 2011/12 and 2012/13. The Authority has already agreed contributions from reserves towards closing that gap in those years of around £2m. This formed part of the agreement reached with the Chief Constable in 2009 when the Authority identified that it was spending beyond its means and needed to act to examine and reduce its base budget to bring it back into balance by 2013/14.

36. Since that time BWFM and the Choices Programme have made significant inroads into reducing the permanent level of spending as well as identifying one-off savings. Members have been provided with details of progress in budget monitoring reports and in detailed information provided to the Choices Project Board, to the Outstanding Policing Programme Board, and in reports to the Strategic Policing Committee. In addition, IBM has proved an effective mechanism for controlling and suppressing bids for additional growth.

37. The accumulation 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. Reserves have been used to support BWFM since its inception to avoid adverse impact on performance. The Authority has also now agreed to use reserves to meet the costs of a Voluntary Early Retirement and Redundancy (VER) Scheme and to support retraining and redeployment initiatives linked to implementation of the Choices Programme. The Performance Improvement Reserve (PIR) has been used for this purpose. Initially staff affected by Choices reviews were asked to express an interest in VER and this has subsequently been extended to all police staff. Members have ratified 86 applications from staff (85 from the Force and one from the Police Authority Secretariat) at a cost of £1.64m with an overall payback of 10 months. This will release £2.29m of permanent savings. £1.76m of the element of the VER funding related to redundancy and severance costs remains. The Transitional Costs Sub-Group will meet in the near future to consider further applications recommended by the Chief Constable.
38. Last year the Authority focused on the increasing financial constraints that it faced and on the impact of the economic downturn. These fears intensified with the impending General Election as the full scale of the burden of public sector debt emerged. It was clear when the budget was approved that whatever the outcome of the Election, large scale cutbacks in public sector spending were inevitable. This was in addition to the financial effects that the Authority had already suffered, such as the loss of investment interest due to the unprecedented low interest rates that had persisted for a considerable period and still seem likely to remain for some time yet. The Service has also suffered as a result of the impact of the volatility in fuel and energy prices and increases in the cost of utilities.
39. Following the Election, the Coalition Government acted swiftly to address the UK's budget deficit. A package of £6.2bn cuts in 2010/11 was announced at the time of the Emergency Budget in June and warnings of front loaded budget cuts for 2011/12 and 2012/13 followed in the Comprehensive Spending Review announced in October 2010. These cuts have been confirmed in the provisional and final Grant Settlements. The final Grant Settlement information was published on 31 January 2011. To the extent that the Settlement will be considered by Parliament on 9 February, the details remain provisional.
40. Against this background, the Chief Constable commissioned work to examine the effect of cuts of £20m and £30m in addition to those already agreed.

41. This has resulted in a menu of options for savings being drawn up for discussion with the Police Authority. The "CSR 2015 Savings Plan has been considered at informal briefings with members. At these briefing members had the benefit of considering the proposals with the benefit of detailed information from the Authority's extensive community consultation and engagement process
42. BWFM savings which were not hardwired into the MTFS originally have now been included. Similarly, savings and projections from completed Choices Programme reviews have also been included within the MTFS. In view of the fact that there is now sufficient confidence in the underlying processes and in the Force's ability to deliver against target on the Programme, a proportion of the savings identified from reviews nearing completion have also been built into the financial projections set out within the MTFS.
43. As previously reported, Regional working has led to the development of and agreement to a Regional Efficiency and Productivity Strategy. The aim of this 10 year view of policing within the Region is to ensure that a strategic approach is taken to examining opportunities for the identification of potential areas to secure savings and efficiencies by working with the other police authorities and forces as well as other partners. External advisers, Deloitte's were appointed to scope and map out plans to take the Strategy forward.
44. Deloitte's delivered their report, which was part funded by the Regional Improvement and Efficiency Partnership, in mid-2010. Twelve areas of activity were identified for further work and the Regional Chief Constables agreed that all should be progressed with the exception of Customer Contact (Call Handling). Two projects, Scientific Services and Procurement, are being actioned following consideration of detailed business cases by the Regional Collaboration Board on 23 December 2010 and approved by JPAC on 27 January 2011. Lead officers are working on business cases for the remaining areas with the brief to examine how the services can be provided with a 25% reduction in costs. The MTFS provides details of the savings identified in the two approved business cases. In line with the treatment of original suggestions of BWFM savings, the projected cost savings identified are for information only at this stage. The savings have not been hard wired into budget and financial forecasts. This will be done when there is greater clarity on the timing and distribution of savings between forces and on the costs of implementation.
45. The MTFS also 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.

46. It comments specifically on the risks associated with the assumptions used to complete the financial forecasts. For example it highlights issues in connection with the Neighbourhood Policing Grant that only covers a proportion of the funding for PCSOs given that the Authority currently employs its share of a national target of 24,000 although the assumptions for funding relate to the revised target of 16,000. The MTFS also points out that this funding will be subsumed into General Grant from 2013/14.
47. 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 short term and unsustainable and cannot be recommended.
48. 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.
49. In the past the financial forecasts within the MTFS showed targets for Choices savings. It is now proposed that these targets, together with the estimate of savings from BWFM and the CSR 2015 Savings Plan will be combined and monitored in the same way as Choices is at present.
50. The pace at which the achievement of savings within the CSR 2015 Savings Plan can be achieved will be heavily dependant upon staffing numbers and staff turnover given the proportion of the budget that is pay or pay related costs. There will be an inevitable reduction in the numbers of both police officers and police staff but the Police Authority has signalled its intention to seek to ensure that wherever possible these reductions should be through natural wastage and that compulsory redundancies should only used a last resort or in circumstances where there is no alternative. The funded VER scheme is evidence of its intent with regard to this matter.
51. 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 has been returned to the PIR.
52. The uncommitted balance of reserves within the PIR continues to provide the Force and Members with time and opportunity to reshape the service and to bring the budget back into balance in a controlled manner, without having to take reactive and draconian measures being applied in other authorities.

53. At the meeting on 31 January 2011, the Force suggested that a similar arrangement to that used in 2010/11 should be adopted and that a £6m flexible facility should be made available, including the commitments to support the base budget already agreed, to provide the Chief Constable with room to manoeuvre when implementing the CSR 2015 Savings Plan. This proposal was supported on the basis that the facility would cover the first two years of the MTFS. The specific arrangements for agreeing to draw down the reserve will be the subject of a report later in the year. The Force will utilise IBM to implement the proposals within the Plan. The Authority will maintain oversight by extending the arrangements used in respect of BWFM and the Choices Programme. This arrangement will also enable decisions to be informed by the progress in delivering savings from Regional working. The MTFS has been formulated on these assumptions.
54. The MTFS 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.
55. The fact that there is a robust MTFS 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.
56. The MTFS contains provision for the Authority's share of the costs of current Regional collaborative activity based on information provided by the West Yorkshire Police Force to and approved by JPAC. It also reflects closer working with individual forces to improve resilience.
57. 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.
58. The Authority created a Partnership Reserve in 2008/09. This proved its worth enabling Divisions to continue initiatives to support performance where external funding was withdrawn or time expired. Whilst once again in the difficult circumstances that the Authority faces it is not recommended that the Reserve should be topped up it should be noted that a balance of £335k remains. At this stage it is recommended that this should be held back until the Authority and partners have determined their respective budgets, at which point the partnership landscape will be much clearer and the Force and the Authority will be in a better position to determine how to gain maximum impact and value for this resource. It could be a significant factor in ensuring that the Force and the Authority

have the capacity to continue to contribute effectively to local partnership working.

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

60. Members will recall that from 2010/11 the Police Authority was required to report efficiency targets on the face of Council tax bills alongside information in respect of the billing authority and the Fire and Rescue Service. This requirement has been rescinded.

REVENUE ESTIMATES

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

62. This will be supported by Government funding coming to the Authority through a mixture of General and Specific Grants. From 2011/12 the majority of specific grants have been absorbed in to General Grant.

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

	2010/11 £'m (Original)	2011/12 £'m	2012/13 £'m
RSG & NNDR	61.773	55.538	52.139
Police Grant	69.994	74.795	69.459
TOTAL	131.767	130.333	121.598
Additional Rule 2 Grants and Counter Terrorism			
Rural Policing Fund**	0.698	-	
Special Priority Payments**	1.202	-	
Forensic Grant**	0.439	-	
Initial Police Learning and Development (IPLDP)**	0.380	-	
Counter Terrorism*	0.956	tbc	tbc
Ring Fenced Specific Grants			
Neighbourhood Policing/CSOs	4.762	4.800	4.700
Crime Fighting Fund	3.963	-	-
Basic Command Unit Fund	0.757	-	-

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

** The £1.8m reduction in funding in 2010/11 was taken from these grants

62. The balance of funding for the budget after taking account of use of reserves comes from the precept collected with the Council tax by the four Unitary Authorities. The local authorities have confirmed that the Council Tax Base for 2011/12 is 288206.86 Band D equivalent properties (286026.50 in 2009/10) and they have also provided details of the Collection Fund surpluses of £718k available as follows:

Unitary	Tax base (Band D equivalents) 2010/11	Tax base (Band D equivalents) 2011/12	Collection Fund Surplus £'000
East Riding of Yorkshire	118192.80	118655.26	260
Kingston upon Hull	69584.00	70343.00	188
North East Lincolnshire	47432.00	47618.00	114
North Lincolnshire	50817.70	51590.60	156
Total	286026.50	288206.86	718

63. 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, maintenance of the Authority's resource base, the level of general reserves and earmarked reserves and the potential calls on them. For 2011/12 it is suggested that the arrangements to freeze the Council tax should be agreed so that the Authority complies with Government guidance and receives the compensatory specific grant.

64. It is open to members to adopt alternatives but if any increase is proposed the risk of capping remains and will continue to remain until the Government announces details of its actual capping criteria. It is clear from Ministerial statements that the Government expect to see Council tax stay at 2010/11 levels.

65. Government have demonstrated in the last two years that they will cap authorities where they see fit, even if this forces them to re-bill when the re-billing costs are almost as great as the extra money being collected.

FINANCIAL FORECAST

66. 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

67.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 the use of supported and unsupported borrowing.

68.A summary of the proposed Capital Programme and recommended financing proposals are set out below (full details are available in the Member's library and will be posted on the Members' website together with details of the timetable for implementation of the Estates Strategy approved in September 2010):-

CAPITAL SCHEME	2010/11 £'000 Current	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Estates Strategy	1220	20025	22745	6601	9601	6117
IT	2022	2685	1752	3452	2362	2442
Vehicles and Equipment	1872	1968	1358	1539	1490	2221
TOTAL CAPITAL PROGRAMME	5114	24678	25855	11592	13453	10780

69. The Capital Programme includes the latest information on the costs of the Estate Strategy.

70.As Members are aware the Authority is required to set Prudential Code Performance Indicators. Any required revisions to the 2010/11 Indicators and proposals for 2011/12 based on the approved budget and MTFS together with the proposed Treasury Management Strategy for 2011/12 will be reported to the next meeting of the Authority on 22 March 2011.

71.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).

RISK MANAGEMENT AND RESERVES

72. The MTFS explains the importance of linking risk management to financial planning with the aim of ensuring that the information and assumptions are robust. Budget monitoring and the IBM process will 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.
73. The Capital Programme has been reviewed to ensure that projects can be delivered within the timescales set out for each scheme.
74. 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.
75. 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.
76. The budget and MTFS have been prepared jointly by the Deputy Chief Executive and Treasurer and Assistant Chief Officer (Support). In their opinion, the proposals as set out in this report and exemplified in the MTFS, would if supported, provide the Authority with the information to set a robust budget for 2011/12.
77. The Authority and the Force seek to maintain reserves to manage the financial risks. The MTFS sets out details of proposed use of reserves together with the requirement to maintain the amount held in the General Reserve. 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. It is deemed prudent to use reserves to address the difficulties posed by the depth and pace of the cuts that are required in 2011/12 and 2012/13 as it is considered that these circumstances can be regarded as exceptional.
78. The Strategy continues to identify earmarked reserves, particularly the PIR, which will still provide further flexibility to help to provide funding to support performance improvement and enhanced service delivery. The MTFS sets out proposals for the use of the PIR to enable it to deliver long term permanent savings to be incorporated into the financial forecasts and in detailed revenue budgets when appropriate.

79. The MTF5 indicates that £18.2m of PIR funding is projected to be available over the next five years. If the proposal to commit £6m of reserves to supporting the revenue budget, if required, over the next two years is agreed then even if this were to be fully expended, then £12.2m would remain available.
80. The clear intention remains over the medium term to deliver a base budget that can be sustained within the likely level of available external resources without relying on the use of reserves. The exceptional circumstances this year make it necessary to provide extended support from reserves to enable the Chief Constable to implement the savings options set out in his CSR 2015 Savings Plan in an orderly and carefully planned way.
81. There remains significant 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. This uncertainty is compounded by the fact that the Police Authority is in a period of transition in the run up to its abolition following the election of Police and Crime Commissioners in May 2012.
82. The levels of reserves are considered by the Deputy Chief Executive and Treasurer and Assistant Chief Officer (Support) and are deemed to be adequate at the level of Council tax increases illustrated within the MTF5 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 MTF5 will need to be considered and officers will give their views at the meeting.

CONSULTATION

83. 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 2010/11. This report and the MTF5 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

84. 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.
85. As indicated above the taxbase for 2011/12 using information received from the Unitaries has been determined as 288206.86 Band D equivalent properties.

86. 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

- 87 The current Band D precept is £166.47. In view of the fact that the Government have introduced a specific grant that will be paid for the next four years equivalent to an increase in Council tax of 2.5% in 2011/12 no increase is proposed for the coming financial year.

88. 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 2011.

OPTIONS/RISK

89. The Authority has to set a balanced budget in order to be able to raise the funding necessary to financing policing during 2011/12.

90. The level of precept is a matter for the Authority. The MTFs and this report illustrate the implications of not increasing the Council tax in 2011/12 and increases of 2.5% each year from and including 2012/13 for planning purposes. This appears to represent a balanced position. It is in keeping with the previously approved strategy. It is designed to balance the budget within a 5 year period and aims to eliminate, if possible, having to rely on reserves beyond that date.

91. The Chief Constable has already delivered substantial business change through BWM and the Choices Programme. He has also developed a CSR 2105 Savings Plan. This plan has been considered at member briefings and will provide a basis for balancing the budget over the term of the MTFs. The depth and pace of savings in the next two years present the Chief Constable with a particular challenge and this report and the MTFs recommends that an allocation of up to £6m over the next two years is required to enable him to implement his proposals in a planned

and orderly fashion whilst seeking to maintain and if possible improve performance.

92. At this time the potential savings from the implementation of the initial phases of the Regional Efficiency and Productivity Strategy have not been hard wired into the budget and financial forecasts. However, the MTFS shows, for information, the scale of the savings that the two projects agreed could deliver. Providing support from reserves in 2011/12 and 2012/13 will enable officers to bring forward revisions of the MTFS when the timing and allocations of these savings to individual authorities becomes more certain.
93. In the event that the CSR 2105 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 could be further calls on reserves beyond those already proposed.
94. Members have the option of agreeing a higher or lower level of precept however this would immediately mean that the specific grant in respect of Council tax compensation would be lost. Higher levels of increase would expose the Authority to the risk of capping. If the Authority were to be capped then this could have significant impact on public opinion, reputation and confidence in the organisation as well as resulting in substantial additional costs in respect of re-billing. Higher increases would under normal circumstances reduce the pressure on the Force to make budget savings and improve the resource base for future years however this year the loss of the specific grant would have to be taken into account. Agreeing a reduction in precept would increase the already severe level of savings needed to balance the budget or require additional use of reserves beyond a level that might be regarded as prudent. It should be noted that a reduction would still make the Authority eligible for the full amount of the specific grant.
95. The scenario presented in this report will leave the Authority with a balance in reserves to offset the impact of further reductions in Government support.
96. It is also important to ensure that that the Authority remains in a stable financial position during the period of transition through to the date of its abolition in May 2012.

FINANCIAL IMPLICATIONS

97. The financial information in connection with the budget for 2011/12 and later years is set out in this report and are covered in detail in the MTFS. The net budget requirement for 2011/12 is £180,223k. The proposals are supported by a commitment from the Authority to be prepared to underwrite up to £6m of the risk of failure to deliver the required savings with the use of PIR over the next two years.

LEGAL IMPLICATIONS

98. 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 IMPLICATIONS

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

100. 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.

CHILDREN ACT 2004

101. There are no direct implications within this report in terms of the implications on the Authority's obligations in connection with the Children Act 2004.

RECOMMENDATIONS

102. It is recommended that Members refer to all of the information provided at previous briefings, Member Development days, at the Priorities Workshop on 18 January, MTFS updates at meetings of the Finance Committee and at the briefing for Members held on 31 January 2011 and scrutinise the issues raised in this report.

103. 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 3 Members agree to freeze the Council tax for 2011/12 at the same level as in 2010/11,
- ii. Members agree the budget at £180,223k assuming the approved level of Council tax
- iii. the proposals to make up to £6m available from the Performance Improvement Reserve as a flexible facility to support the revenue budget over the next two years to enable the Chief Constable to implement his CSR2015 savings plan be agreed;

- iv. the Collection Fund surplus of £718k be used to fund the 2011/12 revenue budget;
- 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 2011/12 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 2011/12, together with any adjustments needed to the Indicators for 2010/11 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. 2011/12 Estimates File
2. E-Mails from Home Office
3. 18 January Workshop Papers
4. Finance Committee and briefing papers relating to the MTFS and budget 2010/11
5. Risk Management Strategy and Risk Registers

APPENDIX 1

MEDIUM TERM FINANCIAL STRATEGY @ 0% Precept in 2011/12, 2.5% thereafter.

February 8, 2011
10:55:55

2011/12 £000's	2012/13 £000's	2013/14 £000's	2014/15 £000's	2015/16 £000's
-------------------	-------------------	-------------------	-------------------	-------------------

Base Budget					
Allocated Budget	181,828	180,603	172,139	173,189	173,237
Reversal of one year funding cut (now permanent)	1,809				
Adjusted base	183,637	180,603	172,139	173,189	173,237
Other Commitments/Cost Pressures					
Loss of BCU Grant	757				
Loss of Crime Fighting Fund	3,962				
Reduction in DIP Funding	127				
Capital financing and revenue consequences of capital schemes	163	1,922	781	1,470	769
Identified pay and non pay pressures	2,076	-128	155		
Previously approved business cases	-81	52	-46	-473	
Lg Superan-Triennial Valuation		365	365	400	
Business Development	300	500	500	0	
Business Development (2010/11) Reduction of £882k Less TSU £110K	-772				
Estimated Regional Working	100	15			
	6,632	2,726	1,755	1,397	769
Cost Savings (Removal of one year/set up costs)					
Previously approved cost savings	-681	-91	-134	10	
BWFM and Choices Savings	-5,492	-1,952	-273	0	0
Balance required to Balance Annual Budget	-5,163	-9,147	-1,652	-4,623	-1,494
	-11,336	-11,190	-2,058	-4,613	-1,494
Contingency Fund					
Part Year	0	0	1,353	2,288	2,381
Full Year	1,671	0	0	976	1,504
Non Pay Inflation					
	1,671	0	1,353	3,264	3,885
PERMANENT BUDGET REQUIREMENT	180,603	172,139	173,189	173,237	176,397
Funding From Reserves to Support Budget Base					
TOTAL BUDGET REQUIREMENT	180,603	172,139	173,189	173,237	176,397
FUNDED BY:-					
Budget Settlement	180,223	172,139	173,189	173,237	176,397
Reserves Funding to Support Base Budget	0	0	0	0	0
Net Budget Requirement	180,223	172,139	173,189	173,237	176,397
Funding from Reserves	0	0	0	0	0
Funding for BWFM Savings Slippage from BWFM Reserve	380				
FUNDING AVAILABLE	180,603	172,139	173,189	173,237	176,397
SURPLUS/(DEFICIT)	-	-	-	-	-

PERFORMANCE IMPROVEMENT RESERVE

TEMPORARY FUNDS

Appendix 1a

	BALANCE ON RESERVE	2011/12	2012/13	2013/14	2014/15	2015/16
BALANCE BROUGHT FORWARD (From 2009/10 Final Accounts)	28,970	22,739	21,751	18,445	18,347	18,280
Adjustment for Holding Account balances	-40					
BALANCE BROUGHT FORWARD	28,930					
ACTIONED FROM RESERVES						
Reserves Funding to Support Base Budget	-3,966	0	0	0	0	0
Reserves funding to mitigate slippage in BWFM	-775					
ISSUED IN YEAR	-217	-380				
ACTIONED TO RESERVES	-4,958	-380	0	0	0	0
RETURNED IN YEAR	133	0	0	0	0	0
TRANSFERRED (TO)/FROM OTHER RESERVES						
Transfer from/to General Reserve (3% of Budget requirement)	-157					
	-157	0	0	0	0	0
RECONCILED TO E-FINANCIALS	23,948	22,359	21,751	18,445	18,347	18,280
APPROVED RESERVE COMMITMENTS/TRANSFERS						
TRANSFER FROM REVENUE BALANCES	-3,209	-615	-3,549	-66	-66	0
Under/(Over) spend - Month (9)	3,140	0	0	0	0	0
Planned Commitments (estimate)	-1,140	0	0	0	0	0
Transfer from/to General Reserve (3% of Budget requirement)	2,000	0	0	0	0	0
BALANCE CARRIED FORWARD	22,739	21,751	18,445	18,347	18,280	18,185