

Cumbria Police Authority

15 December 2005

Agenda Item No ...22

Budget prospects 2006-07

A report by the Chief Constable

1. Summary

- 1.1 The purpose of this report is to provide members with an update in relation to the Constabulary's budgetary position for 2006-07. The paper has been written in light of the financial settlement for Local and Police Authorities for 2006-07 and 2007-08 and offers a brief commentary of the implications for Cumbria.

2. Recommendations

- 2.1 Members are asked to note the contents of this paper.

3. Background and Settlement Details

- 3.1 Members have received regular position statements during the last six months or so in relation to the likely budget position for 2006-07 and beyond. The first forecast was presented at the meeting in June, in the form of the Medium Term Financial Forecast, which set out in broad terms the overall financial position of the Authority for the three years to 2008-09. This was followed up by a report to the meeting in September, which sought to refine the earlier predictions.
- 3.2 Those earlier reports had, by necessity, to make broad assumptions about levels of Government support, which, in the Medium Term Financial Forecast, were set out in a range of possible increases ranging between 2.5% and 3.5%. As members will now be aware, the draft settlement for 2006-07 and 2007-08 was announced late on 5 December, by the Local Government Minister, Phil Woolas. This was accompanied by a more detailed statement on the policing effects, by the Home office Minister, Hazel Blears.

- 3.3 A full technical resume of the settlement is set out elsewhere on the agenda in the report from the Police Authority Treasurer. This paper will not repeat that detail, although it does provide a commentary in a number of places which have implications for the budget process.
- 3.4 In summary, the main effects of the settlement are set out below: -
- (i) For the first time, the settlement deals with two financial year and, for the future, it will become a three year settlement to complement the three year periods of Government Comprehensive Reviews
 - (ii) The settlement is based around the implementation of a new formula for determining spending needs centered on the police crime domains, and a new formula using four separate blocks to distribute resources, replacing the current resource equalisation system.
- 3.5 In addition, and specifically relating to policing, there are a number of significant changes, which both warrant a brief explanation and have led to substantial changes to parts of the budget process. The most material of these are set out below: -
- (i) As members will be aware from the earlier reports, changes to the financing of police pensions have been planned for some time. Specifically, members of the Personnel Committee will recall the paper setting out details of those proposals and the Authority's response to that consultation. To summarise the main changes, the current arrangement in which all pensions payments to retiring and retired officers together with contributions from serving officers is met from the force revenue account will end at the end of 2005-06.
- From 2006-07 onwards, most pensions costs will be chargeable to a new statutory pension account, supported by income from officers and, for the first time, contributions from employers. Any shortfall on the pensions account will 'topped up' by a specific grant provided by the Home Office whilst any surplus must be repaid to the Home Office. It is estimated that the national cost of 'topping up' police pension accounts in 2006-07 will amount to £313m (£2007-08 = £328m), which has been taken out of police grant to facilitate this arrangement.
- For the future, the charges against the main budget are limited, by regulation, to: -
- A basic employer's contribution amounting, for the moment, to 24.4% of pensionable pay
 - A provision to meet the estimated costs of ill health pensions, based on a formula and spread over four years (estimated at 1.3% of pensionable pay)
 - A provision to meet the estimated cost of new injury awards.

As described above, the financial settlement has been adjusted to cater for the new pensions arrangements, reflecting, in particular, the requirement to create a national 'top up' fund. The fund will be created in the form of deductions from all police grant allocations, based on data provided by forces with adjustments by the Home Office. For Cumbria, the pensions adjustment amounts to £1.691m based on 2005-06 experience, although applying the new pensions budgeting methodology appears to suggest that in 2006-07 pensions costs will amount to about £2.9m less than they would have done under the existing accounting framework.

(ii) Several Specific grants, which, for 2005-06, have been allocated individually are to be rolled into an 'amalgamated' grant, known as the Special Formula Grant (SFG). For Cumbria, this includes the three grants set out below: -

- The allocation from the Rural Fund (£1.342m in 2005-06)
- The DNA expansion grant (£0.487m in 2005-06)
- The grant supporting the payment of Special Priority Payments (£0.686m in 2005-06)

The Home Office has set out that it wants Police Authorities and Chief Constables to have more local control over the use of specific grants and it hopes that this arrangement will create more flexibility. However, the same statement also refers to the hope that existing commitments and policy initiatives entered into using the individual funds should be honoured. It has also been set out that the allocations for 2006-07 will mirror the 2005-06 allocations, i.e. they will not be indexed in any way. Members will be aware from past reports that: -

- The Rural Fund has not been indexed since its inception in 1999-2000
- The commitment to fully support the additional costs of Special Priority payments has been gradually reduced since they were introduced in 2003-04.

(iii) Government is proposing to alter the way in which Counter Terrorism initiatives are funded. From 2006-07 onwards, this will include consolidating the resources currently allocated to the Metropolitan Police Service (MPS) with support for individual forces for dedicated security personnel (DSP's) to be funded by specific grant rather than at present through the funding formula. Unfortunately, no details of the grant have been announced alongside the settlement although it is assumed it will be at a level which reflects actual cost.

4. 2006-07 Continuation position

4.1 A broad indication of the cost of a continuation budget was set out in the Medium Term Financial Forecast (MTFF), and was refined in papers to the Authority in September. In each case, the analysis was based on broad assumptions. More recently, all BCU's and other units in the Constabulary have contributed to more detailed work to calculate the likely costs across the Constabulary, together with an assessment of the Authority's own costs. The basic assumptions in this work are made up as follows: -

- Pay awards of 3% for all groups
- Prices to increase broadly in line with RPI, with some tolerance to reflect those areas of the budget which have their own inflation e.g. fuel costs
- Pensions increases for April 2006 based on September 2005 RPI increase (but reflecting the new financing arrangements outlined above)

The continuation budget also picks up a number of unavoidable commitments, including the full year effect of decisions approved for 2005-06 plus the financial effects of any decisions made by the Authority during the current financial year.

4.2 The latest assessment of the cost of a continuation budget is about £90.3m, although a like for like comparison with the current year's budget of £89.115m is particularly complicated because of the effects of the new pensions arrangements, the movement of security funding from general to specific grant, together with the accounting treatments for the two amending reports in 2006-07, as reported to members earlier.

4.2 The nature of the settlement, together with some key data still to be made available means that a number of assumptions have, by necessity, been factored into the continuation calculations. To that end, the figures, at this stage, need to be considered with more of a health warning than would normally be the case at this stage in the cycle.

5. Growth proposals

5.1 Members will recall from the meeting in November that the Chief Constable reported on new budget priorities for 2006-07. That paper set out a short schedule of those priorities he believed to be essential, which had been considered in context of the likely poor settlement for 2006-07 and beyond. The paper also reflected that, with Cumbria Constabulary likely to be amalgamated with at least one other force, good governance required that any longer term commitments should be made once the future structures became clearer and alongside any new Constabulary and Authority.

- 5.2 To remind members, the items as reported previously are set out in the tables below: -

Revenue items

Item	Cost in 2006-07 £'000	Full year cost £'000
Support for PNC Bureau	40	40
Upgrade of the CJX	25	50
Neighbourhood Policing Analyst	25	25
Totals	90	115

Capital items

Item	Total Capital Cost £'000	Annual Running Cost £'000
IMPACT – Full crisp	190	75
IMPACT – Code of Practice for information sharing	65	120
Totals	255	195

6. Efficiency Gains

- 6.1 A separate paper has been produced elsewhere on the agenda setting out the latest position in relation to the efficiency regime for the forthcoming two years. As members will be aware, the new regime now requires a combination of cashable and non cashable gains to be made, of which at least 1.5% must be of the cashable variety. At the time of writing this paper, cashable gains of about £700k have been identified for 2006-07, which, together with surplus gains from the current financial year should guarantee that the cashable target is achieved in that year.

7. Other matters

7.1 Community Service Officers

Members will be aware that the Home Office set out in the paper “Neighbourhood Policing – your police; your community; our commitment” to increase the number of Community Support Officers to 24,000 by 2008. Police Authorities and Chief Constables have been invited to make bids for officers based on quota’s as set out in subsequent Home Office correspondence. It is the Chief Constable’s intention to support a bid for Cumbria in conjunction with the Police Authority, although the structure of such a bid is still being finalised. There are, however, a number of financial issues associated with the planned roll out of CSO’s causing some concern to the service as a whole, not least the share of the costs which Finance and Resources / Police Authority / 2005-06 / WMT / Budget prospects 2006-07 /

Police Authorities will have to pick up after 2006-07 and the uncertain financial arrangements after 2007-08, when any specific grant aid will be merged with 'general grant'. Notwithstanding that basic salary costs of CSO's are funded at 100% for 2006-07 and at 75% for 2007-08, there are some further concerns that any additional costs e.g. the costs of supervision and any equipment is outside this arrangement. The Chief Constable intends to produce a paper to the Authority in January, setting out what he believes to be a suitable number of CSO's to bid for, to allow members to discuss and hopefully endorse.

7.2 Amalgamation costs

The costs of a continuation budget do not include provision to meet any aspect of possible future amalgamations including Cumbria. The Constabulary recognises the national position of Police Authorities in seeking reassurances that the 'one off' costs associated with mergers will be met from central funds. Indeed, the Chief Constable supports the need to secure external funding for these costs, without which existing and new Authorities will have to resort to external borrowing supported by the Prudential Code of Practice. Members will be well aware that the repayment of external loans will reduce the resources available for operational policing. It is further assumed, for the purpose of the budget that any implementation work in 2006-07 will be met from existing resources, or will be funded from established reserves. The Police Minister in her Statement on the Settlement, indicated an intention to have regard to the costs of potential mergers when allocating capital resources over the next two years, although how this sits alongside the present regulations on the definition and use of capital remains to be seen.

8 **Summary of latest position**

8.1 The report elsewhere on the agenda in relation to the financial settlement sets out a range of budget limits, linked to specific increases in Council Tax. These are summarised in the table below: -

Council Tax increase	Maximum budget
3%	89.389m
5%	89.926m

8.2 Although the budget process is still not complete and taking into account that some key data has not been supplied with the settlement, thus requiring some assumptions to be made, the latest position can be summarised as follows:

Budget area	£'000
Latest estimate of cost of continuation	90,300
Adjustment for Amending reports	(461)
Latest assessment of cashable efficiencies which can be taken from the 2006-07 budget	(700)
Revenue growth put to Police Authority in November 2005	90
Revenue effect of capital growth put to Police Authority in November	195
Total	89,424
Council Tax implications	3.1%

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Chief Constable