

Cumbria Police Authority

Cumbria Police Authority
15 February 2006
Agenda Item

Budget 2006 - 07 to 2008 - 09

Report of the Treasurer and the Chief Constable

1. SUMMARY

1.1 This report updates members on the Final Grant Settlement and advises on all aspects to be considered in setting the Police Authority's budget for 2006 - 07.

1.2 The major drivers which have impacted on the Authority and the Constabulary in developing the 2006 - 07 budget are:

- development of strategic plans in tandem with the budget process
- adverse impact of new spending needs and grant distribution formulae
- 3.1% grant increase compared to the need for 6% identified by the APA
- expectations of Government for council tax increases averaging under 5% backed by a continued commitment to capping
- the use of a restated 'alternative notional budget amount' for 2005-06 as a basis of measuring increases in 2006-07 for capping purposes
- requirement to identify 3% efficiency gains of which half must be cashable
- assumption that 'efficiency gains' will be reinvested in front line policing
- development needs of the service to meet external targets and standards
- organisational and financial impact of the January 2005 storms on the Authority's estate and assets
- uncertainty on Government's proposals for restructuring the police service

1.3 Taken together, these factors once again represent a range of significant challenges in reconciling competing and incompatible demands. A budget which meets the most critical of these factors can be delivered only by retaining a high proportion of the cashable savings and efficiency gains and applying them in holding down the level of council tax increase that would otherwise be required. But this means severely limiting new investment in the service to those items which are inescapable, and deferring items which in the longer term need be addressed.

1.4 Overlying the strategic planning and budget process have been the proposals tabled by the Home Secretary requiring a restructure of the service and the uncertainty introduced for the timetable, the merger options, governance, and funding. All of these factors have a significant impact on the strategic planning and development of the service in the outlook period covered by this budget.

1.4 The assumptions used for budget planning purposes based upon the Medium Term Financial Forecast updated and reported to the September meeting of the Authority, would have required a Budget of **£90.8m** (£92.8m less funding changes of £2.4M plus Grant Repayments of £0.4m) and is the figure which has been used as part of the consultation through the Area Community Liaison Forums. A copy of the consultation briefing note and accompanying graphs have been provided to members previously. This figure includes the full year impact of commitments

entered into in the current year, and is adjusted for the repayment of £461,000 of grant arising from Amending Reports for the 2004-05 and 2005-06 Financial Settlements. A budget at this level would have required a council tax increase of £9.90 (6.4%) to £165.33 - clearly in excess of government expectations and would have inevitably lead to the Authority's budget being capped by the Secretary of State. Before the inclusion of savings and growth items for 2006-07, the underlying budget requirement has come down from the planning figure of £90.8m to a firm estimate of £90.643m as a continuation budget. But this would still require an unacceptable council tax increase of £9.46p (6.1%).

1.5 The Chief Constable, has identified the scope to make budget efficiency savings of £763k and other savings totalling £430k, together totalling £1.193m. The efficiency savings are detailed in Appendix 10.

1.6 Appendix 11 sets out the essential growth items presented to the Authority at its meetings on 10 November 15 December and 18 January, and which are required to meet inescapable developments with a first-year cost totalling £135,000, and a full year cost in 2007-08 of £160,000. Other needs are to be addressed largely by the internal reallocation of resources through the efficiency programme.

1.7 On capital, a small number of new projects totalling £295,000 are included within the capital programme together with the 2006-07 instalments of the vehicle and IT renewal programmes. These, together with ongoing projects approved in the current and earlier years are summarised in section 4 of this report and detailed in Appendix 5, together with the capital programme funding sources.

1.8 The Final Grant Settlement confirms the unacceptability to Government of Council tax increases exceeding 5% and this is reflected in our recommended budget. For Cumbria Police Authority a Council tax increase of between 3% and 5% would support a narrow budget range of between £ 89.809m and £90.350m. A minimum budget requirement of £89.809m, incorporating the growth items of £332k, injury award pension liabilities of £480k retained by the Authority under the new pension arrangements, repayment of £461k grant amendments from earlier years, and offset by scope for savings of up to £1.193m confirms that a budget within this restricted range can be delivered without the need to find further savings. A budget at this level leaves only a small balance of £27k available to be contributed to the General Reserve towards the higher target set by the Treasurer in the light of new advice. But it will be a matter of judgement for the Authority as to whether it is prepared to set the budget higher up the range, in order to take greater regard for the new target of 5% set by the Treasurer for the level of General Reserve. This target takes on particular significance against the increased uncertainty in the light of the Home Secretary's restructure proposals; the impact on the Authority's estate of the January 2005 storms, and the increased operational risks in today's climate of policing, none of which events have a specific budget provision in the budget recommended for adoption.

1.9 A Budget of £90.328m would require a band 'D' council tax of £163.08- an increase of £7.65 (4.92%) over the £155.43 for the current year and is the budget which is recommended to the Authority by the Treasurer and the Chief Constable.

This is the minimum level of budget, which the Chief Constable is able to commend, consistent with the risks to policing services of setting the budget at a lower level. But both the Treasurer and the Chief Constable believe that to recommend a higher level of funding beyond a Council tax increase of 5% would run the very real risk of the Authority's budget again being subjected to government intervention, with a heightened risk of the budget being 'capped.'

1.10 Appendix 6 illustrates a continuation budget of £90.643m which requires a Council tax increase of £9.46 (6.1%) to £164.89 and is beyond the range of government expectations on Council tax increases, and also outside the range of increases consulted upon through the Area Liaison Meetings. Illustrations are given for a range of tax increases between 3% and 4.92%. For technical reasons, the adopted budget for 2006-07 must include a figure of £461,000 being the amount of grant to be repaid to the Government next year in respect of the Amended 2004-05 and 2005-06 Grant Settlements, whilst the increase in compensating grant in the 2006-07 Settlement is required to be shown 'below the line' as part of the Government's total grant contribution. In addition, changes in the funding of police pensions, and other grant changes, require that the current year's budget and grant income are each reduced by £2.420m to allow like for like comparison with the forward years. The resulting 'alternative notional budget amount' of £86,695,000 for 2005-06 is to be set in an Order by the First Secretary of State and will be used by Ministers to measure the Authority's increase in budget requirement for capping purposes in 2006-07. There are no adverse implications from this decision as the figure is intended to be broadly neutral to the Authority, reflecting the funding changes which have taken place in 2006-07 compared to 2005-06. However, the Authority appears to have benefited from these changes and the reasons and implications are addressed further in the detailed report.

The illustrated budgets in Appendix 6 are:-

- 1 A continuation of service budget of £90.643m but which requires a Council-tax increase of 6.1% which would be unacceptable to Government and would lead to intervention and likely capping.
- 2 A budget based on restricting the council tax increase to 3.0% would support a budget of £89.8m. This would enable only £27,000 to be contributed to the requirement for a higher level of General Reserve. Council tax would be £160.09 – an increase of £4.66 (3%) over the £155.43 level for this year.
- 3 A budget based on a council tax increase of 3.5% would allow £162k to be contributed to the General Reserve and would need a tax increase of £5.44.
- 4 A budget based on a council tax increase of 4% would allow £297k to be contributed to the General Reserve and would need a tax increase of £6.21.
- 5 A budget based on a council tax increase of 4.5% would allow £432k to be contributed to the General Reserve and would need a tax increase of £6.99.
- 6 The recommended budget

1.11 The Recommended Budget Requirement of £90.328m limits the council tax increase to 4.92% above the level for the current year. This has required the Chief Constable to apply net savings (less growth) of £861,000 against the continuation budget. A budget at this level also supports a contribution of £546,000 to the General Reserve which, it is estimated will then stand at £4.004m (4.4%) compared to a revised target of 5% (£4.5m) set by the Treasurer and discussed in Section 5 of this report. Our judgement is that the increase in budget requirement of £3.633m (4.19%) over the adjusted 'notional' budget for 2005-06 and the increase in Council tax of £7.65 (4.92%) should be acceptable to Government, and is the recommended budget.

1.12 All council tax references in this report are to band 'D' (unless stated) which is the prescribed reporting and comparison standard, but the most typical property in Cumbria is taken to be band 'B' for which liability is 7/9 of band 'D'. Separate figures are shown in Appendix 9 for each property band for each budget illustrated, whilst further detail of the impact of the recommended Council tax on Cumbrian Households is shown in Appendices 14 and 15.

1.13 Members are reminded that in accordance with Section 19 of the Police Act 1996, decisions regarding the Precept must be approved by at least half of the total membership of the Authority at the time of the decision, *including* more than half of the County council members at the time. In other words the budget must have the support of at least 8 Members for 2006-07 (due to one vacancy) of whom at least 5 must be County councillors, irrespective of the numbers present or voting at the meeting.

2. RECOMMENDATIONS

- i) to note the expected results for 2005 - 06 and approve the revised estimates and the transfers to be made to and from the Earmarked and General Reserves as summarised at Appendix 3.
- ii) to note the Treasurer's comments on the Robustness of the Estimates and the Adequacy of the Balances and Reserves for 2006 - 07 and the medium term, as set out in section 5 of this report.
- iii) to consider the report and determine the budget to be approved for 2006– 07 as recommended in Appendix 6 and summarised in Appendices 3 and 4.
- iv) to hold the balance on General Reserve at not less than £4m representing 4.4% of proposed expenditure in 2006 – 07 and to agree a target balance of 5% to be achieved, if possible, over the next two years.
- v) to approve the revised spending to the 2005 - 06 Capital Programme as detailed at Appendix 5 and in Section 4 of this report and to agree the New Starts and the total Revised Capital Programme and the recommended financing sources for 2006 - 07 as detailed in Appendix 5.
- vi) to set the basic amount of band 'D' council tax in support of the Police Authority Precept at £163.08 - a level which reflects the recommended budget.
- vii) to set the total amount of Precept at £28.314m and the amount to be charged to each of the District Councils as set out in Appendix 9 by reference to their respective tax base as detailed in Appendix 8
- viii) to agree the suggested development and reporting timetable in respect of the Authority' strategic planning processes and the various elements of the 2007-08 budget as set out in Appendix 12.

A model resolution based on the recommended budget is attached at Appendix 13.

Douglas Thomas
Treasurer
08 February 2006

Michael Baxter
Chief Constable

DETAILED REPORT

1. Local Government Financial Settlement 2006-07 and 2007-08 and Amendments in respect of 2004-05 and 2005-06.

1.1 At its meeting in December, the Authority received a report on the Provisional Grant Settlement and Home Office Police Grant for 2006 – 07 *and* 2007-08, together with their potential impact on the Authority's finances and service levels in the next financial year. The Provisional Settlement provided for an overall net increase of 3.2% in the level of grant to be received by the Authority next year and 3.7% in 2007-08, both reflecting the very substantial grant protection afforded once again by the 'grant floor' of £11.320m in 2006-07 and £11.78m in 2007-08. With this 'protection' the increase under the provisional settlement would have led to a grant increase of £2.144m to £ 61,826m, which includes £461,000 to offset the repayment in grant to be made next year relating to the Amended Settlements for 2004-05 and 2005-06. After adjusting for the amending grant repayments in both 2005-06 (£219k) and 2006-07 (£461k) a truer measure of net increase in grant would have been £1.902m

1.2 The Final Settlement announced on 31 January has incorporated a number of changes from the Provisional Settlement announced in December. Those which impact on policing are principally:

- A reduction from 3.2% to 3.1% in the grant floor mechanism for 2006-07
- A reduction from 3.7% to 3.6% in the grant floor increase for 2007-08
- Changes in the Police Relative Needs formula sub-block implying an increase in the control total
- An increase in Formula Grant of £23.155m
- An increase in Distributable Amount of RSG of £18.419m
- An increase in Police Grant of £4.736m
- Small changes in the proportions of grant distributed through the different elements of the new '4 Block Model'
- Changes in some cases (but not Cumbria) to the baseline for 2005-06 from which the grant protection floor is measured in 2006-07

The Final Settlement for the Police Service for 2006-07 and the Provisional Settlement for 2007-08 is summarised in Appendix 1 and compared against the current position.

1.3 For Cumbria Police Authority there have been no material improvements resulting from our representations on the Provisional Settlement, but we have suffered a net loss of £60,000 in grant in 2006-07 and £124,000 in 2007-08 from the overall effect of the changes noted above. These changes largely result from the impact of 2005-06 pension data errors in relation to 9 Police Authorities, who would have otherwise suffered unacceptable grant losses in 2006-07 if the errors had not been corrected. The corrections have been funded in part from new money found within the Home Office and in part by scaling back the grant protection floor for all Police Authorities from 3.2% to 3.1% in 2006-07 and from 3.7% to 3.6% in 2007-08. The provisional specific and special grant funding programmes reported at £5.645m for 2006 - 07 issued by the Home Office is essentially unchanged in the Final Settlement for the purposes of this report, other than for anticipating an additional £119k of grant against the bid for PCSO's in the latest bidding round. In addition the Constabulary receive a number of Home

Office departmental grants towards areas of work, worth an estimated £828k in 2006-07, in addition to PFI and Loan Charges grant of £873k.

1.4 The final position for Cumbria Police Authority is summarised in Appendix 2, whilst the key figures in the final Settlement for Cumbria are set out in the table overleaf. The final grant of £61.766m is an increase in 2006-07 of £2.084m (3.1%) over 2005 – 06 and in 2007-08 an increase of £2.223m (3.6%) over 2006-07. But it is important for members to realise that without the continued application of the grant floor (3.1% and 3.6%) for each of the next two years, Cumbria would have suffered major reductions in grant of £11.32m in 2006-07 and £11.78m in 2007-08 compared to the amounts which it will now receive in those years. In practical terms such a reduction could not have been implemented without a catastrophic increase in Council tax - of the order of £62.50 before the limited savings that might have been found. It is for these reasons that the Government has had little choice but to implement a flat rate increase for all Police Authorities and to continue with the protection offered by the grant floor mechanism, which must now be seen as a permanent arrangement.

Throughout the consultation process, the Government has stated an expectation that council tax increases should not exceed 5% on average. To emphasise this expectation, the Secretary of State has made clear that he will again be prepared to intervene and cap authorities whose budget and tax increase are seen as unreasonable against the background of the Settlement. In reaching any decision on intervention the Secretary of State can have regard to council tax and budget increases over several years, rather than simply the increases for 2006 - 07. In this context, members will be acutely aware that the Secretary of State has previously judged the Authority's 2004-05 budget to be 'excessive,' albeit by the slimmest margin of £138,000 (0.016%) following appeal.

1.5 The summarised grant position for Cumbria is shown in the following table :

CUMBRIA POLICE AUTHORITY	2005-06 Final Settlement	2006-07 Provisnl Settlement	2006-07 Final Settlement	Increase from 05/06 to Final 06/07	2007-08 Revised Provisnl Settlement
Funding Settlement	£000	£000,	£000	£000	£000
Police Specific Grant	36,572	29,421	29,461	-7,111	30,068
Revenue Support Grant	16,478	-6,211	- 6,093	-22,571	{ 22,140
Business Rates	7,958	27,186	27,078	19,120	{
Protection Grant - current 'floor'	875	10,969	10,859	9,984	11,781
Protection Grant – prior years	<u>219</u>	<u>461</u>	<u>461</u>	<u>242</u>	<u>0</u>
	25,530	32,405	32,305	6,775	33,921
	62,102				
Less Adjustment re Changes to Funding	-2,420			2,420	
Total Grant payable	59,682	61,826	61,766	2,084 (+3.5%)	63,989
Settlement Supported Expenditure (before protection)	77,368	69,154	69,193	-8,175	71,501
(after protection)	78,252	80,123	80,052	1,800	83,382
Implied Council tax for spending at Grant Supported Expenditure	16,369	18,297	18,286	1,917 (11.7%)	19,393 (+1,107) (6.0%)
Budget Requirement	£000	£000	£000	£000	£000
Continuation/ Recommended Budget	89,000	89,839	89,321	{ 2,741	93,461
Less Adjustments re changes to funding	-2,420			{	
Repayment of Amending Grant prior year	219	461	461	242	
Net provision for inflation 2007-08					
Contbn to or from General Reserve	<u>-104</u>	<u>0</u>	<u>546</u>	<u>650</u>	<u>0</u>
Net Budget Requirement	<u>86,695</u>	<u>90,300</u>	<u>90,328</u>	<u>3,633</u> (+4.2%)	<u>93,461</u> (+3.5%)
Funding Gap	£000	£000	£000	£000	£000
Council tax surplus	223	200	248	25	200
Precept requirement	26,790	28,274	28,314	1,524 (+5.7%)	29,272 (+3.4%)
Council Tax	£.p	£.p	£.p	£.p	£.p
Band 'D' council tax to meet Precept	155.43	163.62	163.08	7.65 (+4.92%)	167.76 (+4.68) (+2.9%)
% of Budget met by Band 'D' council tax	30.90%	31.31%	31.35%	(0.45%)	31.32%

1.6 The Authority also receives specific and special grants from the Home Office towards specific programmes, £5.764m for 2006-07 (including an anticipated increase of £119k under the current bidding round for PCSO's) as follows:

	2005-06	2006-07
Specific Grants	£,000	£,000
Crime Fighting	2,100	2,100
BCU Fund	310	310
Neighbourhood Policing Fund	370(18 Officers)	304 (18 Officers)
-ditto 2006 -07 Bidding round		119
	3,180	3,249
Special Grants		
Priority Payments to Officers	651	{
DNA expansion programme	490	{2,515
Rural Policing	1,356	{
Airwave (revenue)	425	0
	2,922	2,515
Total	<u>£6,102</u>	<u>£5,764</u>

Spending on these activities is intended to be commensurate with the grant received, but from 2006-07 greater flexibility has been given by awarding some of the grants as 'special' rather than as 'specific,' although Ministers hope that previous commitments will be honoured. As reported in previous years, some of the grants, notably the Crime Fighting Fund, Rural Policing, BCU Fund, Priority Payments, and the DNA programme, have again not been indexed for 2006-07 and will not be indexed for future years. The annual shortfall by not indexing these grants is equivalent to the loss of £150,000 per annum - the cost of funding 4 officers, and will have to be made good from the core service costs.

In addition the Constabulary receive a number of 'departmental grants' from the Home Office, towards areas of work, worth an estimated £828k in 2006-07, in addition to PFI and Loan Charges grant of £873k..

1.7 The key issue for the Police Authority is to strike a balance between the demands on the Constabulary to meet the expectation of citizens in relation to policing services, the reasonable expectation of tax payers, and the expectation of government for low tax increases in 2006-07 backed by a very real threat of capping.

1.8 In previous years it was considered safe if expenditure and also council tax increases were not too dissimilar to those of other Police Authorities (PA) on the grounds that the Secretary of State would be unlikely to take strong action against all PA's. In the light of the action taken in 2004-05 when three Police Authorities, including Cumbria, were singled out for setting 'excessive' budgets, and had lower 'nominated amounts' set as a basis of measuring this year's increases, this view no longer holds good. This conclusion was clearly reflected across the whole family of Police Authorities in the current year when Shire Police Authorities averaged increases of 4.63%, (with just two exceeding 5%) and all Police Authorities averaging 4.75%, with 4 exceeding 5%.

1.9 The average Shire Police Authority Council tax for 2005-06 is £130, but the range is from a low of £96 to a high of £176. Thus, what at first glance may appear to be similar percentage increases in council tax are not necessarily representative of similar levels of increase in spending, cost, service delivery, or impact on local tax payers. Cumbria is very close to the top of the range, ranking 5 in the current year behind Metropolitan Police; North Yorkshire, Gloucestershire and North Wales. Future meaningful comparison will be made more difficult and less reliable for this benchmark, if not impossible, because from the 2006-07 Settlement, the formula has moved away from a standard amount of council tax for standard spending. In addition the tables published by the government have deliberately obscured an Authority's assumed spending requirement in order to lessen the capacity for it to become the target at which an Authority chooses to spend.

1.10 At the Police Authority meeting on 15 December, and at the budget seminar preceding the Authority meeting on 18 January, there was a recognition of the difficulty in reconciling the imperative of Government for low tax increases on the one hand with the needs of the Constabulary to fund the current resources for policing and to respond to some significant new initiatives, often centrally imposed. For Cumbria these include addressing the need to restore more permanent custody and BCU facilities in North Cumbria, the potential impact of merger activity following an announcement made by the Home Secretary just as this report was about to be published, and the need to reserve for a higher level of General Fund Balance than has previously been recognised.

1.11 The increase of 1,262 in the equated number of band 'D' properties comprised in the local council tax base next year, from 172,355 to 173,617, reflects underlying growth in the number of properties and the continued impact of the decision by the Cumbria Districts to reduce their discount for council tax on second homes, first introduced in 2004-05. It also reflects a substantial recovery in the tax base for Carlisle which was artificially depressed following the January 2005 storm damage, but not to the full extent of the reduction, with some houses still to be re-occupied at the time of establishing the 2006-07 tax base.

1.12 The continued success of the Districts in collecting a high percentage of local taxes has resulted in a surplus of £248,274, which will again reduce the overall level of council tax next year, and is an increase of £25,070 compared to a surplus of £223,204 declared in support of the current year. This good collection record will support a reduction in Council tax equivalent to £1.43 in 2006-07 compared to £1.30 in the current year.

1.13 To maintain existing policies and resources would require a budget of £90.643m – a £3.948m (4.55%) net increase over 2005 – 06 notional budget amount of £86.695m and would require a band 'D' tax of £164.89 – an increase of £9.46 (6.1 %). Such an increase would likely be above the class average, and remain amongst the highest nationally for a PA. It would certainly attract the attention of the Secretary of State and almost certainly lead to the Authority's budget being capped. In the case of Cumbria, the most typical property is band 'B' and so the tax is paid at 7/9 of the band 'D' figure. But this does not mitigate

the Authority's position and would not hold any sway with Government if intervention or capping was to be considered.

1.14 In summary, the key features for Cumbria of the Financial Settlement for 2006 - 07 and the Amendment Reports for 2004 – 05 and 2005-06 and the cost of the recommended budget for 2006-07, are:-

- a reduction of £2.420m needs to be applied to the approved budget and grant income for 2005-06 to allow comparison on a like for like basis following the changes in the grant arrangements and funding of police pensions and other minor changes - there is no effect on Council tax for 2005-06
- repayment of a combined figure of £461,000 in grant for 2004-05 and 2005-06 following Amended Settlement Reports for those years and which has to be shown as part of the Authority's expenditure for 2006-07 (although fully offset in the grant income for next year)
- an increase in grant from a notional figure of £59.682m in 2005-06 to £61.766m in 2006-07 but which includes £10.859m of grant beyond the level of qualifying expenditure used by Government under the new distribution system adopted for 2006-07
- a rise in spending of £3.633m (4.19%) from £86.695m (notional budget) in 2005-06 to £90.328m Recommended Budget in 2006 – 07, but which also includes a contribution of £546k towards the increased target set by the Treasurer for the level of balance to be maintained on the General Reserve Fund.
- An increase of £7.65 in Band 'D' Council tax (4.92%) to £163.08 but for which the more typical property in Cumbria is Band 'B' where the increase for a two person household will be £5.95 (11p per week)
- further spending of £5.764m on revenue budget programmes supported by Home Office Grant in 2006 - 07.

1.15 In the past, I have drawn attention to the vulnerability of the Authority to a widening gap between Cumbria's share of the Formula Funding and the Authority's budget, should the Government seek to select Police Authorities for capping or intervention in a future year. (Formula Spending Share was the Government measure of what it believed to be appropriate for the Authority to be spending on the provision of policing services and was used as the basis of calculating our grant share.) However, the new system of grant funding places less emphasis on what is considered to be appropriate for an Authority to be spending, and the figure can no longer be found within the new tables, although it can be calculated after diligent research of all of the Settlement data, with a summary shown in Appendix 2

1.16 The gap between what the Authority spends and the basis on which the Authority receives grant, is of particular concern when it is realised that Cumbria's overall grant of £61.766m is £10.86m more than the government would allocate based on its funding formula. But the safety net is not paid for by Government, but by all the other PA's foregoing 97% of the grant increase they were entitled to receive above an increase of 3.1% (the floor threshold). The Government has come under pressure from other PA's in the past on this issue and will do so again in respect of this and future Settlements. Unless and until a

further new grant formula is developed and introduced, possibly in advance of any restructure of the service, Cumbria remains at risk of further erosion in its grant income in future years given the scale of the grant protection it is now receiving.

2 Budget 2006 - 07

2.1 The Settlement for 2006 - 07 has given Cumbria a *net* increase in grant of £1.842m (3.1%) and there is a £248,000 council tax surplus. But a Continuation budget of £90.643m, including the full year impact of previous commitments, would add £3.948m (4.55%) to budget requirements next year. There would be a net increase of £1.840m to be met as an increase in council tax. After adjusting for the improved tax base, this would require a council tax of £164.89- an increase of £9.46 (6.1%) over the amount required to support this year's budget

2.2 An analysis of the increase of £3.633m in the actual level of spending proposed in the recommended budget of £90.328m compared to the 'notional' substitute budget of £86.695m for 2005-06 is broadly summarised below:-

	Recommended Budget £,000
Budget Approved 2005-06	89,115
Less Grant Funding changes introduced in 2006-07	-2,420
<i>Notional Budget Amount for 2005-06</i>	86,695
▪ inflation -pay inflation, increments and prices	3,047 (3.5 %)
▪ impact of 2005-06 decisions & commitments	368 (0.4 %)
▪ unavoidable commitments arising	1,255 (1.4%)
▪ impact of new demands in 2006 - 07	135 (0.2 %)
▪ revenue impact of capital expenditure 2006-07	197 (0.2%)
▪ 2005-06 Schemes	146 (0.2%)
▪ net increase in internal funding	(332) (-0.3%)
▪ net reduction in income	391 (0.3%)
▪ cashable efficiency savings	(763) (-0.9%)
▪ savings made against continuation budget	(848) (-1.0%)
▪ savings on funding reforms net of grant changes	(855) (-1.0%)
Net Budget Changes	2,741 (3.2%)
Revenue Estimates Requirement	89,436 (3.2%)
Amending Reports –increase in Grant Repayable	242 (0.3%)
Changes in contributions to General Reserve	650 (0.7%)
Budget Requirement 2006-07	90,328 (4.2%)

2.3 A fully detailed analysis of the movements in costs between this year's original budget and next year's 'recommended' budget is shown at Appendix 4. Many of the commitments reflect legislation, contractual, or Home Office initiatives (eg IMPACT; RMS, pension contributions, incremental scales). These pressures will be similar for the whole family of Police Authorities and were reflected in the APA submission to Government as part of the 2006-07 Settlement

making a case for a 6% increase in grant requirements. A subjective budget summary is compared with 2005-06 original and revised budgets at Appendix 3.

2.4 A continuation budget of £90.643m shows a reduction of £1.983m on the headline planning figure of £92.626m first approved by the Authority in the Medium Term Financial Forecast in June 2005. This reduction compares to the figure of £2.420m subsequently removed from the base budget (at 2005-06 prices) as part of the new arrangements for funding pensions, seconded officers and dedicated security posts.

2.5 For Cumbria, the 'gearing effect' of the grant regime combined with the tax base means that for each 1% increase in spending beyond £89.8m the council tax increase will be £5.17 - a factor of 3.3% and giving a gearing of 3.3. Even to support a continuation budget, expenditure of £90.643m represents an excess of approximately £21.5m (31%) over the level of Cumbria's Police Domain expenditure of £69.193m ranked for grant support under the new grant regime introduced for police services in this settlement.

2.6 The projected budget and council tax requirements for each of the illustrations discussed in this report are shown in Appendix 6, and summarised below:-

Base	Gross Budget	Budget Increase Over nominated		Council Tax	Increase in council tax	
	£m	£m	%	£.p	£.p	%
Actual 2005-06	89.115			155.43	5.15	(3.43)
<i>Notional 2005-06</i>	<i>86.695</i>			155.43	5.15	(3.43)
2006-07 Illustrations						
Continuation Budget	90.643	3.948	(4.6)	164.89	9.46	(6.1)
Restricted to increase in council tax of 3.0%	89.809	3.114	(3.6)	160.09	4.66	(3.0)
Restricted to increase in council tax of 3.5%	89,944	3.249	(3.8)	160.87	5.44	(3.5)
Restricted to increase in council tax of 4.0%	90.079	3.384	(3.9)	161.64	6.21	(4.0)
Restricted to increase in council tax of 4.5%	90.214	3.518	(4.1)	162.42	6.99	(4.5)
Recommended Budget	90.328	3.633	(4.2)	163.08	7.65	(4.92)
		<i>(* assuming £546,000 contribution to balances)</i>				

2.9 To achieve any of the illustrated budgets requires the adoption of the savings identified by the Chief Constable based upon the efficiency plans and other savings presented to the Authority, and detailed in Appendix 10. The identification of the scope to make savings through the efficiency planning process has greatly eased the budget decisions for the Authority. However, the use of efficiency savings to hold down the increase in council tax levels to meet government expectations, does of course restrict the original intention that they should be reinvested in front line policing, invest to save initiatives, or to meet other essential costs which must now remain deferred.

3 Budget Decisions

3.1 The Police Authority has to make a number of formal decisions about its revenue and capital budgets for 2006-07 and beyond. In addition, there is a requirement, first introduced for the 2004-05 budget under the provisions of Section 25 of the Local Government Act 2003, which requires that the Treasurer formally advise the Authority on the estimated position and adequacy of Balances and Reserves and on the robustness of the estimates which underpin the budgetary processes. These matters are dealt with in Section 5 of this report. The formal decisions to be made are as follows, and are incorporated in a draft resolution at Appendix 13:

Revenue Budget 2005-06

- to note the expected results for 2005-06 and agree to the suggested transfers to and from the Earmarked and General Reserves.

Revenue Budget 2006 - 07

- to approve a budget for 2006 - 07
- to determine the use of and contribution to Balances and Reserves
- to set a Budget Requirement and calculate the Basic amount of band 'D' council tax
- to calculate the Police Authority share of council tax for each of the eight property bands
- to calculate the individual level of precept for each of the Districts

- Prudential Borrowing Code

The Authority is required to make a number of determinations under the provisions of the Local Government Act 2003, which serve to govern its borrowing capacity over the course of the next year, or until such earlier time as they may be amended. These determinations are set out in the separate report on the Treasury Management Policy to be adopted for 2006 - 07 which appears earlier on the agenda.

- Capital Programme 2006 - 07
This is addressed more particularly in Section 4, which explains the proposals for new starts in 2006 - 07 and their revenue impact over the period to 2008 - 09. Appendix 5 contains a summary of the total capital programme and the financing sources, including the revised spending in the current year.
- Strategic Processes and Budget Timetable 2006-07
Although not a legal requirement, a recommended timetable encompassing the key milestones in the Authority's strategic processes and budgetary considerations for 2007-08 is put forward for approval at Appendix 12. The introduction of these arrangements when approving the current year's budget has greatly assisted the preparation of the 2006-07 budget and strategic plans. Adherence to these processes will be even more critical in future years, when, the Government move to a three year Financial Settlement following the publication of the 2007 Comprehensive Spending Review. It is essential that the progress in integrating the business planning and financial planning frameworks is maintained and that the present Medium Term Financial Forecast evolves into a more integrated Financial Plan. Finally, in the first year of the new timetable the Authority has benefited from the greater space and time in which to absorb the strategic aspects of the budget implications by bringing forward to November, detailed capital and revenue growth bids, and efficiency and other savings. This is again provided for in the 2007-08 budget timetable and will support the scope to prepare a more developed budget as a basis for consultation by mid December. In the longer term the objective should be to enable business planning and resource allocation processes to be seamlessly integrated with the budget and financial processes.

3.2 Expected Results 2005 - 06

The latest projections of net expenditure for the current year are summarised in Appendix 3. The figures show net expenditure amounting to £88.433m, before Amending Grant repayment of £219k or a proposed contribution of £463k to the General Reserve. This improvement represents increased income, grants, and savings in expenditure and contingencies, together totalling £901k. This is offset by a net reduction of £334k in the net amount transferred from earmarked reserves and contingencies, compared to the budget approved by the Authority for 2005 – 06. Proposals have been made over the course of the year, when reporting on budget monitoring to the Authority, to authorise transfers to 'Earmarked Reserves, particularly against the impact of the storms on the Authority's estate and assets. This leaves a balance of £463,000 able to be contributed to the General Reserve which it is estimated will then stand at £3.458m at 31 March 2006 – equivalent to almost 4% of net budget expenditure, compared to the Treasurer's revised target of 5% proposed in section 5 of this report.

3.3 The revised figures for 2005 - 06 take on a high level of confidence as we get closer to the year-end. Nonetheless, members will be alert to the scope for unexpected events which can give rise to substantial expenditure, such as was the case with Operation Junction late in the 2002-03 financial year and which

impacted on the early months of the following year and the financial impact on the Authority's estate following the January 2005 storms. A budget contingency of £142,000 has been retained for the remaining period to the year-end.

3.4 The following is a summary of the revised amounts (totalling -£195,000 net) to be transferred from (£3,327m) or to (£3.132m) the stated Revenue Reserve for the year ending 31 March 2006. The table at paragraph 5.8 shows the movements and impact on earmarked balances at 31 March 2006 and 2007 reflecting proposed transfers in both years. On this basis it is estimated that the Authority's General Reserve will stand at £3.458m at 31 March 2006, equivalent to 3.8% of forward year expenditure:

	Transfers 2005-06	
	To £000	From £000
Revenue Reserves (Earmarked)		
Airwave Reserve	373	405
Pensions Reserve –Police Officers	400	
Equalisation		752
Ill Health	50	
Public Holidays	65	
IPLDP		275
Pay Arrears		42
LPT Accommodation Phase 1		157
Management of Change		33
Devolved Budgets	42	105
Revenue Financing of Capital	324	18
LDSAMRA – Grant Reserve	167	
RMS/IMPACT Reserve	212	
Major Storm Reserve	<u>1,036</u>	1,436
	2,669	
General Reserve Fund		463
Precept Contribution 2005-06	<u>0</u>	<u>104</u>
	3,132	3,327
		<u>-3,132</u>
<i>Net Transfer <u>from</u> Earmarked Reserves for 2005-06</i>		<u>195</u>

4 Capital Programme 2006-07 and beyond.

4.1 The Home Office announced details of capital grant and supported capital expenditure in a letter to Chief Constables on 18 January 2006. The letter set out, nationally, that capital provision in both 2006-07 and 2007-08 will amount to £250m, representing an increase of £25m over the initial 2005-06 allocation. Included in the figures for 2006-07 and 2007-08 is £5m in each year for Air support and, as members will be aware from recent correspondence from the Home Secretary, the allocations also include £50m (2007-08 £75m) provision to meet a portion of capital expenditure requirements from any Authorities who volunteer to amalgamate as part of the current merger debate. In setting out details of allocations for 2006-07 and 2007-08, the Home Office has advised that the supported capital expenditure has been set at the same level as 2005-06, in order to 'provide some stability of funding provision for Police Authorities'. Members will be aware that, as in previous years, the use of capital grant is not restricted to the year of allocation, but can be retained, making interest until required. Members should also note that, notwithstanding the amounts top sliced for Authorities who volunteer to amalgamate, all capital grant allocations can be used for the Authority's own capital priorities, rather than in previous years when some of the allocation was earmarked to support particular Home Office priorities.

The table below summarises the allocation of capital resources to Cumbria Police Authority for 2006-07 and 2007-08: -

Form of support	2005-06	2006-07	2007-08	Change 2005-06 to 2006-07	Change 2006-07 to 2007-08
	£'000	£'000	£'000	£'000	£'000
Capital grant – general	1,051	935	743	-116	-192
Supported Capital Expenditure	621	621	621	0	0
Totals	1,672	1,556	1,364	-116	-192

4.2 So far as Cumbria is concerned, the table below sets out in summary form the expected costs of proposed new schemes in 2006-07. There is, in addition, a brief description of the rationale for bringing forward the individual schemes: -

Scheme Title	2006-07	2007-08	Total Scheme Costs	Revenue effects	
	£'000	and beyond £'000		2006-07	2007-08
New Scheme					
<u>Rolling programmes</u>					
Vehicle Replacements	785		785	In base budget	
IT Replacements	526		526	In base budget	
<u>Information Technology schemes</u>					
Impact (CRISP)	190		190	75	75
Impact (Information Management - Code of Practice)	65		65	120	120
LPT Laptops	40		40	2	2
Total 2006-07 starts	1,606		1,606	197	197

4.3 So far as new schemes for 2006-07 are concerned, members will be aware of the stance taken earlier in the planning cycle in asking members to endorse only those schemes which are absolutely vital to the Constabulary and which would be unaffected by any amalgamation. The decision to defer the agreed RMS scheme, which members will recall is part of the 2005-06 capital programme was also taken pending greater clarity on the issue of mergers. Members will also be aware that the Constabulary is currently evaluating options to replace facilities for North Cumbria BCU, which were seriously damaged during the storms of January 2005, with particular reference to the urgent need to provide custody facilities. To that end, when a firm proposal has been drawn up and discussed with members, it will be formally put forward for members to approve. For members' information, following further representation to the Home Office, the Minister has approved further grant aid amounting of £1.6m to support the project.

4.4 The proposed schemes in relation to vehicle replacements (£0.785m) and IT infrastructure (£0.526m) represent annual instalments of longer term replacement programmes. For 2006-07, both rolling programmes have been subjected to particular scrutiny within the Constabulary to ensure that they continue to meet the requirements of Best Value. This has included, particularly for the vehicle programme, both an internal assessment of the need to commit the estimated amounts and, in addition, on the back of emerging benchmarking analysis by police fleet managers, use of some comparative statistics, which confirms that Best Value continues to be achieved.

4.5 So far as the other, non recurring new schemes are concerned, these were outlined at earlier meetings of the Authority in November and January. To remind members they are set out briefly below for information:

4.5.1 Firstly, as members will recall, the scheme referred to as IMPACT (full CRISP), amounting to £0.190m represents a further phase in the roll out of the broader scheme, which the Authority approved at the special meeting in August. This latest phase will allow the data warehouse to be rolled out across the Constabulary to allow forces to begin to share information and to cover an increased number of data sources. Members are aware of the importance of IMPACT, which follows on from the Bichard enquiry.

4.5.2 Second, and also linked to IMPACT, members will be aware that a mandatory Code of Practice for information sharing has been established to formally set out the legitimate purposes for which forces can hold intelligence data, and how that data should be managed from initial collection. This is an integral part of the IMPACT programme. The estimated capital costs amounts to £65k. Forces will be expected to work up action plans to develop and implement the code, and, when the code has been developed, ensure that it is fully complied with.

4.5.3 As presented to the Authority at the meeting in January, members will recall the proposal to provide officers based at LPT sites with portable IT facilities to access to the various force IT systems, estimated to cost £40k. This development will allow officers to access E Mails, reports, briefings at their local LPT site rather than having to travel back to their main base station to undertake these tasks. The advantages of this approach are clear: first and foremost, officers will spend less time travelling between their local LPT site and their base station. In a rural county such as Cumbria, this time can be considerable. For example, officers at the Shap LPT site routinely travel to their base station, which is some distance away in Appleby. Such time would be available for front line operational duties if local IT facilities were available. Travelling costs would also be reduced as a consequence of this development.

4.6 The draft programme will be financed as set out in the table below. Members will recall from a variety of previous reports covering both capital spending and Treasury Management that the accumulated capital receipts which have financed a significant part of annual Capital Programmes since the inception of the new Authority are now virtually exhausted. In their place, capital spending is predominantly financed by a combination of the annual capital grant and a range of specific grants from the Home Office, supported by the contribution from the Revenue Account. A report elsewhere on this agenda sets out a range of prudential indicators for members to approve, which assess whether longer term spending plans are affordable, prudent and sustainable.

4.7 The following table summarises the overall capital programme, the estimated out-turn for 2005-06, the estimated capital spending in 2006-07 and 2007-08 for ongoing schemes and those put forward for approval to start in 2006-07. Also shown is a summary of the proposed sources of financing in each year.

	Estimated Out-turn 2005-06	Estimated Expenditure 2006-07	Estimated Expenditure 2007-08
	£'000	£'000	£'000
Approved Schemes			
New Starts 2006-07		1,606	
Schemes commenced 2005-06	2,073	4,289	626
Schemes commenced 2004-05	1,480	579	
Earlier Years	1,883	2,448	1,226
Accruals at year end	791		
Indicative Renewals for IT, Vehicles and Property (Subject to approval in 2007-08)			1,703
Total Capital Expenditure in Year	6,227	8,922	3,555
Financed By:			
Revenue Reserves and Contributions	1,697	1,924	1,500
Specific Capital Grants	1,405	1,180	
Other Capital Grants	1,726	3,523	1,905
Capital Income	653	70	
Capital Reserves	150	2,075	
Capital Receipts	596	150	150
Total Funding Resources	6,227	8,922	3,555

5. Treasurer's Statement

5.1 Section 25 of the Local Government Act 2003 requires that the Chief Financial Officer (CFO - for Cumbria Police Authority this is the Treasurer) must report to the Authority when making its statutory calculations required to determine its Precept and council tax requirements.

5.2 Initial government guidance states,

'The Authority is required to take the report into account when making the calculations. The report must deal with the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. What is required is the professional advice of the CFO on these on two questions. Both are connected with matters of risk and uncertainty. They are interdependent and need to be considered together.'

I have also had regard to the helpful comments made in an independent report commissioned by HMIC to review the practices adopted in the application of these new reporting responsibilities by Police Authority Treasurer's, following publication of the first year's budget reports under the new provisions.

5.3 Robustness of the Estimates

Whilst relevant budget holders are responsible for individual budgets and their preparation, all estimates are prepared in accordance with guidance issued by the Director of Finance and under the supervision and with the support of dedicated Finance Officers in each of the BCU's and at Headquarters. Some of these Officers were relocated to headquarters in 2004 but have continued to provide a bespoke service to the BCU's. These Finance Officers are accountable through the Head of Finance to the Director of Finance. Estimates are subject to scrutiny by Financial Services staff, the Business Group and the Chief Officer Group prior to being summarised for submission to the Authority. The appointment of a highly experienced officer as Head of Finance has eased the burden on the Director and strengthened the Finance Team whilst the recruitment to a long standing senior vacancy has further strengthened the team and the robustness of the financial processes.

The Authority is making good progress towards a three year Financial Plan. It has adopted a three year Medium Term Financial Forecast which is reviewed regularly and reported to the Authority twice a year. As part of this report a Statement is provided at Appendix 7, which shows the estimated revenue impact over the three year forward period of all known decisions which have been taken by the Authority, in respect of both the Revenue and Capital budgets and including the medium term impact of adopting the 'recommended' budget. This means that the capital cost and the revenue consequences of the proposed capital programme are reflected in the revenue estimates and in the three year forecast. This will be kept under review with the implications of the Prudential Code. In the medium term the aim will be to ensure that these processes are integrated. Proposals are set out in Appendix 12 for the annual timetable for consideration of the strategic and financial processes which feed into the 2007-08 budget requirements and the development of the necessary strategic plans.

5.5 The Authority has no history of significant overspending against budget, rather there has been a tendency to under spend. I consider that the revised estimates for 2005-06 and the base estimates for 2006-07 reflect an accurate measure of the projected expenditures, subject to a caveat in respect of the impact of the January 2005 storms on the Authority's estate and the Constabulary's Assets and for which a £1.8m Reserve has been created by way of safeguard, and which is believed to be a full reflection of the liabilities although it does not address the issue of reinstatement. Although ODPM agreed to implement the Bellwin Scheme which gives emergency financial support, it is unlikely that the Authority's qualifying expenditure has reached the necessary threshold for relief. The Home Office has paid special grant assistance towards the requirement for new custody facilities and has subsequently improved the level of assistance on being advised of the tender prices received. Any shortfall against the cost of an approved scheme will need to be considered in due course and financed through the medium term capital programme. Similarly, it will also be necessary for the Constabulary to develop proposals for the longer term replacement of BCU and Police Station facilities for BCU North for consideration by the Authority.

5.6 However estimating budget requirements is by its nature an inherently risky process and the year-end position can never exactly match the estimated position in any year. Areas of specific risk do remain, the main ones in the 2006-07 budget being:

- **Interest Receipts** and return on Treasury Management activities. Members are advised of this risk every year but clearly actual interest returns are determined by a variety of factors largely outside the control of the Authority or the Director of Finance. At an estimated £781k, interest receipts are an important element of the Authority's budget. Against a prudent and cautious estimate, the risk for this item is more likely to be on the upside than the downside. Accurate profiling of capital expenditure is just as important as projections on interest rates. Slippage in commencing projects will result in increased interest earnings as capital resources are held on deposit for longer periods than expected, but at the risk of the unseen cost of inflation through later tendering, or extended contract periods.
- **Income** – the overwhelming majority of the Authority's income is from Government Grants (£61.826m Principal Grants (net), £5.6m ad hoc Home Office Grants, £0.935m Home Office Capital Grant) and the Precept (£28.3m) which are remitted to an agreed statutory timetable. I do not consider there to be any inherent risk of a shortfall in these areas. Income from general fees and charges (excluding £781m interest receipts) totals only £2.4m and represents just 2.7% of total budgets. The constant monitoring of the budget and the duty of Budget Holders to exercise virement or to achieve savings against variances, provides a high degree of comfort.

- **Employment Costs** (£80.6m) account for 81.1% of total gross expenditure. These estimates are prepared on a very robust bottom up basis and are discounted by an amount of £1.250m to reflect the experience of staff turnover. At approximately 1.5% of total employment costs, projected turnover appears realistic and reflective of recent experience. The greatest risk is from an award in the annual pay round exceeding the budget assumption of 3%. However, under the devolved budget arrangements, budget holders must find savings equivalent to the first 0.25% of any excess pay award compared to the figure of 3% on which the estimates are founded. Given that the two pay body awards run from September, and so have only a 60% impact on the budget year, the risks are limited. (eg 0.5% extra would add approximately £240,000 in the first year and £400,000 in a full year). However, given the Chancellor's statement on public sector pay awards, coupled with low inflation, there is perhaps a greater scope for expecting saving against a 3% provision than of it being exceeded.
- **A Central contingency** of £188,000 (approximately 1/5 of 1% of net budget – or 1% of non-pay budgets) has been provided and is available only on the authority of the Chief Constable in consultation with the Director of Finance, and of course would be reported to the Audit and Performance Committee and the Authority under the monitoring and reporting arrangements. The Chief Constable would draw the attention of members to the impact which a major incident might have on the Constabulary's resources if major out of force investigations were required to be undertaken such as was the case with Operation Junction in 2002-03 and 2003-04, or the Constabulary were required to respond to a major incident such as in the January 2005 storms. However, this potential is safeguarded against by the establishment in 2003-04 of an Operational Reserve of £350,000, from which the Authority could make an emergency allocation if events required it.
- **Pension Fund Contributions** posed a potential major financial implication for the Authority from 2005/06 following completion of the triennial review of the Cumbria Local Government Pension Fund at 31 March 2004. In the event, the required contribution rate of 14%, compared to the current rate of 13.8%, is a far better outcome than could have been anticipated and has enabled the Authority to maintain the current 'prudent' deficit recovery period of 15 years. New arrangements for Police Officers take effect from 01 April 2006 when, other than for a capital contribution towards ill health pensions and the retention of liability for ongoing injury awards, mainstream pensions will be funded from a new statutory fund outside of the Police Fund. Within the Police Fund there is provision for an actuarial based 24.6% employers' contribution, which will be reviewed in tandem with the triennial revaluation of the LGPS. These arrangements will remove future volatility from the funding of Police Pensions with any shortfall being met by the Home Office through 'top-up' grant.

- The annual **Audit Commission** letter to the Authority following the completion of the 2004 – 05 Audit, is complimentary on the performance of the Constabulary’s Finance Directorate, the soundness of the Authority’s financial standing and arrangements, the Authority’s prudent approach to financial management, and the prudent level of balances as at 31 March 2005.
- The annual **Statement of Internal Control** for 2004-05 considered and approved by the Audit Committee and independently audited by the Authority’s Internal Auditors, reveals no weaknesses in the systems of financial and other controls operated across the Constabulary. Individual audit reports on specific financial systems considered by the Audit Committee throughout the year show them to be soundly based, well managed and revealing few if any weaknesses.
- A report from **HMIC** following a ‘Baseline’ inspection of Finance and Resources in 2005 points to a number of areas of good practice, including particularly:
 - the development of a Medium Term Financial Plan
 - participation in national benchmarking and good cost and performance comparisons with comparator groups within similar sized forces
 - area Finance Managers fully integrated into financial management
 - development of a well structured departmental business plan which includes an appropriate range of performance indicators
 - collaborative tendering for new pension arrangements
 - developing relationship with the new national centre for procurement
 - adoption of a formal protocol between the Director and the Treasurer setting out their respective roles and how these will be achieved and integrated
 - a professional approach to risk management
 - good governance and assurance arrangements in respect to Internal Control arrangements

Whilst the report acknowledged the ‘improving direction of travel’ it also expressed some disappointment that more progress had not been made against required improvements which were flagged up in the 2004 Assessment, but conceded the impact of the January 2005 storms on the Constabulary’s workload and internal arrangements

Following a restructure of the department in 2004 the Director’s responsibilities have been broadened to include Fleet, Estate and Procurement functions and his position has been underpinned and strengthened by the appointment in 2005 of an experienced and qualified Officer as Head of Finance and the recent recruitment of a qualified officer to the long vacant post of Technical and Accounting Manager.

- As outlined in the introduction to this report, a continuation budget poses a number of difficulties in reconciling the competing demands of Government, Citizens and council tax payers. The proposals in the 'recommended' budget, are based on the Chief Constable having identified £1.193m of savings of which £763,000 are 'cashable efficiency savings' under the Home Office sponsored efficiency planning programme. This does itself introduce some degree of risk, but the process and selection of savings, has been subject to approval by the 'Efficiency Board' and the Chief Officer Group so that risks are minimised to acceptable levels. In the unlikely event that the recommended budget were to be amended further so as to incorporate significant, but possibly unidentified savings, then this too would introduce risks, both in terms of performance but also in achieving significant savings within tight timescales.
- The Constabulary will be required to evidence a further raft of 3% 'Efficiency Savings' of £2.7m in 2006-07 of which £1.35m (1.5%) must be 'cashable,' an increase from the levels of 2% and 1% which applied from 1999 to 2004-05. In addition, cumulative annual savings in overtime achieved over the three-year period to 2005-06 totalling £226,000 pa must be sustained in meeting the Home Office 'Work Life Balance' initiative.
- Changes in Grant arrangements to reflect new scheme for funding pensions. Members will be aware from earlier reports and comments in this report, that the Home Office, with the full support and co-operation of Police Authorities has introduced new arrangements for the funding of police pensions which take effect from 01 April 2006. The effect is broadly to remove the liability for the payment of pensions from the Police Fund and operational budgets and instead introduce an employers' contribution, initially at 24.6% which, along with the employee contributions and any transfer values, is paid into a statutory pensions account. Pensions are paid from this account and any shortfall is met by an annual top up grant paid by the Home Office, albeit top sliced from the annual settlement. In order to introduce these arrangements equitably it was necessary to recalculate the amount of principal police grant which Authorities would have received in 2005-06 if the arrangements had been in place and to use the revised grant threshold as a baseline from which to calculate the 2006-07 grant entitlement. The data to undertake these calculations was collected from Constabularies very late in the grant cycle, with a very short deadline for return and against guidance which with hindsight might be seen as ambiguous. It has recently become clear that errors have been made in the data returns which have the effect of giving an incorrect base for calculating police grant entitlement in 2006-07. In the case of 9 Police Authorities the errors were so significantly adverse that changes were made to the Final Settlement to correct the position. But there will be authorities who have gained, possibly significantly so, from the exercise, or where the losses are not considered significant. Cumbria has undoubtedly gained from the changes although it is not clear how much is specifically due to the use of the data return, or from changes in the value of pensions in payment in 2006-07 compared to 2005-06. However, it will not become clear for some time whether the Home Office

will publish an Amending report to the 2006-07 Settlement to correct the position for all Authorities. If that happens, and it cannot be before the 2007-08 Settlement, then Cumbria stands exposed to lose approximately £1m of grant in respect of 2006-07 and on an ongoing basis from 2007-08. A Reserve can be created on closing the accounts for 2005-06 from the balance of Pensions Reserves which it will no longer be necessary to maintain, against the potential for the grant which may have to be repaid in respect of the current year's grant settlement. The figure will also be built in to the three-year medium term financial plan as a basis of expenditure planning over that period, and which will require offsetting savings to be identified against the potential for grant loss.

Taking all of the above matters into account it is my opinion that the budget presented for Authority consideration is appropriately robust. I believe that whilst the spending and service delivery proposals contained within it are challenging, they are nevertheless achievable and deliverable given that the past record of good management practices and sound financial and performance monitoring, is maintained. I am satisfied that the requisite management processes exist within the Constabulary to deliver this budget, and to identify and deal with any problems, which may unexpectedly arise throughout the year.

5.7 Adequacy of Balances and Reserves

The 'guiding principles' against which I make these judgements of adequacy are set out in LAAP Bulletin 55, published by CIPFA in February 2004 and which replaced previous guidance issued in 1995. Fresh advice has also been issued following the events of 2005 that in reviewing the level of General Reserves cognisance should be given by Treasurers to the potential for greater exposure to civil and other contingencies than has perhaps been the case in the past. This is addressed in paragraph 5.9 below.

5.8 The Authority has a number of earmarked Reserves and Provisions as shown in its balance sheet at 31 March 2005, in addition to its General Reserve. The nature of those items, the balances at March 2005, and the expected movements in 2005–06, and 2006 - 07 are shown in the table below:-

Reserve and Provisions	Balance at 31 March 2005 £,000	2005-06			2006-07		
		Revised use £,000	Estimate of Receipts £,000	Expected Balance 31 March £,000	Planned use £,000	Estimate Receipts £,000	Estimate Balance 31 March £,000
Capital Reserves							
Capital Receipts	0	(596)	596	0	(150)	150	0
Capital Reserve	1,825	(150)		1,675	(1,675)		0
Airwave Capital	400			400	(400)		0
Total Capital Reserves	2,225	(746)	596	2,075	(2,225)	150	0
Provisions							
Insurance Liabilities	894	(100)	228	1,022	(100)	219	1,141
Legal Costs Liabilities	75			75			75
Private Finance Initiative	240		100	340		140	480
Total Provisions	1,209	(100)	328	1,437	(100)	359	1,696
Earmarked Revenue Reserves							
Devolved Budgets	173	(105)	42	110	(30)		80
Authority Devolved Budget	30			30			30
Airwave Revenue	1,252	(405)	373	1,220	(460)		760
Public Holidays	0		65	65		65	130
Management of Change	150	(33)		117	(100)		17
Operational Reserve	350			350			350
LPT Accommodation Phase 1	221	(157)		64	(57)		7
Pay Arrears	42	(42)		0			0
IPLDP	550	(275)		275	(150)		125
Storm January 2005	400	(1,436)	1,036	0			0
Revenue Financing of Cap Reserves	18	(18)	324	324	(324)		0
LDSAMRA Grant Reserve			167	167	(56)		111
RMS /IMPACT Reserve			212	212	(212)		0
Tax Base Reserve due to storms 2005	104	(104)		0			0
Pension Liabilities – Police Officers	1,358		400	1,758			1,758
– Equalisation	1,362	(752)		610			610
– Ill Health	800		50	850			850
Total Earmarked Revenue Reserves	6,810	(3,327)	2,669	6,152	(1,389)	65	4,828
General Reserve	2,995		463	3,458	0	546	4,004
Total All Provisions and Reserves	13,239	(4,173)	4,056	13,122	(3,714)	1,120	10,528
Non – specific Capital Grants	6,227	(1,726)	1,051	5,552	(3,523)	935	2,964

5.9 **General Reserve.** - The benchmark adopted by the Authority on the advice of the Treasurer in the past, has been to hold the General Reserve to a level of 3% of the budget – equivalent to approximately just eleven days revenue cover. Added resilience is given by the extent of Earmarked Reserves in respect of all known significant events. However, at both a national and local level, events over the past year have impacted on the need for levels of reserves in ways which were not previously envisaged or provided against. Advice has been given that greater weight should be given to the capacity for unexpected events when determining the amount of ‘free balances’ to be maintained. Against this background, I would

caution for an ideal free balance of 5%, but in not less than the current level of £3.458m projected at 31 March 2006 – equivalent to 3.8% of next year’s budget. Given the continuation of the previously sound and robust budget practices, including a provision of a budget contingency of £188,000 and specific provisions for known liabilities, albeit there is uncertainty as to timing and amounts, then 3% remains a sound basis for the amount of the General Reserve to meet with the *normal* range of events, whilst an additional 2% would, in the longer term enable a substantial offset against the most *abnormal of* unexpected of events. Clearly the Authority cannot achieve the desired increase to 5% (£4.5m) in a single year, and will be dependent on future year-end and other ‘windfalls’ as a basis of topping the General Reserve up from year to year until the target is reached. However, the recommended budget of £90.328m does provide a further instalment of £546,000 to be contributed to the General Reserve which would then stand at £4m – equivalent to 4.4% of the 2006-07 budget.

The shortfall of 0.5% (£0.5m) might reasonably be addressed over a two year period, (ignoring restructuring) and there will be the opportunity to review the matter again on the closure of the 2005-06 accounts when it can be established exactly how much can be released from the Pension Reserves which will no longer be required after 31 March 2006.

5.10 It is recognised that it requires a firm resolve to sustain an absolute level of balances of not less than £4m in 2006/07 whilst delivering a budget which has required significant efficiency savings to be made and ‘surrendered’ in order to meet government council tax expectations. In the medium term the General Reserve must be increased annually in line with future increases in budgets to maintain the current ratio at no less than 4.4% and to increase it ideally to 5%. To this end, the first call on any under-spending in 2006-07 should be to provide for the cost of increasing the General Reserve to 5% to underpin the 2007-08 Budget. As we move in to the anticipated regime of three-year budgets from 2008-09 it would be prudent in future to set the level of General Reserve at 5% of the third year’s projected expenditure – approximately £350k more than the initial requirement on a one year basis, assuming 2.5% annual inflation.

5.11 Provisions. The Authority has made provisions to meet a number of liabilities which have or are likely to be incurred, although the timing and amount of such liabilities is uncertain. The principal Provisions in the past have related to Police Officer retirements and Liability and other Claims. In the case of Police Officer retirements, other than for a capital contribution towards ill health retirements and the retention for liability to pay ongoing injury awards, the new funding arrangements remove the necessity for such a provision from 01 April 2006. The balance on the existing Provision(s) and (smoothing) Reserves totalling approximately £3m will be removed as part of the closure of accounts for the year to 31 March 2006. Recommendations will be made on their use, including the potential for loss of grant in 2007-08 as a result of the possible errors referred to earlier in the report, but there should be a substantial amount available to contribute in all likelihood to the Capital Reserve which is the most pressing area of the Authority’s finances. In the case of the Insurance liabilities, the provision is maintained by setting aside annually, a sum which is determined by the Actuary and directly related to the events giving rise to the liabilities in each year of

account. The Actuary advised last year on maintaining the current level of contribution for 2004-05- at £219,000. We are presently awaiting the Actuary's latest report as a basis for assessing the adequacy of the present level of Reserves and annual contribution, although recent liability claims experience has been more optimistic than in recent years, and suggests that the current provision of £219,000 pa should remain sufficient for 2005-06 and 2006-07.

5.12 Finally I would again draw attention to the position on **Capital Receipts** which are entirely exhausted, and where only minor amounts are now raised annually, **Capital Reserves**, where a provision of £1.825m established from budget savings during the course of the immediate past three years will also be exhausted in 2006-07, and non-specific **Capital Grants** are substantially committed to the currently approved capital programme, albeit expenditure will fall in future the later years, with a 'free' projected balance of £1.8m at 31 March 2008. In consequence, the ability to support major capital projects will, in future, be entirely dependant on Government grant and the capacity to make revenue contributions, supplemented where appropriate by the widened borrowing powers under the new Prudential Code and any 'in-year' savings. Other than for a nominal amount of debt inherited from the County council when the Authority was established in 1995, there has been no further new borrowing since that time.

5.13 Subject to these comments, and the acceptance by the Authority of a target of the current level of 4.4% and medium term target of 5% for the General Fund free balance, and the discipline required in achieving it, I believe the Balances, Reserves, and Provisions to be adequate to underpin the budget in 2006 - 07.

6. Precept on District Councils

6.1 Council tax Levels

The amount of Basic council tax for the Police Authority is fixed by taking the required yield from tax payers to support the approved Budget Requirement net of external grant, the surplus on collection, and dividing the result by the total tax base of 173,617.07 representing the number of equivalent band 'D' properties in the Districts comprising the Police Authority area. Subject to accepting the budget recommendations, the band 'D' tax for the recommended budget would be £163.08. – an increase of £7.65 (4.92%) over the actual council tax for the current year.

6.2 The tax amount for each of the other seven bands is fixed in the prescribed ratios to band 'D' and, for the 'recommended' budget, would be as follows:

Band	Proportion	Tax	Band	Proportion	Tax
A	(6/9)	£108.72	E	(11/9)	£199.32
B	(7/9)	£126.84	F	(13/9)	£235.56
C	(8/9)	£144.96	G	(15/9)	£271.80
D	(1)	£163.08	H	(18/9)	£326.16

6.3 The required tax levels for each property band for each of the Budgets illustrated in this report are shown in Appendix 9. Although the references throughout this report are to the band 'D' tax requirement, there is a heavy incidence of band 'A' and band 'B' properties, which together account for 58% of chargeable properties in Cumbria. For a number of years the most typical property has been taken to be band 'B'. Members are also reminded that single person householders pay at 75% of the tax amount appropriate to their property banding. Details of the number and banding of properties within the six Districts, together with the amount of Police Authority council tax payable by households is shown at Appendix 14, with details of the annual budget and council tax levels since 1995 - 96 at Appendix 15.

6.4 The Police Authority council tax and precept is levied on each of the six District Councils in Cumbria. The amount of Precept is the result of multiplying the amount of Basic council tax by each individual District's tax base. The amount to be actually paid by each District is then increased by the amount of surplus council tax collected by that District compared to their original estimate for the current and previous years. The good collection record once again has yielded a significant surplus of which the Police Authority share is £248,274, which will reduce the overall level of council tax next year by £1.43. This is an increase of £25,070 (£0.13p) on the surplus of £223,204 (£1.30) declared in support of the current year.

6.4 Appendix 9 schedules the amount of Precept required from each of the District Councils in Cumbria for 2006 - 07 to support the recommend budget and the other illustrations.

6.6 The following table sets out the tax base and Precept amounts for 2006 - 07 based upon the basic amount of council tax at £163.08 required to support the 'recommended' budget.

<u>District</u>	<u>Tax Base</u>	<u>Basic Amount</u> £	<u>Precept Payable</u> £
Allerdale	31,458.69	163.08	5,130,283
Barrow	21,211.00		3,459,089
Carlisle	33,562.83		5,473,426
Copeland	22,137.67		3,610,211
Eden	20,215.55		3,296,751
South Lakeland	45,031.33		7,343,709
Total	173,617.07		£28,313,469

6.7 Following discussions with the District Councils, the following schedule of dates has been agreed on which the transfer of funds to the Precepting Authorities will be made, based upon twelve equal instalments:-

2006	2006	2007
April 27	September 27	January 26
May 26	October 27	February 27
June 27	November 27	March 27
July 27	December 21	
August 25		

7. Budget Timetable 2007-08.

7.1 The government has announced the Provisional Grant Settlement for 2007-08 as a first step towards aligning future grant settlements with the three-year periods covered by the Comprehensive Spending Reviews. It is anticipated that future local authority budgets will need to be set on a firmer basis than giving merely an improved degree of confidence as to the likely scale of council tax levels for the forward periods.

7.2 To assist members and the Authority in preparing for the 2007-08 budget and to build on the improvements and integration achieved in preparing the 2006-07 budget and strategic plans, a suggested reporting timetable is set out in Appendix 12, which members are asked to approve.

8. Acknowledgements

8.1 The preparation of the annual budget is the most corporate of tasks. The extensive work required in responding to the Home Secretary on his proposals for the restructuring of the police service over the same time period as preparing the budget, have imposed significant workload challenges on the Constabulary in preparing the budget for 2006-07. This has been compounded by the continued workload in addressing the loss of facilities in Carlisle caused by the January 2005 storms. Without exception, there has been a tremendous amount of hard work and commitment undertaken by Officers at every level, and it is appropriate to have this opportunity to acknowledge their contribution to the budget as now presented.

8.2 It is also appropriate to acknowledge the contribution which Members have made, particularly through their support for the presentations held to help members assimilate and understand the complex fiscal, financial and budgetary processes which go to shape the funding of public services in general and the police services in particular. Your patience, courtesy, and support for your Officers is very much appreciated.

Douglas Thomas
Treasurer
08 February 2006

Michael Baxter
Chief Constable