

Cumbria Police Authority

28 June 2005
Agenda Item No. 17

Medium Term Financial Forecast 2005-06 to 2008-09

A report by the Treasurer and Chief Constable

1 Summary

- 1.1 This paper sets out the latest forecast of the Authority's financial prospects for the period to 2008-09.

2. Recommendations

- 2.1 Members are asked to: -

- (i) Comment on the main assumptions in the report, particularly in relation to Council Tax changes
- (ii) Note the overall contents of the report

3. Details

- 3.1 Members are referred to the attached paper setting out forecasts of income and expenditure for the three years to 2008-09.

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Attachment

Medium Term Financial Forecast 2005-06 to 2008-09

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Cumbria Police Authority

Medium Term Financial Forecast

2005-06 to 2008-09

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- (ii) External Grant and Council Tax projections
- (iii) Formula allocations 2005-06 – floors and ceilings
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Medium Term Financial Forecast 2005-06 to 2008-09

1. Background and Introduction

- 1.1 This is the latest Medium Term Financial Forecast, which considers the financial prospects for the three year period beyond the current financial year to 2008-09. The requirement for robust medium term financial projections now has added importance in light of the Prudential Code for Capital Finance, which formally requires decisions about future capital investments to be made in the context of the overall longer term financial position of the Authority. In addition, Medium Term Financial Forecasts have added importance in the context of the proposal to move to three year financial settlements of grant, as referred to in the report.
- 1.2 Medium Term Financial Forecasts (MTFF's) must, inevitably take account of Government resources expected to be made available over the period of the forecast. Projections of Government support are currently expressed via the Government's spending reviews, every two years. Invariably, MTFF's cover more than one period of Government Spending review. The current spending review covers the period to the end of 2007-08, although the period of the forecast extends further to 2008-09 and hence overlaps into the period covered by SR2006. Spending Review periods themselves overlap as is illustrated in the table below: -

Financial Year	SR 2002	SR 2004	SR 2006
2003-04	•		
2004-05	•		
2005-06	•	•	
2006-07		•	
2007-08		•	•
2008-09			•
2009-10			•

- 1.3 The Chancellor of the Exchequer announced the outcome of the latest review in July 2004 where he provided details of resources to be made available to the Home Office and the Office of the Deputy Prime Minister (ODPM), the two government departments who provide finances for policing. In the light of the SR2004, the Home Secretary also published the Home Office strategic plan to 2007-08 entitled 'Confident Communities in a Secure Britain', which reaffirmed the key measures to be undertaken with the resources provided. More detailed information relating to external funding is contained in section four of this forecast.
- 1.4 The preparation of a MTFF is important for a number of reasons. First and foremost it should identify all likely significant commitments over the medium term and make a comparison with possible levels of income, both from Government and local Council Tax payers. This information will help to provide a strategy to manage the organisation over the medium term. In particular, it will inform existing decision making processes, for example, by ensuring that short term decisions are not made without a clear understanding of the Authority's medium term financial prospects.

- 1.5 It is important to recognise that the Medium Term Financial Forecast is not a budget, although it includes all known material commitments and thus does help to inform the budget process.

2. Executive Summary

- 2.1 This forecast paints a rather downward picture of the Authority's financial prospects over the three-year period to 2008-09. Based on the assumptions in the paper, expenditure is forecast to increase to £99.7m by 2008-09 as set out in the table below: -

Financial year	Forecast budget (£M)	Percentage increase on previous year
2006-07	92.626	3.9%
2007-08	96.496	4.2%
2008-09	99.724	3.3%

By way of contrast, total income, based on a pessimistic (but not unreasonable) forecast assuming government grants increasing by 2.5% and Council Tax income increasing by 3% will generate the following resources for the Authority.

Financial year	Forecast Income (£M)	Percentage increase on previous year
2006-07	91.609	2.8%
2007-08	94.175	2.8%
2008-09	96.815	2.8%

- 2.2 Clearly, with projected expenditure growing at a greater rate than income a significant gap emerges, which, if Council Taxes are to increase in line with the assumptions in the forecast, can, fundamentally, only be managed by finding savings from planned expenditure.
- 2.3 Over the period of the forecast, based on the above projections savings will be required in EACH of the forecast years as indicated in the table below: -

Financial year	Annual Savings (£M)	Cumulative savings (£M)
2006-07	1.017	1.017
2007-08	1.304	2.321
2008-09	0.588	2.909

The required savings above will reduce by about £0.3m in each year should pay awards be settled at 2.5%, as compared with the assumed level of 3%, although the latest projections suggest that this will be unlikely, at least for 2006-07.

This position outlined above will clearly present a continuation to the serious challenges the Authority has faced in recent years, in an environment where essential developments have already had to put to one side in order to agree

a budget for 2005-06. Mindful of the probable need for future savings for the medium term, the Constabulary undertook a comprehensive review of current activities in 2004 (Review 2004) with a view to identifying future efficiencies and savings. Findings from that review are planned to be taken up over the period of this forecast. The constabulary are also in the process of setting local cashable efficiency targets as part of the new efficiency regime imposed by the Government subsequent to the Gershon review, but also recognising that they will be an important element of longer term financial planning.

3. Assumptions and Influences

- 3.1 The projections in this forecast are based on a number of detailed assumptions set out below. In a small number of instances where the amounts involved are particularly significant, such as future pay awards, a span of projections is used so as to create a range of possible commitments.
- 3.2 The principal assumptions included in the forecast are set out below for information: -
- (i) Income from local Council Tax payers to increase by between 3% and 5%. This will be kept under review and amended if necessary.
 - (ii) Income from Government grants to increase by 2.5% to 3.5%. As set out above, a range of possible increases has been incorporated into the forecast so as to reflect the current uncertainties both about the amount of government support and how that support will be distributed to Authorities.
 - (iii) The Council Tax 'base' to continue to increase, by 0.5% pa, in line with recent trends.
 - (iv) For both officers and staff, the prime assumption is for annual pay awards of 3%. However, given the material amounts involved and the aspirations of Government for lower public sector pay awards, the effects of an increase of 2.5% are also considered.
 - (v) For police pensions, whose annual uplift is linked to the RPI of the previous September, an average increase of 2.5% is factored into the calculations. The forecast also incorporates projected increases in pensioner numbers in the period.
 - (vi) Police pensions projections have been projected in accordance with the existing financing arrangements. No account has, for the moment, been taken of the proposals, currently subject to consultation, to reform the financing of this area of the budget.
 - (vi) The results of the tri-annual review of the Local Government Pension Fund take effect in 2005-06, which fix the contribution rate at 14% for the three years to 2007-08. For the purpose of this forecast, it has been assumed that the rate in 2008-09 will not change.
 - (vii) General inflation has been assumed at an average of 2.5% (RPI) over the three year period covered by the forecast.
 - (viii) Interest on Investments is based on average returns as follows: -
2006-07 4.5% 2007-08 4.25% 2008-09 4.00%
 - (ix) Changes to the efficiency regime effective from April 2005 will, in theory, continue to allow cashable savings, which will increase to 1.5% of net expenditure, to be reinvested in front line policing and therefore be cost neutral so far as this forecast is concerned. It is,

however, recognised that downward pressure on Council Tax levels will most likely severely restrict the Authority's ability to convert efficiency gains into additional service provision.

- (x) Overtime savings as part of the PNB work life balance scheme will continue in the longer term beyond 2006-07.
- (xi) The effect of any new earmarked grants, not contained in the base budget, will be cost neutral.

4. External Funding

- 4.1 External Funding levels for 2006-07 and 2007-08 must be seen in the context of the announcement of the results of the 2004 Spending Review (SR2004), which signalled levels of financial support for the financial years 2005-06 to 2007-08. They provide a good indication of the Government's priorities over that period.

A broad demonstration of the financial support to ODPM for policing and to the Home Office generally from SR 2004, is set out in the table below: -

Financial Year	2005-06 £m	2006-07 £m	2007-08 £m
Home Office	13,454	14,152	14,854
ODPM–Police	4,553	4,768	4,993
Totals	18,007	18,920	19,847
Percentage increase	5.6	5.1	4.9

The above figures do little other than to provide details of the total resources allocated to the two Government departments. For example, the Home Office figures do not even indicate resources for policing, although it is, by far, their biggest single responsibility. However, the following information is also available in support of the headline figures: -

- (i) The Government believes that the above investments will provide resources for growth in services at an average rate of 2.7% over the three-year period. However, this figure is based on a Government measure of inflation averaging 2.7% (the GDP deflator), which bears little resemblance both to the cost of standstill budgets in this paper, which range up to about 4.2%, nor the 5% increase which Police Authorities have consistently told Government over a number of years is needed to avoid cuts in services.
- (ii) The figures include resources to increase the number of Community Service Officers (CSO's) to 24,000, from the existing base of about 4,000.
- (iii) The figures reflect the new efficiency regime, effective from April 2005, which requires annual efficiency gains of 3%, of which half must be cashable savings and which will increase the proportion of officer time spent on front line activities, equivalent to 12,000 officers.

- (iv) The Home Office have agreed a number of Public Service Agreements (PSA's) as part of the SR2004 announcement, including a target to reduce the volume of crime by 15%.

- 4.1 Whilst some knowledge of the Government's overall commitment to supporting Home Office spending is of value (for a single year or longer), this data does not, in itself, set out what resources will be provided to Cumbria. Furthermore, estimating our entitlement to funding is fraught with uncertainties, some of which are set out below for information.
- 4.2 Members will be aware that the formula which allocates resources to individual Authorities has been subject to some adaptation to protect many Authorities from its distribution effects. For the last two years there has been a system of protection built into the distribution arrangements, which has provided a guaranteed increase in grant for a considerable number of Authorities like Cumbria. For 2004-05, the 'floor' provided more than £2m more than would otherwise have been the case (without which grant income would have been less in 2004-05 than in 2003-04). In that year all Authorities received an identical increase of 3.25%, which, effectively, created a floor and ceiling at the same level. For 2005-06, a slightly different arrangement has been put in place in which a 'floor' has been set providing all Authorities with a minimum increase of 3.75%, but which, at the same time, allows gaining Authorities to retain a portion of what they would have received if the raw formula had been applied. For Cumbria, the floor provided a further £1.1m of grant support over and above what would have been received via the 'raw' formula.

A graphical representation of the 'winners and losers' for 2005-06 is shown at Appendix (iii). Members will again see from the chart that the 'raw' distribution of grant has produced quite a volatile change to grant entitlement from 2004-05, where, without adjustment, changes range from a loss of more than 12% on the one hand to a gain of about 11% on the other. Of course the 'floor' has provided a minimum increase of 3.75%, although it should be noted that as many as 22 Authorities in England received additional support in this way. At the opposite end of the settlement for 2005-06, 17 English Authorities received only about 44% of the gain that the raw formula would have provided for them. Whilst this is an improvement for them on the 2004-05 arrangements where all Authorities received the same increase, there is growing pressure from the group of gaining Authorities to be allowed to retain all of their grant increases, which, without significant additional government funds, could only be achieved by taking away the protection systems altogether.

- 4.3 So far as the formula itself is concerned, at the time of writing this forecast, there are a number of proposals, which have the potential to change allocations to individual authorities, perhaps significantly. A brief description of the principal areas of potential change are set out below for members' attention: -
- (i) Firstly, the Government is proposing to introduce three year grant settlements, effective from 2006-07, although the first of these will only be for two years, to synchronise with future three year SR periods (see chart at paragraph 1.2). Whilst the movement to a longer term grant framework should be welcomed, such a change brings with it a

number of issues which need to be properly resolved if the change is to be successful. First and foremost, any longer term grant system needs to be able to produce some stability and to enable medium term service planning. To that end, it seems inevitable that some form of safety net will have to form part of the new arrangements.

Furthermore, there needs to be some agreement about whether and how data supporting the formula should be allowed to change within the fixed three year periods. Annual changes to, for example, the population and Council Tax bases can make significant changes to levels of income. In addition, some of the data currently used is from the 1991 census, and it is imperative that a forward looking formula uses more up to date information. It is also important that a forward looking formula moves away from making retrospective adjustments, such as for amending reports (see below), which have been a regular feature of recent settlements.

- (ii) Along with refinement of other Local Authority grants, the government is proposing to make amendments to the formula that distributes resources for policing amongst Police Authorities. In the case of policing, the changes currently being discussed are significant and, without protection, could produce significantly different distributions from the existing formula. A formal consultation paper on the proposals for change is expected to be published in July, the contents and potential effects of which will be brought to a future meeting of the Authority for members' information.
- (iii) The Government is also proposing to update the valuations given to domestic properties for the purpose of assessing Council Tax liabilities for householders. It is expected that changes will take effect from April 2007. Current valuations for Council Tax purposes are based on estimated property values in 1991, and thus there is the potential for a material change in the distribution between the existing bands. There is also the possibility that additional bands will be created, although the Government has stated that, if this occurs, it is not with the intention of producing additional Council Tax income. Some recent intelligence, is, however, suggesting that, with significant increases in property prices since 1991 throughout the country, most properties will stay within existing bands. For those properties that change band, it is anticipated that a system of transitional arrangements will be put in place. This will have the effect of apportioning the full effect of any change over a number of years and will also mean, for the Authority, that changes to its entitlement to Council Tax income will also be spread over a number of years, providing some stability to existing income. Members will also be aware that Sir Michael Lyon's report into the future financing of Local Government, which could recommend reforms to or complete dismantling of Council Tax as a means of raising local revenue for Local Government. Notwithstanding the recommendations of that report, which are to be made public shortly, it is envisaged that any substantial reforms will take a good number of years to implement and will certainly be outside the period of this forecast.

- (iv) Finally, members will be aware that a number of amending reports have been produced retrospectively and more are forecast, to correct incorrect data (not from Cumbria) used in previous settlements to distribute grant to Authorities. The impact of these reports to date has either been immaterial or its effect masked by the effect of the safety net provided by the 'floor' in the grant settlement, which was the case for the current financial year. However, the Authority should not be complacent in assuming that future adjustments will not affect its finances.

4.4 But notwithstanding all of the above uncertainties, to facilitate forward planning, a balanced judgement has to be made, based on the best current intelligence of the quantum of grant likely to be available and the effects of its distribution. Given the high proportion of the Authority's total income (69%), which comes from grant, it seems prudent to introduce some sensitivity analysis to show a range of possible grant levels. Accordingly, 'pessimistic' and 'optimistic' forecasts have been made in this paper, based on annual increases of 2.5% and 3.5% respectively. A relatively low range of increases is now being widely forecast within the service, not least because part of the settlement for 2005-06 was provided on a 'one off' basis. Specifically, the minister has previously made it known to Authorities that: -

- (i) Any increase in the 'floor' for 2006-07 will be from a starting position of 0.25% below current 2005-06 grants
- (ii) The £20m provided to support police pensions costs in 2005-06 was for 2005-06 only and will be removed for future years

Accepting the above, a range of between 2.5% and 3.5% seems quite reasonable overall. The overall effects are highlighted in the table below: -

Year	Pessimistic £'000	Optimistic £'000	Difference £'000	Council Tax impact £
2006-07	63,656	64,277	621	3.61
2007-08	65,247	66,526	1,279	7.44
2008-09	66,878	68,855	1,977	11.49

A more detailed analysis is shown at Appendix (ii) and will be updated throughout the year when any new intelligence is received.

5. Council Tax income

5.1 Members will be aware of the continued pressure to moderate Council Tax increases. This has been most apparent during the last two settlements when Government has used its capping powers with more vigour. Indeed, members do not need any reminder of our experiences in the light of the 2004-05

budget settlement, the subsequent nomination process and the impact of that decision on the 2005-06 budget settlement. As members will be aware, Government do not normally pre signal their capping intentions and it is not until budgets have been formally agreed and Council Tax levels set that Government will determine if the rate of increase in Council Tax is excessive.

- 5.2 The forecast continues to assume that the Council Tax base will continue to increase by 0.5% each year, reflecting both the trend in recent years and forecasts of new proposed developments. It is also assumed that collecting Authorities will continue to generate a collection 'surplus' where losses due to non collection are lower than assumed. A sum of around £0.2m per annum has been built into the forecast to reflect this.
- 5.3 The forecast also recognises that there will be a revaluation of domestic properties for the purpose of their placement within the Council Tax banding system. This is forecast to be implemented in 2007-08. At the time of writing this forecast the effects of the revaluation are unknown and can thus only be speculated upon. However, the latest intelligence appears to suggest that most increases will be broadly proportional to existing values and thus there will be a relatively small number of movements between bands. But in any event, for those properties which do move between bands, transitional arrangements are envisaged which will taper any gains or losses over several years. This arrangement will, at the same time, provide a measure of stability to the Authority's Council Tax income over the period of this forecast.
- 5.4 An analysis of total forecast income including from Council Taxes is shown at Appendix (ii).

6. Revenue Budget

- 6.1 This forecast recognises from the outset that, for a number of reasons, the financial prospects for the Authority are somewhat mixed and thus reflects, that with a number of known commitments in the coming years, there will be limited ability for new growth or reinvestment.
- 6.2 The forecast to 2008-09 therefore reflects, in the main, known commitments and the projected effects of economic changes, with virtually no new developments. This does not, of course, reflect that there are and will be no new demands over the period of the plan as this would be misleading, but it does outline that, in the main, new investments will have to be met from either: -
- (i) Efficiency gains (see paragraph 6.4)
 - (ii) Other displaced activities
 - (iii) A re-engineering of service provision to enable costs to be met from other existing resources
 - (iv) A combination of the above

As an indication of the current demands for new investment, a schedule of unsuccessful bids, amounting in value to £0.43m, which were made for 2005-06 is attached at Appendix (viii). The developments in the schedule came through a thorough prioritisation exercise including a risk assessment process, which concluded that the items were each essential to the

constabulary's business. Members should note that this schedule is smaller than would otherwise be the case as a result of the constabulary electing to progress a number of new initiatives from within existing resources.

- 6.3 The major single addition to the budget in any year or period is to cater for the effects of anticipated pay awards and price inflation. For the period to 2008-09, the effect of pay settlements are estimated to amount to 3% and 2.5% for general inflation, which gives a commitment of £2.4m, £2.4m and £2.5m respectively. However, given the scale of pay budgets, and some indications that the Government expects public pay to increase at a slower rate, an alternative set of calculations have been forecast based on annual increases of 2.5%, producing commitments of £2.0m, £2.1m and £2.1m respectively. So far as police overtime is concerned an earmarked reserve now operates to avoid the sudden budgetary movements, which result from different numbers of Public Holiday overtime days. For police staff, an estimate of the effects of the three yearly valuation of the Cumbria Local Government Pension Fund (LGPF) effective from April 2008 has been made, which maintains the rate for 2007-08 as part of the April 2005 review, which members endorsed earlier.
- 6.4 Efficiency
- 6.4.1 As many members will be aware, the Police Service has been required to produce an annual efficiency plan since 1999-2000. Forces and Authorities have been required to demonstrate how efficiency gains of at least 2% of annual budget have been made and subsequently reinvested in front line policing services, without affecting policing performance. Both cashable and non cash gains have been allowed to count against the 2% target, and, to the end of 2004-05, overall gains amounting to about 17% have been made and acknowledged by HMIC, nearly 3% per year over the six years of the regime.
- 6.4.2 However, from April 2005, forces have been asked to adopt a new regime, which in many ways is more stretching than its predecessor. Firstly, the overall annual efficiency target has been increased from 2% to 3% and, in addition, and for the first time, the Home Office has prescribed that a portion of the target has to be met by cashable efficiencies. For 2005-06, the cashable portion amounts to 1.5%.
- 6.4.3 In theory, the Home Office guidance supporting the new regime allows cashable efficiency gains to be reinvested in front line services. However, in reality, with external support reducing in real terms and with continued pressure to restrain Council Tax increases, the ability to make significant reinvestments of efficiency gains seems unlikely.
- 6.4.4 For reasons of practicality and simplicity, the requirement to make cashable efficiency gains in this forecast will be reflected in the estimated overall savings required, as set out above. This avoids the unnecessary complexity of having two sets of 'savings', where, in reality, the boundaries between some savings and efficiency gains can become blurred anyhow.

6.5 Police Pensions

- 6.5.1 Financial commitments for police pensions are a growing proportion of the Authority's budget and invariably feature in longer term projections. At 1 April 2005, Cumbria had 1131 pensioners as compared to 1244 officers, a relationship which is shared by most Authorities. For the future the number of pensioners is projected to increase as a proportion of officers, both locally and nationally. The Government is currently consulting on proposals to fundamentally change the way police pensions are financed. Members of the Personnel Committee received a detailed report in April explaining the proposed changes, which, in essence, attempt to mimic the financial effects of operating within a fund, without actually creating one. The impact of the changes, when implemented, will be to provide more certainty about pensions costs and more stability in their distribution. It had been hoped to incorporate the estimated impact of the proposals currently being consulted on in this forecast. However, the first exemplifications appeared to give different results than expected and as suggested in the national consultation document. This might be explained by the use of relatively old 2003-04 data in the consultation document. Accordingly, it seems more prudent, for the moment, to formulate this forecast on the basis of the current arrangements.
- 6.5.2 A summary of the expected pensions liabilities based on the current method of financing is set out in the table below for members' information. A more detailed analysis is also attached at Appendix (iv).

Financial Year	Projected pensions payments (£'000)	Percentage of projected budget
2005-06	12,644	14.2%
2006-07	13,480	14.5%
2007-08	14,442	15.0%
2008-09	15,409	15.4%

- 6.5.3 Whilst the cost of accommodating the expected additional pensioners cannot be avoided, a number of accounting devices can and have been utilised both to make early provision for some known costs and to smooth the effect of some of the significant increases which can come about between financial years. For example, the Authority provides for the costs of officers entitlement to a commutation (Lump Sum) in the financial year when an officer is eligible to retire, irrespective of whether the officer elects to retire at that time. This has the advantage of: -

- (i) allowing accurate future profiles of commitment (currently beyond 2010) to be created
- (ii) providing a financial hedge against the cost of unexpected retirements

In addition, an earmarked reserve has been created to cater for the quite volatile financial effect of lump sums and which allows the incremental change to be much less dramatic, as demonstrated in the following table: -

Financial Year	'Raw' Lump Sums £M	'adjusted' Lump Sums £M
2006-07	2.681	3.171
2007-08	4.156	3.536
2008-09	3.796	3.936

6.5.4 Members will be aware that the budget for Ill Health Lump Sums has been significantly reduced in the last few years, reflecting the significant reduction in Ill Health retirements. A further financial reserve has been created to cater for any unexpected growth in these retirements.

6.6 Airwave

6.6.1 The Constabulary will roll out the new Airwave national police communications system during 2005-06 and provision has been made in the 2005-06 budget to meet the expected costs. This forecast incorporates the longer term effects of airwave to 2008-09. Advantage has been taken of the slippage in the roll out of Airwave to create some financial cushion against some of the likely costs over the period of this forecast. The expected financial effects are set out in the table below: -

Financial Year	Financial Commitment (£m)
2005-06	1.041
2006-07	1.212
2007-08	1.367
2008-09	1.497

6.6.2 A more detailed analysis of the overall financial impact of airwave is shown at Appendix (vi).

6.7 Police Reform and PNB changes

6.7.1 The package of changes to police pay and conditions introduced in April 2003 is scheduled to take three years to fully implement. The key features of the new system included: -

- (v) Special Priority Payments
- (vi) Competency Related Threshold Payments
- (vii) Assimilation of pay grades
- (viii) Overtime Reduction scheme

The Special Priority Payment scheme was introduced as being funded by special grant, although, in the event, the grant for 2005-06 is about £150k short of the expected commitment. This shortfall has been factored into the longer-term projection.

- 6.7.2 It is assumed that the effects of the three year scheme to reduce overtime payments to officers as part of the work / life initiative will continue for the period of this forecast (and beyond).

6.8 Community Service Officers (CSO's)

The Authority has made two successful bids to the Home Office for Community Safety Officers (CSO's). The first allocation of six officers is supported by a specific grant at the rate of 50% until 2006-07 and thereafter this forecast assumes that the rate of support will reduce to 25%. The second allocation of 12 officers is funded by a specific grant at the rate of 100% and thereafter the rate of support is guaranteed to be no less than 75%.

6.9 Economic changes

- 6.9.1 The general economic conditions over the period of this forecast are expected to be broadly positive. Key economic statistics produced by the Authority's bankers point to continued economic growth greater than most European competitors although the rate of growth is forecast to reduce from prevailing levels. Inflation, as measured by the Retail Prices Index (RPI) currently stands at 2.8% but after a small and temporary increase is expected reduce thereafter. This profile is broadly consistent with the economic projections as set out in this paper.

- 6.9.2 So far as interest rates are concerned, the report on Treasury Management Strategy presented to members in February, provided more economic data from the Authority's bankers which indicated that interest rates would increase in the short term, perhaps to 5% before returning to around 4.5% at the end of 2007. However, more recent economic data now suggests that base rates may have reached a plateau and may begin to reduce, perhaps to around 4%. Again, this profile is in line with the projections as set out in this forecast.

6.10 Reserves and Balances

- 6.9.1 The Authority's estimated general reserves currently stand at about 2.7% of the annual budget, subject to any contributions made in closing the Authority's accounts for 2004-05 and after any appropriations to earmarked reserves. A comprehensive report setting out the year end position will be reported to members of the Audit and Performance Committee in July. Members will note from the budget paper in February that the Authority should aim to see general balances increased to 3%, taking into account the principles as set out in the CIPFA guidance published in 2003. However, as annual budgets increase, the amount of general reserve required needs to increase in proportion in order to remain at 3% of annual budgets. Accordingly, this forecast assumes that balances will increase to maintain that equilibrium.

6.10.2 In addition to general balances, the Authority maintains a number of earmarked reserves and provisions for a variety of specific purposes. It is important to acknowledge the importance played by reserves and provisions which serve a number of purposes including: -

- (i) providing a contingency to cushion the effects of unexpected events
- (ii) providing a mechanism to build up funds to meet predicted liabilities, whose effect and timing is less certain

The CIPFA guidance on reserves and balances recommends that Authorities have regard to the creation and maintenance of reserves when preparing and maintaining Medium Term Financial Forecasts. An analysis of all reserves and provisions has been compiled and is shown at Appendix (vii).

Capital Programme

7.1 General

7.1.1 This forecast to 2008-09 incorporates all significant demands for capital investment currently identified. Over the three year period they amount in total to more than £14m. Most of the schemes projected in this forecast have still to be subjected to detailed financial scrutiny and prioritisation.

Annual capital programmes are normally made up from two sources. Firstly, there are a small number of significant schemes of strategic importance to the constabulary. Recent and current investments in a Records Management System (RMS) and Airwave are examples of this type of investment. These schemes are complemented by more regular investments, normally on a rolling basis, covering IT infrastructure, fleet replacements and minor building works. For the purpose of this forecast, it is assumed that the damage to buildings, vehicles and equipment following the storms in January will be fully met by insurance receipts.

7.1.2 For the period of the period of the forecast, the estimated annual capital payments are as set out in the following table: -

	2005-06 £'000	2006-07 £'000	2007-08 £'000	2008-09 £'000
Identified Schemes				
IT Hardware	498	1,250	1,179	505
Fleet	909	810	810	810
Infrastructure & Equipment	1,048	350	350	350
Operational Equipment	174			
IT Software / Systems	3,318	2,523	2,190	1,400
Airwave Schemes	2,249	1,470		
Totals	8,196	6,403	4,529	3,065

7.1.3 A more detailed schedule of forecast schemes can be located at Appendix (v).

7.2 Financing Capital Expenditure and the Prudential Code on Capital Finance

7.2.1 The Authority has traditionally financed capital expenditure by a combination of Capital Receipts, Capital Grants and more recently direct contributions from the Revenue Budget. It has been somewhat fortunate in having been able to generate significant Capital Receipts, almost entirely from the sale of police houses, which have reduced in number from 310 in 1989 to around 20 at the time of writing this paper. Recent annual capital programmes have recognised that the supply of Capital Receipts would not continue in the longer term and, accordingly, financial planning has incorporated revenue contributions to the capital programme out of the force budget, which for 2005-06 amounts to £1.5m. Other than inherited debt arising from the creation of independent Police Authorities in 1995, the Authority currently has no external debt.

7.2.2 In light of the reducing supply of Capital Receipts, the Authority welcomed the provisions in the Local Government Act 2003 for a system of self control of external borrowing based on a Prudential Code produced by CIPFA. The Authority has approved a series of Prudential Indicators for the period to 2008-09 including an indicator of the Authority's Capital Financing requirement. This latest forecast refines those figures. This latest forecast projects that external borrowing to finance new capital expenditure will be required as set out in the table below.

Financial Year	Forecast additional Debt £'000
2006-07	867
2007-08	1,979
2008-09	1,565

7.2.3 The repayment costs of new loans taken out have been reflected in the projections. A schedule of the proposals to finance the schemes as set out in this forecast is attached at Appendix (v).

Medium Term Financial Forecast

Revenue Budget 2005-06 to 2008-09

	2006-07 £'000	2007-08 £'000	2008-09 £'000
Base Budget	89,115	92,626	96,496
Pay and Prices			
Police Pay @ 3.0%	1,427	1,469	1,517
Police Staff Pay @ 3.0%	566	584	602
Pensions @ 3.0%	404	396	452
Prices @ 2.5%	360	360	374
Full Year Effect of 05-06 growth	37	0	0
Airwave	73	153	0
Public Holiday Overtime	0	138	(142)
Pensions Growth (other than inflation)	(669)	1,496	(245)
PCSO's (recruited 04-05)	105	(5)	(9)
Debt and Other Capital Financing	41	6	58
Interest Receivable	4	78	43
LPT Accommodation	(88)	0	0
Revenue Effect of Capital schemes	(147)	152	(454)
Use of Devolved Earmarked Reserves	(108)	0	0
To / from Earmarked Reserves	1,357	(1,026)	1,049
To / from General Reserves	149	69	(17)
TOTAL INDICATIVE BUDGET	92,626	96,496	99,724
Cash increase over previous year	3,511	3,870	3,228
% Increase over previous year	3.9%	4.2%	3.3%
Memorandum			
Savings if pay award amounts to 2.5%	333	351	371

Appendix (ii)

Projections of Government grants and Council Tax income

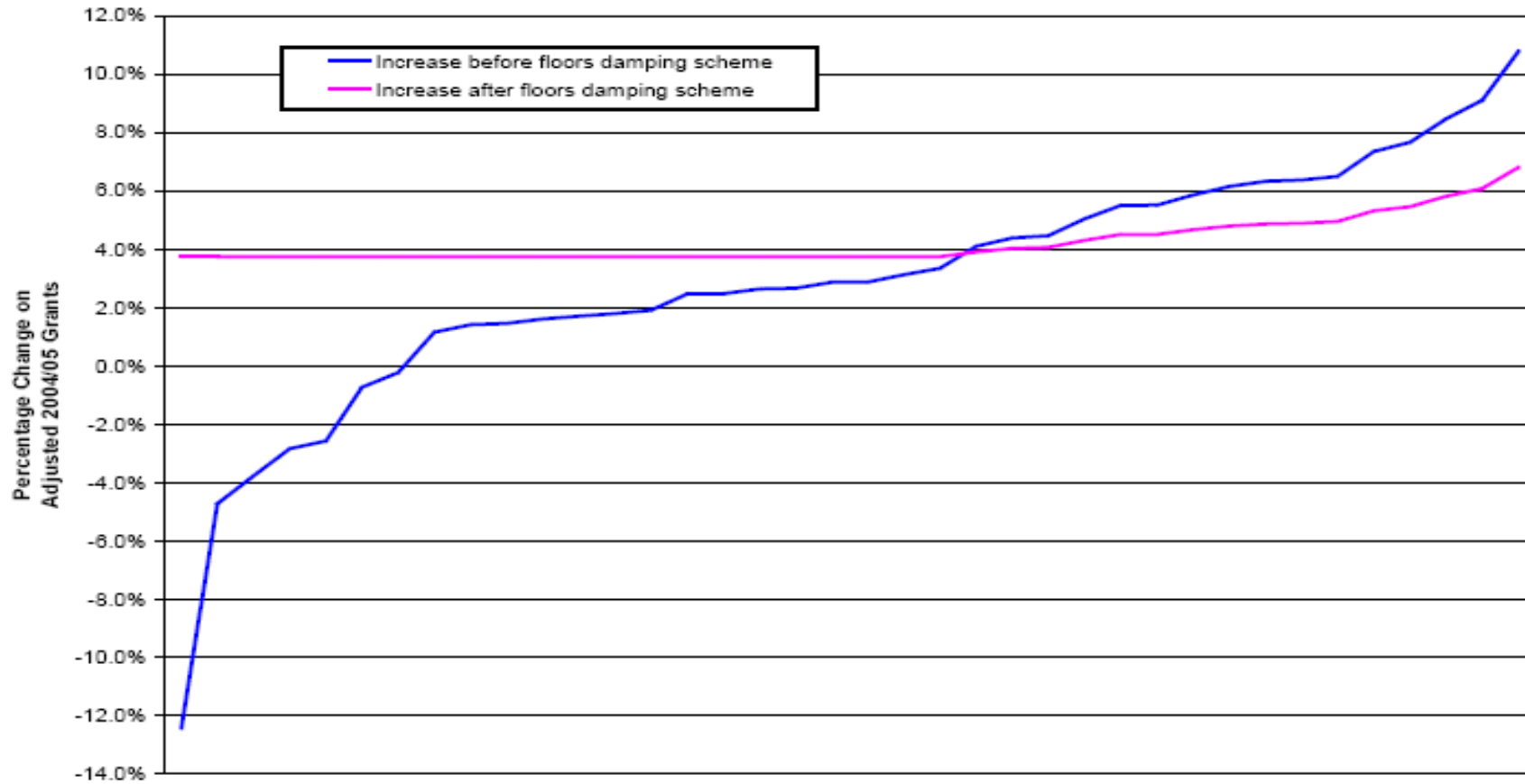
	Low				Hi		
	2005-06	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
Police Grant	36,572	37,486	38,423	39,384	37,852	39,177	40,548
RSG	17,573	18,012	18,463	18,924	18,188	18,825	19,483
NNDR	7,958	8,157	8,361	8,570	8,237	8,525	8,823
Total external grant	62,103	63,656	65,247	66,878	64,277	66,526	68,855
Council Tax	26,789	27,731	28,705	29,714	28,269	29,263	30,291
Collection Surplus	223	223	223	223	223	223	223
Actual Income	89,115	91,609	94,175	96,815	92,769	96,012	99,369

Low - Hi Range			
	Low	Hi	Difference
2006-07	91,609	92,769	1,160
2007-08	94,175	96,012	1,837
2008-09	96,815	99,369	2,554

Assumptions

- 1 Government Grants to increase in range 2.5% to 3.5% pa
- 2 Council Tax to increase in the range 3% to 5% pa
- 3 Collection surplus to remain static at current levels
- 4 Tax base to increase by 0.5% pa
- 5 The combined effects of the planned revaluations of domestic and non domestic properties will be broadly neutral

**2005/06 Floor Damping Scheme for Police Authorities:
3.75% floor**



Projections of Police Pensions Costs

1 Summary

	2005/06	2006/07	2007/08	2008/09
POLICE PENSIONS				
RECURRING PENSIONS	14,198	14,845	15,590	16,308
ILL HEALTH LUMP SUMS	115	118	122	126
ORDINARY LUMP SUMS	3,592	2,861	4,156	3,796
OTHER PENSIONS	101	94	86	79
TRANSFER VALUES OUT	9	9	9	10
LESS PENSION INCOMES	(4,387)	(4,519)	(4,655)	(4,795)
TRANSFER VALUES IN	(232)	(239)	(246)	(254)
	13,396	13,170	15,062	15,269
		(226)	1,892	207

2 Lump Sums

	2005/06	2006/07	2007/08	2008/09
Provision Requirement at 05-06 Prices	3,592	2,778	3,917	3,474
With Inflation 3.00%	3,592	2,861	4,156	3,796
Contributions to & from Reserves	(752)	310	(620)	140
Budget Provision	2,840	3,171	3,536	3,936
Value of Reserve (Cumulative)	610	920	300	440
Net Increase in Budget	149	331	364	401

Notes:

(a) There is an accounting requirement to provide for the cost of pensions commutations when an officer is entitled to retire, as compared to when he or she actually retires. We have an accounting provision to cater for this.

(b) In addition to the provision, an earmarked reserve has been created to smooth the effects of the uneven profiling this can create.

Forecast capital schemes 2005-06 to 2008-09

	2004-05	2005-06	2006-07	2007-08	2008-09
IT Hardware					
P.C.'s	435	498	575	575	-
Printers	-	-	150	150	85
Laptops	-	-	105	105	100
PC Servers	-	-	60	59	250
HOLMES Server	-	-	70	70	-
Finance Servers	-	-	140	100	40
System servers	-	-	150	120	30
	<u>435</u>	<u>498</u>	<u>1,250</u>	<u>1,179</u>	<u>505</u>
Fleet	<u>993</u>	<u>909</u>	<u>810</u>	<u>810</u>	<u>810</u>
Infrastructure & Equipment					
Action for Justice Suites	250	349	-	-	-
Comm's Center	28	16	-	-	-
Occ Health	-	-	-	-	-
PIF 1	49	-	-	-	-
PIF 2	582	76	-	-	-
HQ OS Alterations / roof	144	47	-	-	-
NTU Roof	72	6	-	-	-
DDA	-	112	-	-	-
museum	55	-	-	-	-
Generator	72	2	-	-	-
Training room	41	-	-	-	-
LPT	20	-	-	-	-
Carlisle IT	610	-	-	-	-
IPLDP	-	440	-	-	-
General Infrastructure Works	-	-	350	350	350
	<u>1,923</u>	<u>1,048</u>	<u>350</u>	<u>350</u>	<u>350</u>
Operational Equipment					
VIPER	-	-	-	-	-
BAC's	-	15	-	-	-
Camera's	135	9	-	-	-
PROMAT	-	86	-	-	-
ANPR	-	64	-	-	-
	<u>135</u>	<u>174</u>	<u>-</u>	<u>-</u>	<u>-</u>
IT Systems / Software					
Crime & Control	-	105	-	-	-
Case & Custody	606	659	300	-	-
HOLMES	-	30	-	250	-
XP	254	669	400	-	-
Firewall/ Intranet	-	12	-	240	-
Intelligence	-	44	500	500	400
Command & Control	-	-	-	750	-
Telephony	-	404	568	200	-
RMS	-	750	755	250	-
Security Info system	-	23	-	-	-
NSPIS HR	146	119	-	-	-
Crimes System	26	-	-	-	-
NMIS	291	344	-	-	-
Voice Connect	5	-	-	-	-
Data Warehouse	-	85	-	-	-
Share Point Portal	-	74	-	-	-
Future Software Updates	-	-	-	-	1,000
	<u>1,328</u>	<u>3,318</u>	<u>2,523</u>	<u>2,190</u>	<u>1,400</u>
Airwave & Associated Schemes					
Airwave	337	1,987	1,470	-	-
ICC's	30	185	-	-	-
PNC	7	-	-	-	-
Chad Command Suit	2	77	-	-	-
CHAD Add Positions	74	-	-	-	-
	<u>450</u>	<u>2,249</u>	<u>1,470</u>	<u>-</u>	<u>-</u>
TOTALS	<u>5,264</u>	<u>8,196</u>	<u>6,403</u>	<u>4,529</u>	<u>3,065</u>

Appendix(vi)

Airwave Spending Projection

	200405	200506	200607	200708	200809	200910	201011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Maintenance and Menu	930	1,785	1,785	1,785	1,785	1,785	1,785
ct of LPT's	3	0	0				
	933	1,785	1,785	1,785	1,785	1,785	1,785
ICCS Maintenance (already base budget)	(113)	(113)	(113)	(113)	(113)	(113)	(113)
	820	1,672	1,672	1,672	1,672	1,672	1,672
Vehicle fitting bid (from	45	45					
	865	1,717	1,672	1,672	1,672	1,672	1,672
Assumed Earmarked Airwave	(120)	(272)	(153)				
	745	1,445	1,519	1,672	1,672	1,672	1,672
Use of Airwave set up	0	(404)	(167)	(105)	0	0	0
	745	1,041	1,352	1,567	1,672	1,672	1,672
Use of 0405 Airwave	0	0	(140)	(200)	(175)	(61)	0
Net	745	1,041	1,212	1,367	1,497	1,611	1,672
increase	745	296	171	155	130	114	61

Estimated movement of Reserves and Provisions

	Balance 31.3.2004	Receipts 2004-05	Payments 2004-05	balance 31.3.2005	Receipts 2005-06	Payments 2005-06	Balance 31.3.2006	Receipts 2006-07	Payments 2006-07	Balance 31.3.2007	Receipts 2007-08	Payments 2007-08	Balance 31.3.2008	Receipts 2008-09	Payments 2008-09	Balance 31.3.2009
Capital Reserves																
Capital receipts	0	602	602	0	80	80	0	180	180	0	180	180	0	180	180	0
Capital reserve	455	500	5	950		950	0			0			0			0
IPLDP	0	350	350	0			0			0			0			0
Airwave capital	400			400		400	0			0			0			0
	855	1,452	957	1,350	80	1,430	0	180	180	0	180	180	0	180	180	0
Provisions																
Pensions liabilities - support staff	5		5	0			0			0			0			0
Insurances	665	228	100	793	228	100	921	228	100	1,049	228	100	1,177	228	100	1,305
Legal Costs	160		0	160			160			160			160			160
	830	228	105	953	228	100	1,081	228	100	1,209	228	100	1,337	228	100	1,465
Revenue reserves																
General reserves	2,585	245		2,830		104	2,726	45		2,771	114		2,885	97		2,982
Earmarked Reserves																
Devolved budgets etc	224	73	94	203		78	125			125			125			125
Inspectors Pay Arrears	100		58	42			42			42			42			42
PFI	140	100	0	240	100		340	100		440	100		540	100		640
LPT Accommodation	280		59	221		145	76		57	19		19	0			0
Airwave revenue	676	576		1,252		404	848		307	541		305	236		175	61
Pension Liabilities - Police officers	997	2,129	1,768	1,358	3,592	3,592	1,358	2,861	2,861	1,358	4,156	4,156	1,358	3,796	3,796	1,358
Pensions liabilities - smoothing effect	650	712		1,362		752	610	310		920		620	300	140		440
Ill Health pensions	575	220		795			795			795			795			795
Operational Reserve	350			350			350			350			350			350
Public holidays	450		450	0	65		65	67		132		69	63	71		134
Management of change	150			150		30	120			120			120			120
Storm January 2005	0	400		400			400			400			400			400
	4,592	4,210	2,429	6,373	3,757	5,001	5,129	3,338	3,225	5,242	4,256	5,169	4,329	4,107	3,971	4,465
Total	8,862	6,135	3,491	11,506	4,065	6,635	8,936	3,791	3,505	9,222	4,778	5,449	8,551	4,612	4,251	8,912

Summary of identified resource demands

Development Need	Cost £'000 PA	Description of Development Need
Additional LPT Inspector for North Cumbria	48	To aid successful implementation of LPT. Maximize leadership, visibility & accessibility, deliver community safety, criminal justice, performance management etc.
CJU Inspector	49	Custody function centralised at AHQ Workington - Custody issues impact on each Inspector within the BCU causing avoidable travel & expense. Need single point of contact for supervision and leadership.
Force Wildlife Co-ordinator	12	To organise the Force Wildlife Crime Liaison Scheme and its 12 voluntary Area Wildlife Crime Officers
Community Intelligence Assistant	17	Administrative support across a variety of projects and core policing functions - to record and act upon Community Intelligence - CDRP funding not sustainable.
Mobile Police Station Operatives	24	Front desk services to villages throughout North Cumbria - provides high visibility police presence. CDRP funding not sustainable jeopardising delivery of the service
Operational Support Chief Inspector (Operations) Uniform Operations	55	Provide operational leadership and direction at strategic level for combined units - MSG, TSG, Dog Section, Firearms Ops and CIU.
Collision Investigation Unit	81	CIU not viable in present form. Workloads increased, operational performance reduced, stress related illness. Training and development neglected.
Child & Adult Protection Unit Detective Sgts. One per BCU	120	To improve support to CAPU staff, meet increasingly heavy work demands, meet Laming Report recommendations, provide greater resilience to meet ACPO/Home Office statutory legislation, reduce time/expense spent by 1 DS travelling between two sites.
Communications Centre Management Unit Head	30	Post to head up a Communications Centre Management Unit to address failings - currently cater only for reactive demand, no auditing, quality control, management of new procedures. Force performs poorly to NCRS and NSIR
Total	434	