

Budget issues 2005-06

1. Introduction

1.1 This report briefly updates members on a number of issues which will feed through to the final budget report to be presented to the Authority budget meeting, currently timed for 10 February.

1.2 The issues addressed include:

- The announcement on the Final Settlement
- Representations made to ODPM (and copied to Home Office) on Provisional Settlement, and the replies received.
- Announcement on Capital Grant and Supported Borrowing in 2005-06.
- Tax base and collection surplus for 2005-06 declared by District Councils.
- Impact of storms on tax base for 2005-06.
- Timing of the Authority's Budget Meeting on 10 February.
- Finalisation of the Chief Constable's budget proposals.

2. Recommendations

2.1 Members are asked to

- (a) receive the report and to note the contents.
- (b) Confirm that the Authority's Budget meeting be held on 10 February as currently timetabled.
- (c) consider any directions to Officers in connection with the preparation of the final budget report.

Douglas Thomas
Treasurer
27 February 2005

Christine Twigg
Acting Chief Constable

Detail Report

3. Final Settlement

3.1 Information had been received that the Final Settlement for 2005-06 was to be announced to Parliament on 02 February. In the event, and with only an hour's notice, the Final Settlement was announced to Parliament earlier today (27 January). There were no material changes to the overall Settlement other than the minor changes which always arise from the finalisation of the tax base and capital allocations, which take place after the announcement of the Provisional Settlement. There were no changes in the figures announced for the policing service in general although there were some changes for Cumbria Police Authority, for which the individual Authority tables are not yet available. There was a reduction in the Authority's spending requirement (for grant calculation purposes) of £8,000, and a reduction of £34,000 in Revenue Support Grant. But this is offset completely by a compensating increase in the grant protection, thus giving a neutral position overall. These figures are summarised in Appendix 4.

3.2 Appendix 5 attached has been prepared on the same basis as that presented to Members in December, but incorporates the final tax base and surplus on collection reported below. Each of the six budget illustrations shows the level of savings which must be made by the Constabulary to achieve an overall budget within the constraints illustrated, compared to a "continuation of service" budget of £89.500m.

4. Representations made to Government on Provisional Settlement.

4.1 Following the approval given by the Authority to the draft representations, and after consultation with the Chairman, the representations attached at Appendix 1 were made to ODPM and copied to the Home Office. Replies from both departments are in similar vein and are attached as Appendices 2 and 3.

4.2 In receiving the reply from ODPM I have written pointing out that it is inaccurate to claim that the Authority will *benefit from a 4.1% grant increase* in 2005-06, since £219,000 is specifically to offset the loss of grant being recovered by the Government following the Amendment Report on the 2003-04 Settlement. The true increase on a like for like basis is 3.75% - the minimum increase for Police Authorities.

5. Capital Grant and Supported Borrowing in 2005-06

5.1 The Home Office announced details of funding available to support capital expenditure in a letter to Chief Constables on 14 January. Nationally, total capital provision for Police Authority's amounts to £215m, an increase of £25m over 2004-05. The national total again includes £5m for air support, but unlike 2004-05, does not include £20m for IT support to front line policing. So far as Cumbria's allocation is concerned, the figures are set out in the table below, together with the corresponding 2004-05 figure, for comparison. As in previous years, the use of general capital grants is not restricted to the year of allocation. In making these allocations, the Home Office has advised that the increase is intended to support Authorities in dealing with the pressures on their net revenue

budget requirements, by reducing the amount needed from revenue to fund capital projects.

5.2

Form of finance	2004-05	2005-06	Change
	£000	£000	£000
Capital grant – general	706	1,051	345
Capital grant – IT	156		(156)
Borrowing Approval / Supported expenditure	593	621	28
Total	1,455	1,672	+217

5.3 In addition, in 2004-05, the Constabulary received a major ad hoc grant allocation of £1.550m towards the implementation of the Case and Custody IT requirements.

6. Tax Base and Collection Fund Surplus for 2005-06.

6.1 The declarations of their tax base for 2005-06 by Cumbria’s Billing Authorities and Collection Fund surpluses declared for the current year, are shown in the table below, compared to the figures for this year’s budget.

Cumbria Police Authority				
Tax Base - BAND 'D' Equivalent Properties and Council Tax Surplus				
Council Tax Base	2004 - 05 Declared Surplus £.p	District Council	Council Tax Base	2005 - 06 Declared Surplus £.p
31,281.55	43,757.00	Allerdale	31,516.52	22,452.00
21,090.42	31,858.00	Barrow	21,146.24	-353.58
32,803.63	61,205.00	Carlisle	32,622.92	58,951.00
21,543.68	24,765.00	Copeland	22,030.47	47,792.00
19,796.26	25,000.00	Eden	20,100.61	12,000.00
44,790.47	31,835.00	South Lakeland	44,938.86	82,363.00
171,306.01	218,420.00	Total	172,355.62	223,204.42

6.2 The table shows a £4,784 increase in the overall surplus on collection from £218,420 to £223,204, in spite of the difficulties referred to in paragraph 7. The tax base has increased by 1,049 band ‘D’ properties, equivalent to an increase in tax yield of £157,000 at this year’s band ‘D’ level of £150.28. But the tax base falls slightly short of the assumption of 172,500 made in the report presented to the December meeting of the Authority and discussed in the Budget Workshop

on 19 January, compared to the improved figure of £173,083 which would have been the case, but for the reasons described in paragraph 7.

7. Impact of storms on tax base for 2005-06

- 7.1 One of the impacts of the storms earlier in the month, is that a substantial number of houses in the centre of Carlisle are not capable of immediate re-occupation.
- 7.2 This has required the City Council as Billing Authority to recalculate its tax base for 2005-06 and a reduction of 728 has been declared in the equivalent number of band 'D' properties for 2005-06. This is equivalent to a loss of council tax income in 2005-06 of £109,000 to the Police Authority at the current tax rate of £150.28. In addition, in calculating the likely surplus on collection in the current year it has been necessary to reflect the reductions in liability over the remaining months of the current financial year to 31 March.
- 7.3 If the storms had occurred in the autumn or early winter period, the reduced figures would have reflected in the final returns made to Government. This in turn would have increased the Authority's grant support in 2005-06, and also that of the County and City Councils.
- 7.4 For this reason, a joint letter of representation, signed by Treasurers on behalf of the three Authorities, has been sent to the Government, requesting special consideration.

8. Budget Proposals by the Chief Constable

- 8.1 Members will appreciate that the impact of the storms, the priority to preserve life and property, and recovering from the impact of the storms on the Authority's own estate and assets, has had a disruptive effect on the Constabulary's documentation of the final stages of the budget process.
- 8.2 The earlier (than anticipated) announcement of the Final Settlement and the continued emphasis by the Government on council tax increases averaging less than 5%, will assist the Acting Chief Constable to finalise the documentation of the Constabulary's budget proposals for 2005-06, including the savings identified and the supporting risk analysis, those inescapable growth items, and the proposed capital programme.
- 8.3 We remain confident that the final budget report can be issued to Members by 03/04 February for consideration on 10 February as currently timetabled.

Douglas Thomas
Treasurer
27 January 2005

Christine Twigg
Acting Chief Constable

Appendix 1.

Mrs Nikki Hinde
ODPM
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In case of enquiry please
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Our Ref: DT/103

Your Ref:

Date: 05 January 2005

Dear Mrs Hinde

Cumbria Police Authority Response to Secretary of State re Provisional Grant Settlement 2005 – 06 and Amending Report 2003-04.

Further to your letter of 02 December 2004, I set out below the Authority's comments and observations on the Provisional Settlement for 2005 – 06 and related matters, as approved at its meeting on 16 December 2004.

Cumbria Police Authority welcomes the draft proposals for *total* spending and grant support in respect of *local government* services in 2005 – 06 compared to those announced under Spending Review 2004. However, the Authority would wish to register its disappointment that full recognition has not been given to the committed levels of expenditure for *policing* services - whether at national, or at local Police Authority level.

The APA in its 2004 Spending Review Submission demonstrated cost pressures of the order of 5.7% (including inflation, pensions, IT and other technological developments arising from government initiatives) whereas the Settlement proposes a spending increase for grant distribution purposes of broadly 4.5% for those elements of the service supported by formula grant and council tax. This shortfall will require Cumbria Police Authority to achieve cashable savings of the order of £800k on current service provision, in order to deliver the low council tax increase required by the Settlement and compared to the Authority's "nominated amount" arising from the 2004-05 budget. In addition, it is anticipated that savings of up to a further £600k may be required to fund those inescapable growth commitments which will enable the Constabulary to respond to Home Office and government initiatives, including particularly Record Management Systems, post Bichard.

Unlike services provided by either a County or District Council, Police Authorities are single service providers, working to a statutory National Policing Plan, with little in the way of discretionary expenditure. The inevitable result is that local (Police Authority)

tax levels must increase beyond the expressed expectations of government if current levels of service are to be maintained; or else their services must be reduced to enable the reductions in expenditure which will be required to achieve council tax increases below the level of service cost pressures. Employment and associated costs account for almost 90% of total service costs, reducing yet further the scope, or margin for manoeuvre available to reduce costs without reducing services.

Cumbria Police Authority supports the concept of grant floors at the margin, and has been a beneficiary of the grant floor for both 2004-05 and 2005-06. Even so, concern must be expressed on the proposal that, in calculating any grant-floor protection in the 2006-07 Settlement, its measure will be taken from a level of grant which is 3.5% above the level of grant paid in 2004-05 - rather than the figure of 3.75% which is to be the basis of the grant floor for 2005-06. This feature alone could cost the Authority a loss of grant in the order of £150,000 in 2006-07.

Whilst the Authority is committed to continue to play its part in helping to deliver efficient and effective local services, it believes the Government must also ensure that there is no confusion in relation to the cashable service efficiencies to be yielded from the 'Gershon Review' - where a target of £6.45bn efficiency gains has been set for Local Government in the three-year period to 2007-08 with a target of £645m for the Police service. Annual efficiency savings have of course been a formal feature for the police service since 1999 and an area where this Constabulary is proud of its sustained track record of successful delivery. However, the decision to increase the tariff in 2005-06 from 2% to 3%; out of which 1.5% (previously 1%) must be cashable, is one which in this climate, will represent a daunting additional challenge. With a policy requirement on the one hand that the cashable element of efficiency savings should be re-invested in front line policing measures, whilst on the other the Authority being required to hold tax increases below the level of service cost increases (all at the same time as funding new and other pressures of an inescapable nature), this means we find ourselves in an exceptional bind. Indeed, in our respectful view, the point has finally been reached where these competing contradictions have finally become incompatible and unsustainable.

The Authority wish to take this opportunity again to draw attention to its view that some of the specific grant rules are inappropriate and unhelpful. Whilst the resources provided by the Rural Grant and Crime Fighting Funds are a welcome addition in assisting the Authority sustain its services over a very large and sparsely populated County, the Rural Funding grant has not been updated for inflation since its introduction in 1999-2000 whilst the Crime Fighting Fund has not been updated for 2005-06. Thus the full inflation cost of sustaining the additional officers provided from these grants in 2005-06 will fall as a first charge on the Authority's wider resources. The cost to the Authority of inflation-proofing these two tranches of funding alone, is equivalent to the annual cost of four officers.

In the same vein, there is a perverse consequence to our qualifying for the full allocation of Crime Fighting Grant from the requirement which demands the Constabulary has no fewer officers at the year end than it had at the previous year end. As demonstration, this Police Authority's budget has been 'nominated' specifically because of extra costs

incurred by the Authority through increasing its officer strength by 70 additional Local Policing Team officers in pursuit of a nationally-lauded approach to Community Policing. Yet this Authority is at the same time being prevented from retreating from that higher establishment figure which has incurred the extra cost in question because its Crime Fighting Grant would be reduced, pound for pound, to reflect any reduction occurring in officer strength. As a result, this Authority would particularly like to see some relaxation in this rule, even if the benefit were to be capped.

Cumbria Police Authority welcomed the specific grant support for the introduction of the “Airwave” initiative but assumed at the time that this support would be ongoing rather than for a limited introductory period of three years only, the balance of which to be reflected as a single payment in 2005-06. However, as its recent correspondence has sought to illustrate, the Authority still retains a grave concern at how the ongoing full year cost, estimated at £1.6m for this Authority, is not reflected in the Settlement and will leave the Authority unlikely under present distribution arrangements to receive an appropriate share of grant in the future, towards the continuing operational costs of this important initiative.

The Authority welcomes the decision of government to ‘dampen’ and so neutralise the impact of their decision to issue an Amending Report in respect of the 2003-04 Settlement. However, in a period of constraint, cash-limited budgets and grants, and a requirement to act prudently, Authorities should not be faced by the threat of retrospective reductions to previously approved grant Settlements. Government is therefore respectfully asked to give an early assurance as part of the Final Settlement announcement for 2005-06 that, if it should decide to issue an Amending Report for 2004-05, it will again use appropriate mechanisms to ensure that Authorities are protected from any excessive impact. If this assurance is not given, this will be another limiting factor on expenditure and may require Authorities to take a rather more robust view as to the appropriate level of balances needing to be maintained against the potential for future grant loss when they set their overall budgets for 2005-06.

Yours Sincerely

Douglas Thomas
Treasurer