

WARWICKSHIRE POLICE AUTHORITY
23 February 2009

**Medium Term Financial Planning Strategy including
2009/10 Revenue Budget and 2009/10 – 2013/14 Capital
Programme and Reserve Strategy**

**Joint Report of the Chief Constable, Treasurer to the
Authority and Chief Executive of the Authority**

Summary

1. This report sets out the Medium Term Financial Planning Strategy (MTFPS) and makes recommendations on the 2009/10 Revenue Budget and Council Tax, the Capital Programme and funding strategy and the Reserves Strategy.
2. Development of the MTFPS has been an integral part of the service planning process which shaped the Policing Plan that is addressed elsewhere on this agenda

Recommendations

1. The Authority are recommended to approve:
 - a. A Net Revenue Budget of £93.588m for 2009/10 as detailed in **Appendix 9**
 - b. The use of £5.510m Reserves to support the 2009/10 budget of which £0.754m will be used for one-off purposes.
 - c. A Budget Requirement for 2009/10 of £88.078m, in line with the maximum set by the Government as part of the 2008/09 capping determination and a Budget Requirement of £90.909m for 2010/11 in line with the Government determination.
 - d. A Council Tax for a Band D property of £171.22p an increase of £6.54p (3.97%), equivalent to a weekly increase of just 12.5p calculated as follows:

	£
Budget Requirement	88,078,000
Less Police Grant	32,648,789
Less Formula Grant	<u>21,496,325</u>
Sub Total	33,932,886
Add Collection Fund Deficit	<u>55,873</u>
Amount to be raised by Council Tax	<u>33,988,759</u>
Divided by Aggregate Council Tax Base	198,514.13
Basic Amount of Council Tax at Band D	£171.22p

- e. The consequential Council Tax for each property band will be as follows:

Band A (6/9 th)	£114.1439
Band B (7/9 th)	£133.1679
Band C (8/9 th)	£152.1918
Band D	£171.2158
Band E (11/9 th)	£209.2638
Band F (13/9 th)	£247.3117
Band G (15/9 th)	£285.3597
Band H (18/9 th)	£342.4316

- f. That the Chief Executive to the Authority be authorised to issue Precepts Notices on the Warwickshire billing authorities as follows:

	£
North Warwickshire Borough Council	3,624,945.33
Nuneaton & Bedworth Borough Council	6,648,481.40
Rugby Borough Council	5,973,250.73
Stratford-on-Avon District Council	8,788,550.70
Warwick District Council	8,953,530.84
TOTAL	33,988,759.00

- g. The Sustainability Strategy as set out in **Section 7** below.
- h. The Reserves Strategy as set out in **Section 8** below.
- i. The revised Capital Programme and funding arrangements as set out in **Section 10** below together with the Prudential Indicators detailed in **Appendix 10**
- j. That Officers be instructed to comply with the prescriptive legal duties placed upon the Authority and the Chief Executive and Monitoring Officer be asked to advise of any instances in which they consider that the implementation of policies should be amended to ensure compliance with requirements.

- k. That all Officers be instructed to exercise tight budgetary control. No overspending of the aggregate 2009/10 budget will be authorised and caution will be exercised in entering into expenditure which creates additional commitments in future years. The Authority will be kept fully informed of the financial position throughout the year.
2. That in approving the budget, the Authority notes the Treasurer's comments in **Section 11** in respect of the robustness of the budget and the adequacy of reserves.

1. Introduction

- 1.1. The Medium Term Financial Planning Strategy (MTFPS) provides the strategic context for annual revenue and capital budgets, decisions on Council Tax, and savings and investment plans. It provides the overarching framework for the development of the strategic plan, the Policing Plan, and has been developed in conjunction with the Policing Plan.
- 1.2. The Policing Plan, which is set out in a separate report on this agenda outlines:
 - Our Vision of "Protecting our communities together".
 - Describing what protection means to us and how by working with others we will realise our vision
 - The foundations upon which we have built our policing service and our current organisation structure
 - Our approach to delivering confidence and equality
 - How we will protect our communities from harm
 - The role of our directorates and our partners in delivering protection
 - How we will monitor the progress being made
- 1.3. We remain committed to protecting our communities from harm by which we mean death, injury, loss and distress. We will continue to do what's right for the people who live in, work in, visit and travel through our county and will address the needs of local people whilst also protecting them from the harm caused by serious and organised criminality. We are committed to delivering more protection and further increasing the trust and confidence local people have in our services.
- 1.4. In developing our vision it was important for it to be capable of identifying and addressing the local, regional, national or international issues that impact on the quality of people's lives. In protecting communities from harm we mean:
 - Reducing the number of people killed on our roads or by crime
 - Reducing crimes of violence and road injuries
 - Protecting people from loss, such as having their possessions stolen
 - Protecting against distress: giving individuals and communities confidence to go about their lives without fear
- 1.5. Within the constraints of the Government determination and the challenges that poses for the delivery of the financial strategy, we are confident that we can deliver more protection than we did last year. We anticipate that that this will result in people's trust and confidence in our ability to protect them increasing. We believe

that the innovative approach to policing, outlined in the Policing Plan, will significantly improve the quality of life experienced locally, especially for those people who suffer disproportionate levels of harm. We are confident that all of our people understand their role in managing the risk of harm and delivering the appropriate protection.

1.6. We recognise that we can't deliver the protection that our communities deserve single-handedly. That is why we are committed to working with those organisations that share our vision. By working with others, we are confident that we can improve the quality of life experienced by our communities. Local people, community groups, local businesses and voluntary and statutory agencies all have a role to play in identifying, agreeing and delivering against community-specific priorities which address the things that really matter to local people. As we move forward, our Safer Neighbourhood teams and the multi-agency Localities meetings have a crucial role to play in reducing the harms gap that exists across our communities and enabling us to enhance the protection that we deliver. We remain committed to working with others, however we will only participate in those partnerships that will better protect people and communities from harm.

1.7. Our Mission. Warwickshire Police exists to protect communities, prevent and reduce crime and antisocial behaviour and provide public reassurance.

- We take pride in serving our communities and delivering local policing in order to earn the trust and confidence of the public
- We will recognise what we are good at and work to strengthen where we are not
- We will ensure that our people are well trained, highly motivated and empowered to provide excellent service delivery
- We will strive to provide a consistent and focused approach to listening and responding to our communities concerns and protect them from harm, loss or distress
- We aim to achieve this by providing strong leadership and working together to find solutions to local needs

1.8. Our values are: We all work for the communities of Warwickshire. Together we will live our vision and values. We will:

- Be accessible to the public and increase our visibility and contact with communities
- Respond to requests for assistance by providing the right service, promptly, effectively, at the first time of asking and honouring our commitments and promises
- Expect high standards of appearance and behaviour
- Treat everyone fairly with respect and dignity, maximising and promoting diversity
- Constantly seek opportunities to be more effective and efficient through partnership, collaboration and new ways of working
- Ensure that we are professional, responsive and caring, acting with integrity, being straightforward, open and honest
- Develop, support and empower our people to make courageous decisions and learn from experience
- Set clear objectives and explicit standards for our staff, underpinned by our Performance and Development Review system, recognising and rewarding good performance
- Put communities first by listening, understanding and responding to their needs

- Expect people to take personal ownership and responsibility for solving problems and delivering a quality service
- Lead with confidence; consistently challenge unacceptable performance, behaviour and standards within a supportive environment
- Proactively solve problems, plan for the future and focus activities on successful outcomes

1.9. In designing a force capable of realising our vision, we have developed and adopted four foundations upon which our policing services are based. They are:

- **A focus on protection:** All our officers, staff and volunteers come to work to protect people from harm. Our vision, mission, values and performance framework are designed to ensure that we deliver. Where we can prevent harm, we will. Where we cannot we will seek to minimise its impact
- **An integrated workforce:** Policing will be delivered by an integrated and diverse workforce of police officers, staff and volunteers that is well-led, motivated and developed which possesses the necessary blend of professionalism and experience. Irrespective of their individual roles all of our people will be focussed on delivering or actively supporting the delivery of protection
- **Guaranteed local policing:** All harms occur in a community. Local policing is the foundation upon which we will police, supported by specialist advice, assets and people with specialist skills. We will work hard to increase the trust and confidence local people have in our services, so they will help us to deliver the protection they need
- **The right policing response:** We will respond to public demand for highly visible policing and balance this against our continuing requirement to address threats such as terrorism and serious and organised crime, which require a more covert approach. We will invest in the right partnerships and continue to contribute to policing regionally and nationally, when protection is best delivered at those levels

1.10. As part of the Policing Green Paper 'From the Neighbourhood to the National', the Home Secretary launched the Policing Pledge. Equating to a number of service standards, across various activities, our Pledge has been successfully implemented. We are, however, continuing to identify ways to further improve our services. Our Pledge is underpinned by a series of Safer Neighbourhood team-specific community-agreed priorities. These multi-agency priorities, which are regularly reviewed and updated, are agreed following local consultation.

1.11. Our service delivery model, has been built upon the following principles:

- Delivering affordable, acceptable and ultimately sustainable policing
- Providing a greater protective services capability
- Implementing a 'no BCU' structure
- Centralising and rationalising support services

1.12. As part of the 150 forward change programme, we undertook a root and branch review of the whole organisation to reengineer Warwickshire Police to provide an affordable, acceptable and sustainable level of service. Through the Sustainability Strategy outlined later in this report we will continue to review the way we deliver our services so we can maximise our efficiency and effectiveness. This will include looking at how we can continue to modernise our existing working practices and

ensuring the existence of clear lines of accountability addressing the range and quality of the services we deliver.

- 1.13. Our commitment to embedding a 'one workforce' philosophy continues to see police officers being deployed into those roles requiring the use of police powers. However, appropriately skilled police staff are also being used more widely. As well as increasing the range and diversity of opportunities available to our police staff, this philosophy continues to ensure that we maximise organisational flexibility.
- 1.14. In developing the Policing Plan and the MTFPS and budget that supports it, our aim has been to set a Good and Balanced Budget.

A **balanced budget** means that:

- Income equals expenditure
- Savings targets and Investment proposals are realistic and achievable

A **good budget** means that:

- It has a medium term focus, supporting the Policing Plan
- Resources are invested in priority areas
- It is not driven by short term fixes to immediate issues
- It demonstrates how we have listened to consultation
- It is transparent and well scrutinised
- It maintains our financial stability

- 1.15. In addition to the consultation and service planning that has underpinned the development of the Policing Plan this year a budget working group was established, comprising the strategic leadership from both the Authority and the Force to ensure that the Financial Strategy and detailed resources allocations truly reflected this aim of a good and balanced budget.
- 1.16. The approach to setting the budget continues to be one of setting the overall size of the budget on the basis of what is affordable to provide an overarching framework to the development of the Policing Plan. This year the designations arising from last year's council tax capping regime has added a further dimension to determining the overall budget and the resultant council tax implications.
- 1.17. In light of the constraint to the overall size of the budget imposed upon Warwickshire Police by the Government's capping "determination" and to ensure that we achieve the aim of a good and balanced budget we have reviewed our reserves strategy and introduced a Sustainability Strategy with the aim of reducing the waste and inefficiency within the organisation to unlock cash in the base budget that can be released to support our priorities and help address the challenges we face.
- 1.18. It is in the light of all of this that we believe that the budget and council tax recommendations should be judged.

Summary

- 1.19. The MTFPS and budget are simply a statement of the Policing Plan in financial terms. The details have therefore emerged over the last few months as the Policing Plan has been developed and refined, particularly in response to local consultation through our Partners and Communities Together (PACT) panels, which have been incorporated into the new countywide 'Localities' meetings.

1.20. The headline figures are:

- A maximum budget requirement for 2009/10 of £88.078m and a target of £90.909m for 2010/11 set by Government as part of the Council Tax capping designation
- A Formula Grant allocation of £21.496m, an increase of £0.419m (2%), which is in line with our planning assumptions
- A provisional grant allocation for 2010/11 of £21.952m reflecting an increase of 2.1%
- A Police Grant allocation for 2009/10 of £32.649m, an increase of £0.958m (3%), which is in line with our planning assumptions, and a provisional allocation for 2010/11 of £33.634m, an increase of 3%.
- A net Revenue Budget for 2009/10 of £93.588m
- A Sustainability Strategy targeted at delivering £4.5m base budget savings over the next three years.
- The 2009/10 revenue budget is supported by £5.510m from Reserves of which £0.754m will be used for one-off purposes.
- The 3 year Medium Term Financial Planning Strategy relies on general support of £12.125m from reserves.
- A five-year capital programme involving investment of £60.223m. This does not include the full cost of the potential development of the Leek Wootton complex or the Partnership spending on the Southern Justice Centre.
- Borrowing of £41.688m to finance the five-year capital programme plus further borrowing of £5.659m to finance the Authority's contribution to the Southern Justice Centre.
- A proposed Council Tax at Band D of £171.22p, an increase of 3.97% equivalent to a weekly increase of just 12.5p.
- An increase in the Council Tax base of just 0.2% with little prospect of further increases in the near future
- The Police Authority's share of the Collection Fund deficit is £55,873, which has to be recouped through the Council Tax.

1.21. Section 25 of the Local Government Act 2003 places a requirement on the Chief Finance Officer to report to the Authority on:

- The adequacy of reserves
- The robustness of the budget

1.22 The Authority must have regard to this report when making budget decisions. The Treasurer's comments are set out in Section 11. Given the degree of review and scrutiny that has already taken place, and especially the involvement of the Budget Strategy Working Group, which included as an observer the Chair of the Audit Committee, the review of the reserves strategy and the risk based assessment of the level of the general reserve this does, in the Treasurer's opinion, provide the reassurance required under Section 25 of the Local Government Act.

1.23. We would like to thank the Budget Strategy Working Group, Members, ACPO, colleagues throughout Directorates and the finance team for their help and support in developing what has been a very challenging budget and MTFPS.

2. Local Government Finance Settlement

2.1 The provisional settlement was announced on by John Healey, Local Government Minister, on 26 November 2008 and was broadly in line with the indicative figures announced as part of the 2008/09 settlement. The key issues and headline figures

arising from the settlement were set out in 'Finance News' on 26 November 2008 and subsequently reported to the Authority. The Minister of State confirmed the final settlement figures on 21 January 2009. These figures are set out at **Appendix 11**.

- 2.2 In setting the 2008/09 budget, the Police Authority increased Council Tax by 12.87%. Subsequently the Government identified the Authority as a candidate for capping through the application of the capping criteria, a decision the Authority appealed against. The outcome was that the Government decided not to cap the Authority in 2008/2009 but to designate the Authority.
- 2.3 As part of the settlement process we were informed that the Government had set a target budget requirement for 2009/10 of £87.495m with a maximum of £88.078m and, should the Authority set a budget requirement for 2009/10 above the target, it would face a maximum budget requirement for 2010/11 of £90.909m. This effectively sets the council tax increase for the Authority for the next two years. As Members will be aware the Authority decided not to appeal against the determination.
- 2.4 Whilst this year's settlement does provide some certainty of government support for the next two years it should be recognised that the figures included in the settlement for 2010/11 are provisional and in the current economic climate there is the possibility that the government will deviate from their current plans. In terms of the third year of the MTFPS (2011/12) it is extremely difficult to forecast the likely level of government support. At this stage the MTFPS has been developed on the basis of a 2% grant increase in 2011/12 however it should be recognised that there is a risk that the actual grant increase could be below this sum. For information a 1% change in grant equates to around £0.556m.

3. 2008/09 Revenue Monitoring

- 3.1 A separate report on this agenda provides a detailed update on the current year's revenue budget. In overall terms the latest forecast suggests an under spending of £3.2m. However, whilst this will enhance the Authority's reserves position it is primarily due to one-off items and will not therefore have a significant impact on the underlying base budget spending levels.
- 3.2 The key variations are;
 - Westbere (Atherstone fire fighters death) – As reported in December the Authority has received an initial Home Office grant of £3.045m towards funding the investigation. Spending in the current year is forecast to be in the order of £0.923m, which means the net balance (£2.122m) is available to go some way towards replenishing the reserves used to fund the expenditure last year. Expenditure to date currently stands at £3.735m in total, of which £2.855 relates to 2007/08. The indications are that further grant funding may be made available for the final phase of the investigation and a business case is being prepared in support of a further grant bid.
 - Bulldog Bash – A one off provision of £1.444m, funded from reserves, was made in the current year's budget for the cost of policing this event. The latest forecast suggest that the actual costs will be in the order of £0.960m leaving a potential under spend of £0.484m, which can be returned to reserves.
 - Service Developments – Delays in implementing various projects means that there will be an under spend in the current year of £0.437m. However, these resources will need to be carried forward to meet the costs of completing the projects in 2009/10.

4. Base Budget Review

- 4.1 In light of the threat of capping last year and the resultant designation decision, which has effectively “capped” the Authority’s budget and Council Tax for the next two financial years a detailed review of the base budget has been undertaken. Additionally, in response to the difficult financial prospects facing the Authority in the medium term, a Budget Strategy Working Group has been established, comprising the Strategic Leadership team from both the Authority and the Force, to review the base budget and develop a prudent, sustainable and affordable medium term strategy. To provide additional scrutiny to the process the Chair of the Audit Committee has attended meetings of the working group.
- 4.2 In addition, Members have had the opportunity to oversee the development of the Policing Plan and MTFPS and to shape the emerging budget at Budget Seminars in July, December and February. The Policing plan and supporting financial strategy has also been the subject of detailed debate at regular business planning workshops involving Members and senior managers.
- 4.3 The base budget proposals presented in this report were finalised following the Member seminar on 11 February. The table below summarises the base budget for the next three years and the key issues are discussed in the following paragraphs.

BASE BUDGET SUMMARY

	2009/10 £'000	2010/11 £'000	2011/12 £'000
2008/09 Base Budget	90,113		
Less one-off items	3,212		
Adjusted Base	86,901	93,584	96,853
Police Authority	126	16	16
Recruitment Strategy	300	85	(45)
Inflation	2,537	2,083	2,063
Known Commitments	570	(35)	(43)
Other Pressures	1,946	680	50
Capital Programme	2,258	920	1,375
Workforce Development	(300)	(180)	(180)
Sub total	94,338	97,153	100,089
Less Earmarked Reserves	754	300	300
Total	93,584	96,853	99,789

One-Off Items

- 4.4 The 2008/09 budget included the following one-off projects funded from reserves:

Force Reorganisation	£300,000
Body Armour	£444,000
Bulldog Bash	£1,444,000
Repair and Maintenance	£974,000
HR Strategic Collaboration	£50,000
TOTAL	£3,212,000

- 4.5 It should be noted that no provision has been made in the on-going base budget for the cost of policing the Bulldog Bash. Should this event go ahead in future the resources deployed in policing the event would be created by re-directing resources from other front line policing activities.

- 4.6 Some £2.8m had been set aside in an earmarked reserve to address the backlog maintenance issues at the Leek Wootton complex, with £0.974m work scheduled to be undertaken in 2008/09. This work was put on hold pending the outcome of the planning application in respect of the development of the site. Although some essential maintenance has been undertaken in the current year the bulk of the programme has not been pursued.
- 4.7 In light of the recent successful planning application the opportunity has been taken to review the programme of works and focus solely on essential works needed to maintain the buildings in a “safe, secure and water-tight” state. This has resulted in the programme being reduced to £1.450m over the next four years. However, there is a risk that additional works will be required should the fabric of the buildings deteriorate. In addition should the development project not go ahead the Authority would be faced with a significant backlog maintenance pressure to return the buildings to an acceptable standard. The project appraisal for the development of the site is currently being developed and it is essential that the “do nothing” option takes account of this potential cost.

Police Authority

- 4.8 The base budget proposals reflect an increase in the Police Authority Budget of £0.126m to £1.040m. Full details of the year on year variations are set out in **Appendix 1** with the key issues being:

- Members Allowances – These allowances have not increased for some years and in December the Independent Remuneration Panel recommended an increase to reflect price increases over that time. This has resulted in a year on year increase of £24,000, however Members decided that the proposed increase should not be backdated.
- Internal Audit Fees - The Audit Committee have recommended an increase in the number of Audit days contained in the Internal Audit plan at an additional cost of £25,000. In addition, a further £5,000 has been set aside for possible Internal Audit support on key projects and initiatives such as the Financial Management Review.
- Consultation Strategy – At its meeting in December the Authority approved a consultation strategy to ensure that it is able to more effectively engage with partners, other key stakeholders and the community generally. Provision of £50,000 has been made to implement this strategy.

Recruitment Strategy

- 4.9 As referred to above a key element of the Policing Plan is our commitment to continuing to embed a ‘one workforce’ philosophy. The key driver of this approach is to ensure that we have the right number of people, with the right skills in the right place and at the right time. However, while police officers will continue to be deployed into those roles requiring the use of police powers the opportunity is being taken to utilise the appropriately skilled police staff more widely. As well as increasing the range and diversity of opportunities available to our police staff, this philosophy continues to ensure that we maximise organisational flexibility and thus ensures we deliver the most protection from harm possible with the resources available.
- 4.10 Provision has been made for the annual employment cost of police officers and police staff, which have been adjusted for anticipated retirements and other leavers. In addition, a recruitment strategy has been developed which takes account of the time it takes to train a student officer. The implementation of more sophisticated modelling

will ensure that, as far as possible, we will have sufficient police officers with the appropriate powers to reflect the approved people plan. Given a minimum training period of 30 weeks it will inevitably mean that on occasions the combined number of student officers and warranted officers will exceed the people plan and provision of £300,000 has been made in the 2009/10 budget, rising to £385,000 in 2010/11, to meet the extra costs involved.

Inflation

- 4.11 Provision has been made in the base budget for the cost of pay awards and contractually committed price increases such as the increased cost of energy and fuel arising from the renewal of contracts this year together with anticipated increases in 2009/10.
- 4.12 Provision has also been made for the additional income likely to be generated from the recently approved fees and charges.
- 4.13 In light of the economic climate and current inflation forecasts no provision has made for the impact of potential price increase in other areas which effectively means that budget holders will be allocated cash limited budgets.
- 4.14 **Appendix 2** provides details of the provision made for inflation.

Known Commitments

- 4.15 Provision has been made in the base budget for the full year effect of previous decisions such as the creation of the Major Incident Unit. Provision has also been made for other known commitments such as the cost of increments although these costs are offset by the savings that arise when people leave the organisation. Typically, retirees tend to be at the top of the grade and are normally replaced by staff at the bottom of the grade. In addition, new police officer recruits tend not to be entitled to certain allowances. Full details of these known commitments are provided in **Appendix 3**.

Other Pressures

- 4.16 It is inevitable that the Authority faces various pressures that emerge during the year. This is particularly so this year where the current economic climate has had previously unforeseen implications for the Authority's finances.
- 4.17 One illustration of this is the Interest the Authority receives on its investments and cash balances. Traditionally, interest rates on the short-term money market have tended to exceed expectation, generating extra income for the Authority. However, the collapse in the short term money market has seen the interest rates the Authority has been receiving fall from an average rate earned for the first six months of the current year of 5.3% to around 2.5% in December and as little as 1% more recently. The base budget in the current year for interest on balances was £2.2m and it is suggested that, as a minimum this should be reduced by £1m in 2009/10 with a further reduction of £0.5m in 2010/11 to reflect not only this uncertainty but the fact that the proposed reserves strategy will reduce the level of reserves and therefore the level of cash available to be invested.
- 4.18 The current economic conditions, coupled with recent case law means that the we are likely to see a reduction in Events income, there will, in some cases, be a corresponding reduction in marginal costs in policing such events.
- 4.19 Overtime activity in recent years has seen overtime costs exceed budgets. For example the latest forecast for the current year indicates that there will be an over spend of around £1.2m on overtime. It is proposed to make provision of around

£350,000 in the budget towards alleviating the position. It is anticipated that the changes arising from Operation Rome, the review of the shift patterns, the recruitment strategy and improved succession planning will make significant inroads into reducing overall overtime costs. However, the position will be closely monitored to ensure that overtime does not place an unnecessary burden on the finances of the organisation.

4.20 Full details of these other pressures are provided in **Appendix 4**.

Revenue Consequences of the Capital Programme

4.21 Section 10 below discusses in detail the Authority's capital programme. The impact of the capital programme on the revenue budget has been reviewed and reflected in the budget, including the cost of financing the programme.

4.22 Further details are provided in **Appendix 5**.

Workforce Development

4.23 As referred to above the 'one workforce' philosophy reflects the aim of ensuring that we have the right number of people, with the right skills in the right place, at the right time. However, while police officers will continue to be deployed into those roles requiring the use of police powers, the opportunity will be taken to utilise appropriately skilled police staff more widely.

4.24 Significant benefits have already been achieved through the delivery of the 150 Forward "blueprint", which identified a number of opportunities where, at the appropriate time, changes to the current staffing mix could be introduced and the three year revenue budget strategy reflects the implications of completing that programme of review.

5. Developments and Other Issues

5.1 In addition to the base budget pressures referred to above that the Authority is facing there is also a need to invest in developments and new initiatives. The business planning process has identified three proposals that are invest-to-save and business cases are currently being developed for each of the proposals.

5.2 The first proposal is to increase the size of the Economic Crime Unit on the basis that any addition costs involved should be more than offset by the income from Proceeds of Crime.

5.3 The second is the proposal to create a Challenge and Innovation Team. As referred to elsewhere in this report the constraint to the overall size of the budget imposed upon Warwickshire Police by the Government's capping "determination" and to ensure that we achieve the aim of a good and balanced budget, we have reviewed our reserves strategy and introduced a Sustainability Strategy with the aim of reducing the waste and inefficiency within the organisation to unlock cash in the base budget so that it can be released to support our priorities and help address the challenges we face. The focus of the Challenge and Innovation Team will be to drive out these inefficiencies and waste.

5.4 The third proposal is the Financial Management Project. If we are to increase the grip we have on our finances and make best use of the resources we have to maximise the protection from harm we provide it is essential that we further develop our Financial Management regime.

- 5.5 It is suggested that the implementation of these initiatives is dependant upon the preparation of a robust business case justifying the investment. It is also suggested that once established the projects are regularly reviewed to ensure that they continue to deliver value for money.
- 5.6 As referred to in section 3 above the Authority is faced with further costs as it brings the Westbere investigation to a conclusion. The latest projections indicate further costs of between £0.5m and £0.950m to bring the investigation to a close and although the indications are that further grant funding could be made available there is no guarantee that such funds will be forthcoming. It is therefore suggested that an earmarked reserve be established to fund, at least in the interim these potential costs.
- 5.7 It is proposed that £1m be set aside from reserves to create an earmarked invest to save reserve and an earmarked Westbere reserve.
- 5.8 There is one other development pressure facing the Authority, namely the proposal to increase the contribution to the Local Area Agreement. While the Authority support the principle that further funding should be made available it is only prepared to do so if all partners contribute their share. In addition, the Authority believes that this increased contribution should not place an additional burden on the budget but that the contribution should be funded by re-directing resources from elsewhere.

6. Revenue Budget Overview

- 6.1 Normally the overall size of the revenue budget is determined by:
- The level of central government grant
 - The level of council tax
 - The level of support from reserves
- 6.2 As referred to in section 2 above the council tax capping “determination” has effectively determined the level of the Authority’s budget and consequently the Council Tax levels for the next two years and it is proposed that in recognition of the current financial picture the budget requirement is set in line with the maximum imposed by government
- 6.3 For 2011/12 the Authority will have more control over its overall level of resources but as discussed in section 2, the current economic climate and the possible implications of a national election mean that it is extremely difficult to forecast the level of government grant with any certainty. For planning purposes this three-year budget assumes a grant increase of 2% in 2011/12.
- 6.4 Similarly, the likely level of council tax income is also difficult to anticipate. There are three factors that influence the level of council tax income namely the council tax level, the tax base and the collection fund. Clearly the most important aspect is the actual council tax level, which will be influenced by both local and national pressures and possible changes arising from local and national elections. Clearly, local members aspirations will be important in determining the council tax level but central government’s view, especially in relation to capping, will also be of significance. In view of the lack of certainty in this area it is suggested that we continue to plan on the basis of a 5% increase for 2011/12 as proposed in last year’s budget report.
- 6.5 The tax base also influences the level of Council Tax income. This year the tax base has increased by 0.2% and it is proposed that we continue to plan on the basis of year on year increases at this level. However, the current state of the property

market and the slowdown in residential developments may mean that we see the tax base stand still.

6.6 The final factor is the Collection Fund, which has tended to be in surplus. However, this year the Districts have declared an overall deficit of £55,873 and it is suggested that we plan on the basis of a similar annual deficit over the plan period.

6.7 Based on these assumptions the following table compares the base budget (spending need) with the budget requirement (resources available) and reveals a potential funding gap of around £5.5m in 2009/10 rising to £5.9m in the following two years:

Budget Summary			
	2009/10	2010/11	2011/12
	£m	£m	£m
Net Budget	93.584	96.853	99.789
Budget Requirement	<u>88.078</u>	<u>90.909</u>	<u>93.864</u>
Funding Gap	<u>5.506</u>	<u>5.944</u>	<u>5.925</u>

6.8 There are two options for addressing the funding gap, to use reserves to support the budget, clearly this is not sustainable in the longer term and secondly to reduce the net revenue budget (spending need). The following paragraphs explore the opportunities for balancing the books.

7. Sustainability Strategy

7.1 The aim of a good and balanced budget is to set a budget that is acceptable (it delivers appropriate levels of protection from harm), affordable (that income equals expenditure), and sustainable (that we have sufficient resources to support acceptable levels of service in the longer term). Sustainability is therefore the key to a good and balanced budget.

7.2 To date Warwickshire Police has an excellent track record in ensuring it obtains value for money through efficiencies and reducing waste. For example in the current year the Authority has £2.419m worth of efficiency savings carried over from 2008/09 together with a further £2.312m achieved in year from a combination of workforce development and service review. Not all of this efficiency savings are “cashable” and those that are have already been reflected in the budget.

7.3 For 2009/10 and 2010/11 there will be further opportunities for efficiencies from various initiatives such as Operation Rome, the Service Review Programme and the Challenge and Innovation initiative. Whilst the creation of the Challenge and Innovation team will create a focus for pursuing efficiencies and driving out waste it will only be successful if every manager and every budget holder takes up the challenge and questions every spending decision they are making to ensure that their level of spending is both appropriate and necessary.

7.4 It is proposed that we set an annual cashable efficiency target for each of the next 3 years of £1.5m so that over the next three years we take £4.5m out of our underlying spending level. Clearly, it will take some time each year to deliver the savings and consequently it is proposed that we reflect the following savings targets in the MTFPS:

	Sustainability Strategy		
	2009/10	2010/11	2011/12
	£m	£m	£m
Savings Targets			
2009/10	0.750	1.500	1.500
2010/11	--	0.750	1.500
2011/12	--	--	0.750
Total	0.750	2.250	3.750

- 7.5 This would reduce the funding gap referred to in paragraph 6.7 to £4.756m in 2009/10, £3.694m in 2010/11 and £2.175m in 2011/12 and requires us to find £10.625m from Reserves to bridge the gap.
- 7.6 Corporate Development will lead on the implementation and delivery of the sustainability strategy through the Challenge and Innovation team and the Efficiency and Productivity Management Group (EPMG)
- 7.7 The remaining funding gap for 2012/13 will be £1.425m, plus the estimated £0.5m cost to finance the use of capital reserve to fund the budget deficit.

8. Reserves Strategy

- 8.1 For Member's information the Authority's Reserves and Balances Policy is reproduced at **Appendix 6** accompanied by a risk and sensitivity analysis at **Appendix 7**.
- 8.2 The Treasurer, with the Budget Strategy Working Group, which included Chief Officers and Members, have reviewed Reserves and Balances. A risk assessment of the appropriateness of the level of each reserve is included at **Appendix 8**.
- 8.3 In light of the potential pressures on the Insurance Reserve identified in **Appendix 8**, it is proposed that the level of the Reserve be increased by £0.500m.
- 8.4 The review of the backlog maintenance programme has identified a potential surplus of £1m in the Repair and Maintenance Reserve. However, this would reduce the maintenance programme to the absolute minimum and would leave the Authority facing a risk of significant structural problems especially if the Leek Wootton redevelopment does not proceed.
- 8.5 In considering the reserve position, the Treasurer with the Budget Strategy Working Group felt that, as the proposed strategy would leave the Authority with only the £2.0m of General Revenue Reserve to meet operational pressures and other unforeseen circumstances. This would leave the organisation at risk should there be an adverse variance against some of the assumptions in the budget strategy.
- 8.6 However, the proposals in respect of the Justice Centre set out in paragraph 10.17 below will, if approved, release a further £5.659m which will be available to respond to any of these risks should they be realised.

8.7 The following table summarises the proposed reserves strategy:

	£'000
Contribution to Insurance Reserve	500
Developments	1,000
Budget Support	<u>10,625</u>
Total to be met from Reserves	<u>12,125</u>
	£'000
To be met from:	
Budget Reserve	4,789
Capital Reserve	6,336
R&M Reserve	<u>1,000</u>
Total	<u>12,125</u>

Note use of capital reserve will increase level of borrowing to support capital programme resulting in increased debt charges of £0.5m p.a.

8.8 The Local Government Act 2003 requires the Treasurer as Chief Finance Officer to report on the adequacy of the proposed financial reserves. A Risk and Sensitivity Analysis of the areas that might impact is included in **Appendix 7**.

8.9 In light of the proposed change in the financing of the Authority's contribution to the Southern Justice Centre, which releases £5.659m to enhance general reserves, the Treasurer is of the view that this budget does provide for an adequate level of reserves.

9. Council Tax Implications

9.1 For the purpose of calculating the Council Tax, all liable domestic properties are divided into eight Bands dependent on their property valuation. The Police Authority is required to calculate a Council Tax rate for each Band.

9.2 The Council Tax is collected by Warwickshire's District and Borough Councils. They have notified the Authority of a net deficit on their estimates of Council Tax collection. The Authority's share of the deficit is £55,873, which will increase the council tax in 2009/10 by £0.28p for a Band D property. This compares with a reduction in tax in the current year of £0.06 for a Band D property arising from net surpluses.

9.3 A ready reckoner is set as follows:

- every 1% on the council tax will raise £326,287.
- every 1% on the council tax puts £1.64 on a council tax Band D property.

9.4 **Appendix 9** provides a summary of the Revenue Budget for the next three years and the anticipated amount to be met from Council Tax.

9.5 The potential Band D Council Tax for each of the years in the plan period can be calculated as follows.

	2009/10	2010/11	2011/12
	£'000	£'000	£'000
Budget Requirement	88,078	90,909	93,864
Less: Police Grant	32,649	33,634	34,307
Less: Formula Grant	21,496	21,952	22,391
Sub total	33,933	35,323	37,166
Add Collection Fund Deficit	56	56	56
Amount to be raised by Council Tax	33,989	35,379	37,222
Tax base	198,514	198,911	199,309
Band D Council Tax	£171.22p	£177.86p	£186.75p

Assumptions:

- Budget Requirement in 2009/10 and 2010/11 in line with maximum set by Government
- Central Government funding for 2010/11 in line with figures published in 2009/10 settlement
- Central government funding to increase by 2% in 2011/12.
- Council Tax base to increase by 0.2% in 2010/11 and 2011/12 (in line with 2009/10 increase)
- Collection Fund Deficit in 2010/11 and 2011/12 in line with 2009/10
- Council tax at Band D increases by 5% in 2011/12.

10. Capital Programme

- 10.1 Last year, following a rigorous process of review, the Authority approved a 5-year capital programme involving an investment of £52.174m in our assets built around the needs of the Force to protect people from harm and enable the delivery of the direction set out under the 150 Forward review.
- 10.2 This did not include the Justice Centre project or the Authority's agreed contribution to that project of £5.659m, which has always been reported separately.
- 10.3 Since the original programme was approved, it has been updated to take account of the final outturn for 2007/08 and the revised phasing of expenditure into the current year of £1.934m. The programme has also been updated to reflect any additional, externally funded projects such as the Mobile Data project and the Special Branch accommodation project.
- 10.4 As Members will be aware, elements of the programme were put on hold pending the outcome of the capping decision last year and this has resulted in a delay in the delivery of some projects. A small working group has now been established within the Force to monitor the delivery of the programme with the aim of accelerating implementation wherever possible. This group has completed its first review of the programme and has identified that there is a significant amount of current year spending that will need to be re-phased into subsequent years. The main impact on the Authority's finances is that planned borrowing will also be deferred into future years.
- 10.5 The following table provides a summary of the revised programme and the funding arrangements. The paragraphs following the table provide an explanation of the key issues.

	2008/09 £m	2009/10 £m	2010/11 £m	Subs Years £m	Total £m	Previously Approved £m
Property	2.349	6.626	6.598	13.339	28.912	28.884
Transport	1.106	1.221	1.298	2.072	5.697	5.922
Comms/IT Replacement	1.154	2.325	2.075	4.487	10.041	10.041
IM Strategy	0.936	2.654	1.948	3.902	9.440	9.440
Surveillance Equipment	0.031	0.016	0	0	0.047	0.047
Scientific Crime Technical Equipment	0.182	0.026	0.044	0.075	0.327	0.327
Sexual Assault Referral Unit	0	0.100	0	0	0.100	0.100
Southern Justice Centre	5.659				5.659	5.659
TOTAL	11.417	12.968	11.963	23.875	60.223	60.420
Funding:						
General Capital Grant	3.050	1.525	1.525	2.530	8.630	8.630
Capital Receipts	0.031	0	0.500	2.720	3.251	3.375
Specific Grants & Contributions	0.688	0.380	0	0	1.068	1.068
Borrowing	7.648	11.063	9.938	18.625	47.274	45.659
Capital Reserve	0	0	0	0	0	1.688
TOTAL	11.417	12.968	11.963	23.875	60.223	60.420

10.6 Although planned spending for 2013/14 has been included, it only relates to projects in the approved programme. Further provision will need to be made for regular elements of the programme such as Vehicle and IT replacement as well as regular recurring Property projects such as Disability Discrimination Act (DDA) work. Although the programme includes the costs of preliminary works in respect of the development of the Leek Wootton campus, the major costs have yet to be included. A full project appraisal is currently being developed and it is suggested that the overall 5-year rolling programme is reviewed and updated once this appraisal work has been completed.

Property Strategy

10.7 The programme reflects the Property Strategy approved last year although the overall cost of the programme has increased due to the inclusion of the Special Branch accommodation project at a cost of £85,300, which is being partially funded by grant of £43,500.

10.8 Delays in the progress of Rugby (due to an unexpected European tender requirement resulting from the need to consider additional optional requirements), Coleshill (which has been reprogrammed due to resource constraints) and Safer Neighbourhood projects (implementation has been slower than expected). These delays have resulted in £1.141m of expenditure planned for the current year being deferred until future years.

10.9 The programme includes around £4.750m in respect of the initial works at the Leek Wootton complex. A detailed project appraisal is being developed for the full project and it should be noted that the overall likely cost of the project could be in the order of

£11.5m. It is suggested that no building costs are incurred on this project until the project appraisal has been approved.

Transport

- 10.10 The economic downturn and the short-term closure of car assembly plants has affected the availability of specialist vehicles such as police specification vehicles, which are generally built to order. Consequently, there will be a delay in implementing planned vehicle replacements resulting in some planned spending in the current year being deferred until 2009/10.
- 10.11 The cancellation of the project to provide Superintendent and senior officer cars has resulted in a saving on the overall programme of £360,000. This has, in part been offset by increased costs due to the following:
- There has been an increase in the costs of the Small Cell vans used by the Force. This covers Force requirements and to meet higher safety standards.
 - Dog Vehicle specification has changed to a different vehicle. This solves the previous problems with the existing vehicles now being too small to meet demands and safe transportation of the dogs.
 - Replacement of the Armoured Land Rover. The budgeted cost has increased by over £40,000 from the estimated cost. In addition, there has been a small increase in some of the base vehicle prices in some of the police vehicle categories.
- 10.12 In August 2009, there is expected to be a new Home Office/NPIA Police Vehicle Supply Contract. This will have an impact on the five-year programme, and it will then need to be revised for the new prices that arise from that contract. At this stage, there is no clear indication on the effect of the individual vehicle prices.

Information Technology Replacement

- 10.13 With the rapid advances in technology and the Authority's increasing investment in hardware and software, the replacement programme has been designed to provide replacements at the appropriate time.
- 10.14 Although the overall cost of the programme is in line with the previously approved programme there has been a need to schedule some work into the future as a result of slippage. Slippage has arisen from 'capping' putting back planned projects involving capital spend, for example upgrades to systems involving Intelligence, Finance, Intranet and Call Statistics. Also the Force's ability to support such projects has been limited due to the need to commit to other projects relevant to delivery of the Public Contact Strategy. e.g. changes to business processes for Incident management, Crime Recording and Resource Location.

Information Management (IM) Strategy

- 10.15 The strategy was developed last year following full consultation with all aspects of the Force. Many of the projects are part of national initiatives but all have been evaluated in respect of delivering the Force's mission of protecting people from harm.
- 10.16 The programme has been updated to include the grant funded mobile data project amounting to £520,000. Although the rest of the programme is still in line with that previously approved there has been a need to reschedule some projects into future years as a result of slippage. The slippage has resulted from 'capping' putting back the start of all new projects, delay in the availability of equipment procurement framework arrangements from the National Identity Access Management project and more generally the Forces ability to support IT projects along with other initiatives in progress

Justice Centre

10.17 The approved 5-year capital programme does not include the cost of the Justice Centre, nor the Authority's contribution (£5.659m) to the capital cost of the project. This contribution will be reflected in the Authority's capital spending in 2008/09. The original intention was to utilise reserves specifically set aside to fund this contribution. However, in the light of the overarching financial strategy set out in this report, it is suggested that the reserve is set aside to augment the general reserves and that the contribution to the Justice Centre project be funded from borrowing. The cost of servicing this debt (approx £0.480m) is reflected in the increased size of the funding gap facing the Authority from 2008/09 onwards. The revised capital programme and prudential indicators assume that this borrowing will be taken in 2008/09 to demonstrate the effects this would have on the financial position of the Authority. However, the actual timing of the borrowing will be dependent upon the prevailing interest rates.

Capital Reserve

10.18 The Authority has a general capital reserve available to support the capital programme of £6.220m, of which some £1.6m was to be used to support the current years capital spending. The remainder of the reserve would have been available to support future capital investment in the Leek Wootton complex.

10.19 However, in light of the overarching financial strategy set out in this report it is suggested that the reserve is set aside to augment the general reserves and that the capital spending in the current year and the potential capital costs involved in the Leek Wootton development be funded from borrowing. The cost of servicing this debt (approx £0.6m) will increase the overall size of the funding gap facing the Authority in 2012/13.

Revenue Consequences of the Capital Programme

10.20 **Appendix 5** provides a summary of the revenue consequences, both capital financing costs and increased running cost associated with the projects contained in the capital programme.

Prudential Indicators

10.21 The Prudential Code sets out a number of indicators (estimates and limits), which all Authorities must consider when reviewing the capital investment plans. The Code requires the body responsible for approving the budget to also approve the Capital Programme and the Prudential Indicators. The indicators for the next three years are attached as **Appendix 10**.

10.22 Based on these indicators and the overall finances of the authority the capital investment programme, and the level of associated borrowing is considered to be affordable, prudent and sustainable.

11. Robustness of the Budget

11.1 The Local Government Act 2003 requires the Treasurer to the Police Authority report on:

- The robustness of the revenue estimates made for the purposes of the budget calculations.
- The adequacy of the proposed financial reserves.

11.2 Set out below is the statement by the Treasurer regarding the robustness of the budget and the adequacy of the reserves.

11.3 *“The budget information used in preparing this revenue budget has undergone extensive scrutiny by:*

- *The Budget Strategy Working Group*
- *Chief Officers and their staff*
- *The Director of Resources and his staff*
- *The Treasurer and his staff*
- *The Authority’s Resources Panel and Budget Seminars*

In addition, the development of the Policing Plan, Medium Term Financial Planning Strategy and budget has taken into consideration the force risk register.

11.4 *In addition to this I have worked closely with members in preparing this budget and MTFPS. The level of one-off resources being used to fund this budget in 2009/2010 is higher than the level of one-off allocations. However, this will be addressed as part of the MTFPS. I am of the view that this revenue budget has been prepared on realistic assumptions and that it represents a robust budget. In addition, I have reviewed the level of reserves and I consider them to be adequate.”*

11.5 However, the budget and Medium Term Financial Planning Strategy is predicated on a number of assumptions, which could lead to significant risks to the longer term financial viability of the Authority. In addition, the budget relies on the delivery of a significant savings programme. It is therefore suggested that the Budget Strategy Working Group continue to meet to review progress on the delivery of these savings and to regularly review the Authority’s financial standing with a particular focus on the following key milestones:

- Current Year outturn
- Half year Stage
- Comprehensive Spending Review announcement
- Local Election result
- National Election result
- Change in Economic Climate:
 - Impact on inflation
 - Impact on money market

11.6 A review of the level of reserves has been undertaken in setting the policing plan and budget, which recognises the financial constraints and risks facing the force. The Treasurer is of the view that this budget does provide for an adequate level of reserves.

11.7 Robust financial management will be essential to the delivery of the Medium Term Financial Strategy and it is imperative that the Authority implements the review as soon as possible.

11.8 To aid the Budget Strategy Working Group in monitoring and reviewing the financial performance of the organisation it is suggested that the Authority develop and implement, as part of the Financial Management Review, a basket of key Financial Health indicators that could provide an early indication of potential financial difficulties.

12. Conclusion

12.1. Before 1st March the Authority has a legal obligation to set a balanced budget, to determine Council Tax rates and to issue a precept for the Council Tax to be collected by the District and Borough Councils.

12.2. In doing so it must take into account the following matters:

- Government views, in the form of Home Office advice and directives and the Government's funding formula
- Home Office policing objectives and the objectives of the Authority
- Local demands on the Police service
- The level of reserves and contingencies
- Implications of the budget for the Council Tax
- Medium term prospects and future commitments
- Affordability to the council taxpayer

Keith Bristow
Chief Constable

Sue Howl
Chief Executive to Police Authority

David Clarke
Treasurer to the Police Authority

Enquiries relating to this report should be directed to Marie Perry, Assistant Director of Resources (Finance) on 01926 415015.

Police Authority Budget Variations

2008/09 Budget	£913,450
2009/10 Proposed Budget	£1,039,880
Increase	£126,430

	2009/10 £	2010/11 £	2011/12 £
Staffing Changes / Pay Award	9,000	6,500	6,500
Accommodation (3 Northgate Street)	8,500	1,000	1,000
Members Allowances	24,000	6,000	6,000
Regional Co-ordinator	4,900	-	-
Conference Fees	5,000	-	-
New Custody Visitors	2,000	-	-
Internal Audit Fees	30,000	-	-
Consultation Strategy	50,000	-	-
Contingency (Policing and Crime Bill)	8,000	-	-
Other Minor Variations	2,030	2,000	2,000
Sub Total	143,430	15,500	15,500
Less:			
External Audit Fees	10,000	-	-
Insurance Support	7,000	-	-
Total	126,430	15,500	15,500

INFLATION

	2009/10 £'000	2010/11 £'000	2011/12 £'000
Police Officers Pay Award <i>(Based on latest pay award of 2.65% from September 2008, 2.6% for September 2009 and 2.55% for September 2010).</i>	1,235	1,175	1,125
Police Staff Pay Award <i>(Based on latest pay award of 2.6% from September 2008 and September 2009 and 2.58% for September 2010)</i>	601	670	700
Contractual Commitments <i>(Reflects actual contractual commitments and significant areas such as fuel and energy).</i>	813	350	350
General Inflation <i>(Income budgets reflect agreed increases – all other budgets no inflation provision).</i>	(112)	(112)	(112)
Total	2,537	2,083	2,063

KNOWN COMMITMENTS

	2009/10 £'000	2010/11 £'000	2011/12 £'000
Police Pay turnover <i>(officers leaving the force are replaced by recruits paid at the lowest point of the pay scale and do not receive allowances).</i>	(1,415)	(740)	(750)
Increments <i>(Cost of individuals progressing through pay grades)</i>	377	377	377
MIU <i>(Amount required in addition to the 2008/09 investment to meet a full years costs. MIU provides an enhanced response to major crime).</i>	560	-	-
Body Armour <i>(Continued rollout of body armour replacement programme, met from reserves).</i>	304	-	-
Repairs & Maintenance <i>(Minimum programme of essential repair & maintenance to the H.Q. site, met from reserves).</i>	450	300	300
Volume Crime Management <i>(Amount required in addition to the 2008/09 investment to meet a full years costs. VCM supports proactive crime management).</i>	100	-	-
Operational Contingency OCON <i>(The operational contingency is set at 1% of the Net Revenue Budget and provides for major investigations and unforeseen events).</i>	69	28	30
Other Minor Commitments <i>(Includes the loss of grant provided for policing Coventry Airport, HR restructure etc.).</i>	125	-	-
Total	570	(35)	(43)

Note: Police Staff costs in base reflect £414,000 saving for turnover

OTHER PRESSURES

	2009/10 £'000	2010/11 £'000	2011/12 £'000
Interest on Balances <i>(Investment income is declining due to the falling interest rates in the current economic climate and that are likely to prevail in 2009/10).</i>	1,000	500	-
Overtime <i>(This reflects activity levels in recent years. The position will be kept under review in light of the review of the shift pattern. Operation Rome is working on succession planning).</i>	350	-	-
Events Income Shortfall <i>(Recent case law has clarified what policing Force's can charge for; this has reduced the level of income the Force can expect from events).</i>	250	-	-
Interpreters Fees <i>(The need to use interpreters as part of the day-to-day business of the Force has increased reflecting the diversity of languages spoken in our community).</i>	116	-	-
Case/Custody Support <i>(Reduction in external funding support).</i>	130	130	-
EMASU Helicopter Contribution <i>(Increased running costs of the helicopter provided through the East Midlands Air support Unit).</i>	-	50	50
Other Minor Pressures <i>(Various other minor increases as a result of external pressures).</i>	100	-	-
Total	1,946	680	50

CAPITAL PROGRAMME REVENUE CONSEQUENCES

	2009/10 £'000	2010/11 £'000	2011/12 £'000
Borrowing	830	1,285	1,985
IT/IM Strategy	436	641	974
Southern Justice Centre	429	429	429
Property	274	475	814
Vehicles	39	98	101
Sexual Assault Referral Unit	250	250	250
Total	2,258	3,178	4,553
Year on Year Increase		920	1,375

RESERVES AND BALANCES POLICY

1. Reserves

- 1.1 Specific reserves will only be established in respect of defined types of expenditure and for specific purposes such as:
- Equalising the impact of uneven expenditure over a period of years
 - Providing for known liabilities in the year in which they arise
 - Setting funds aside in advance for known investment requirements
- 1.2 The Authority will also hold a general reserve as a safety net against unforeseen circumstances such as:
- Expenditure on major incidents that significantly exceed the budgeted provision for such incidents
 - Levels of inflation that significantly exceed the budgeted provision
- 1.3 Accounting for reserves and provisions will be established as prescribed by government and accounting standards and will include capital, pensions and bad debts.

2. Level of reserves

- 2.1 Specific reserves will be held at levels appropriate to the purpose for which they were created; these levels will be reviewed from time to time by the Authority, or the appropriate committee or panel.
- 2.2 The appropriate level of the general reserve will be assessed each year when the budget is set. The assessment will have regard to the circumstances and budget for that year, to prospects for future years' budgets, and to any Home Office policy on special grants. Current criteria for special grants from the Home Office require the Authority to absorb the equivalent of 1% of the force annual budget before special grant is payable on major unforeseen incidents.

3. Application of reserves

- 3.1 Specific reserves will be applied to the purpose for which they were created and any residual balance remaining after such application will be transferred to the general reserve.
- 3.2 The application of the general reserve will require the specific approval of the Authority and, unless otherwise approved, will be made on the matching principle, i.e. a one-off contribution from the general reserve should be made to support one-off and not continuing expenditure. However, general budget support can be considered as temporary funding in lieu of a permanent solution being identified in the future.

4. Treasurer's responsibility

- 4.1 The Treasurer to the Authority will report on the adequacy of all reserves at budget-setting time as required by section 25 of the Local Government Act 2003.

5. Balances

- 5.1 Balances may only be carried forward to following years in respect of budget under spends, which may then be used to support following years' budgets, or set against overspends arising in other areas of the budget.

RISK AND SENSITIVITY ANALYSIS

	<u>Assumption</u>	<u>Risk Likelihood of Variation and Impact on the Budget</u>	<u>Sensitivity</u>
1	Risk of sustainability strategy not delivering planned savings of £4.5m over three years.	Medium	The Force has a recent track record of delivering efficiency savings and this will be enhanced by the creation of the Challenge & Innovation team and the outcome of Operation Rome, the Financial Management project and Workforce Development.
2	Salary Increments	Medium	2009/2010 figure based on staff in post at 31 st December 2008. This figure subject to variation in line with staff turnover.
3	PCSO's - there is no guaranteed funding from 2011/2012 onwards.	Medium	The continuation of the Neighbourhood funding of £2.773 million in 2010/2011 has yet to be confirmed for 2011/2012.
4	General Inflation	Medium	Provision made for specific and contractual price increases only with the remainder of the budget cash limited. 1% is equivalent to £162,000
5	Specific Inflation: <ul style="list-style-type: none"> • Gas and Electricity at 10.3% • Water at 7.0% • Fuel at 11.5% • Construction Industry 6.9% • Rates 2.7% • Fees & Charges 2.5% 	Medium	1% variation is equivalent to: Gas/Electricity - £7,063 Water - £535 Fuel - £11,757 Construction - £21,373 Rates - £7,379 Fees & Charges - (-)£26,404
6	Interest rates on Investments at 2%	High	0.25% variation is equivalent to £69,000. (Dependent on balances held)
7	Servicing of external debt in 2009/10 at 5% annuity	Low	For the future borrowing a 1% variation is equivalent to £76,000 in 2009/2010. Existing loans are fixed rate loans.
8	Central Funding: 2009/2010 & 2010/2011 funding per Settlement announcement January 2009 2011/2012 based on 2.0%	Medium	In the current climate, it is difficult to assess whether the Government will honour its 2010/11 grant funding. Prudent estimate.

9	Council Tax: Tax base 0.2% increase for 2010/11 and 2011/12	Medium	0.5% variation on tax base is equal to 993 properties
	Band D increase of 5% in 2011/12	Medium	1% variation in Council Tax is equivalent to £339,888
	Deficit on Council Tax collection for 2009/2010 of £55k	Medium	
10	Potential for In Year emergencies	High	Mitigation: Operational Contingency set at 1% of net revenue budget. The process to be followed would be: 1. Operation contingency 2. Budget reserve 3. In year moratorium on any non-essential spending/not legally committed expenditure. 4. Seek additional government support. 5. General revenue reserve.
11	Costs from Legal Judgements	Medium	General Revenue Reserve £2,000,000
12	Any buildings with asbestos	High	A comprehensive asbestos survey has been undertaken and a programme for removal under controlled conditions is included in the Authority's Property Development Plan, which includes a rigorous management regime pending removal.
13	Backlog Maintenance Programme – Leek Wootton	Medium	The provision for backlog maintenance has been reduced to provide for essential safe, secure and water tight only.
14	Failure to deliver a balanced budget beyond the three year plan.	Medium	Mitigation: The creation of the Budget Strategy working group and regular monitoring and key milestones to ensure that the plan is on target to deliver in the longer term.

REVIEW OF APPROPRIATENESS OF RESERVES

Risk	Assessment	Forecast Balance as at 31/03/09
Insurance Reserve - Public and employer liability claims falling below the excess of £100,000 fall on the Authority. The insurance reserve represents outstanding claims and is reviewed annually in conjunction with our insurance brokers. The Calcutt case could have a potential liability of between £0.250m and £0.750m. There is a specific provision of £0.100m against this case.	High	£0.355m.
Section 106 Reserve – earmarked reserve for a specific purpose and the cost cannot exceed the contribution.	Low	£0.016m.
General Revenue Reserve for Capital - is set aside to support the capital programme. Could borrow to support the capital programme	Low	£6.220m.
General Revenue Reserve for Repair & Maintenance – Set aside to meet the assessed backlog of repair and maintenance at the Leek Wootton campus. The programme has been reviewed to provide for essential safe, secure, watertight repairs only. This reduces the programme to £1.350m however it does leave a risk of unforeseen problems with the fabric of the buildings.	High	£2.663m
Body Armour Reserve – forecast balance at the year end reflects the slippage on the programme and will be needed to meet expenditure commitments in 2009/10	Low	£0.224m.
Budget Reserve – set aside to support the 2008/09 budget in four specific areas. The Westbere grant and various one-off under spending results in an enhanced balance at the year end. This figure also includes the £5.659m from the Justice Centre Reserve which will now be funded from borrowing.	Low	£9.741m
General Revenue Reserve (GRR) - is set aside to provide contingency support to the budget over and above what has been provided through earmarked reserves set out above. A call on the GRR may stem from an unpredictable event or legal action against the Authority or Force, which incurs significant costs that cannot be funded from other sources	Medium	£2.0m

REVENUE BUDGET SUMMARY

	2009/10 £'000	2010/11 £'000	2011/12 £'000
2008/09 Base Budget	90,113		
Less one-off items	3,212		
Adjusted Base	86,901	93,584	96,853
Police Authority	126	16	16
Recruitment Strategy	300	85	(45)
Inflation	2,537	2,083	2,063
Known Commitments	570	(35)	(43)
Other Pressures	1,946	680	50
Capital Programme	2,258	920	1,375
Workforce Development	(300)	(180)	(180)
Sub total	94,338	97,153	100,089
Less Savings Targets			
2009/10 Programme	750	1,500	1,500
2010/11 Programme	0	750	1,500
2011/12 Programme	0	0	750
Total Savings	750	2,250	3,750
Net Revenue Budget	93,588	94,903	96,339
Less: Earmarked Reserves	754	300	300
Less: General Reserves	4,756	3,694	2,175
Budget Requirement	88,078	90,909	93,864
Less: Police Grant	32,649	33,634	34,307
Less: Formula Grant	21,496	21,952	22,391
Sub total	33,933	35,323	37,166
Add Collection Fund Deficit	56	56	56
Amount to be raised by Council Tax	33,989	35,379	37,222
Tax base	198,514	198,911	199,309
Band D Council Tax	£171.22p	£177.86p	£186.75p

Assumptions:

- Budget Requirement in 2009/10 and 2010/11 in line with maximum set by Government
- Central Government funding for 2010/11 in line with figures published in 2009/10 settlement
- Central government funding to increase by 2% in 2011/12.
- Council Tax base to increase by 0.2% in 2010/11 and 2011/12 (in line with 2009/10 increase)
- Collection Fund Deficit in 2010/11 and 2011/12 in line with 2009/10
- Council tax at Band D increases by 5% in 2011/12.

PRUDENTIAL INDICATORS BASED ON THE PROPOSED 2009/10 CAPITAL PROGRAMME

The Prudential Code indicators reflect either actual/estimated position or activity limits to be set by the Police Authority that, once agreed, can only be exceeded following approval from the Authority.

PI Number	Category	Description
1	Affordability	▪ Ratio of financing costs to net revenue stream
2	Affordability	▪ Incremental impact of capital decisions on the council tax
3	Prudence	▪ Net borrowing and the Capital Financing Requirement
4	Capital expenditure	▪ Estimates of Capital Expenditure
5	Capital expenditure	▪ Capital Financing Requirement
6	External debt	▪ Authorised Limit
7	External debt	▪ Operational Boundary
8	Treasury management	▪ Adoption of the CIPFA Code for Treasury Management in Public Services
9	Treasury management	▪ Limits for Interest rate exposures
10	Treasury management	▪ Maturity Structure of borrowing
11	Treasury management	▪ Total Principal sums invested for periods of longer than 364 days

A summary of the Prudential Indicators based on the proposed capital programme is listed below.

1. Indicator 1 – Ratio of financing costs to net revenue stream

- 1.1 The ratio of financing costs to net revenue stream shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, plus repayments of capital, as a proportion of annual income from council taxpayers and central government.

Indicator 1	Ratio of financing costs to net revenue stream				
	2007/08 Actual £000	2008/09 Actual £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000
Financing costs net	(-) 81	99	2,300	3,091	3,779
Net revenue stream	80,078	85,415	88,078	90,909	93,864
Ratio of financing costs to net revenue stream	(-) 0.10%	0.12%	2.61%	3.40%	4.03%

- 1.2 The estimates of financing costs include current and future commitments based on the capital programme presented for approval, in this report. These ratios reflect a stable financial environment.

2. Indicator 2 – Incremental impact of capital decisions

- 2.1 The incremental impact of capital decisions reflects the estimated annual increase in Band D Council Tax as a result of capital spending decisions. An element of these increases will usually be funded by the revenue support grant, which is subject to variations in government funding. Figures announced in the settlement 2009/10 and provisional settlement 2010/11 has been used to calculate this indicator. Estimates of settlements in future years have been made to allow this indicator to be calculated in 2011/12 and 2012/13.

- 2.2 The estimates of the incremental impact of the current capital programme using the 2009/10 council tax base are:

Indicator 2	Incremental change for the Band D Council Tax			
	2009/10 £	2010/11 £	2011/12 £	2012/13 £
Change in Council Tax	11.37	4.63	6.90	3.44

3. Indicator 3 – Net Borrowing and the Capital Financing Requirement

- 3.1 The Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital

financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.”

3.2 Net borrowing refers to the Authority’s total external borrowing. The Authority had no difficulty meeting this requirement in 2007/08 and is estimated to stay well within these limits in 2008/09. The Treasurer will ensure that this requirement is not breached in future years, taking into account current commitments, existing plans, and the proposals in the budget report for 2009/10.

4. Indicator 4 – Actual and Estimated Capital Expenditure

4.1 The actual capital expenditure incurred in 2007/08, and the estimates of capital expenditure for the current and future years, are set out as follows:

Indicator 4	Capital Expenditure				
	2007/08 Actual £000	2008/09 Probable £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000
Contribution to the Justice Centre	0	5,659	0	0	0
IT/IM Strategy	648	2,090	4,979	4,023	3,566
Property Development Plan	668	2,349	6,626	6,598	10,371
Vehicles & Equipment	639	1,106	1,221	1,298	1,019
Replacement Helicopter	354	0	0	0	0
Other Equipment	170	213	142	44	23
Total	2,479	11,417	12,968	11,963	14,979

Note: The figures above exclude spending in respect of the Justice Centre by partners totalling £33.4m over the period 2007/08 – 2011/12.

5. Indicator 5 – Capital Financing Requirement

5.1 The **Capital Financing Requirement** represents capital expenditure financed by external debt and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending.

Indicator 5	Capital financing requirement				
	31/03/08 £000 Actual	31/03/09 £000 Probable	31/03/10 £000 Estimate	31/03/11 £000 Estimate	31/03/12 £000 Estimate
Capital Financing Requirement	15,141	21,834	31,561	39,735	50,497

Note: The capital financing requirement includes the £5.659m planned borrowing to meet the Authority’s contribution towards the Justice Centre.

- 5.2 The capital financing requirement measures the Authority's underlying need to borrow for a capital purpose. The Authority has a treasury management strategy which accords with the CIPFA Code of Practice for Treasury Management in the Public Services.
- 5.3 At any point in time the Authority has a number of cash flow streams both positive and negative and on its behalf Warwickshire County Council manages the treasury position in terms of borrowings and investments in accordance with the approved treasury management strategy and practices. In day-to-day cash management no distinction is made between revenue cash and capital cash.
- 5.4 External borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the Authority's underlying need to borrow for a capital purpose.

6. Indicator 6 – Authorised Limit

- 6.1 The code defines external debt as the sum of external borrowing and other long-term liabilities (liabilities in excess of 12 months other than borrowing). In respect of its external debt, it is recommended that the Authority approves the following Authorised Limits for its total external debt gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary.
- 6.2 These limits separately identify borrowing from other long-term liabilities such as finance leases. The Authority is asked to approve these limits and to delegate authority to the Treasurer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the Authority. Any such changes made will be reported to the Authority at its next meeting following the change.

Indicator 6	Authorised Limit for external debt			
	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Borrowing	26,181	37,424	44,821	56,878
Other long-term liabilities	0	0	0	0
Total	26,181	37,424	44,821	56,878

- 6.1.1 These Authorised Limits are consistent with the Authority's current commitments, service plans, proposals for capital expenditure and associated financing, cashflow, and with its approved treasury management policy statement and practices.

6.2 The Authorised Limit is based on the estimate of most likely prudent, but not necessarily the worst-case scenario. This provides sufficient additional headroom over and above the Operational Boundary, which is Indicator 7, below.

7. Indicator 7 – Operational Boundary

7.1 The Authority is asked to approve the following Operational Boundary for external debt for the same time period. The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects the Treasurer's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the Authorised Limit to allow for unusual cash movements, and equates to the maximum of external debt projected by this estimate.

7.2 The Operational Boundary represents a key management tool for in-year monitoring by the Treasurer. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified. The Authority is also asked to delegate authority to the Treasurer, within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the Authorised Limit. Any such changes will be reported to the Authority at its next meeting following the change.

Indicator 7	Operational Boundary for external debt			
	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Borrowing	25,181	36,424	43,821	55,878
Other long term liabilities	0	0	0	0
Total	25,181	36,424	43,821	55,878

7.3 The Authority's actual external debt at 31 March 2008 was £16.918 million of borrowing. It should be noted that actual external debt is not directly comparable to the Authorised Limit and Operational Boundary, since the actual external debt reflects the position at one point in time rather than a limit that covers the whole year.

7.4 **In considering this report, the Authority is asked to note that the Authorised Limit determined for 2009/10 (see paragraph 6.2 above) will be the Statutory Limit determined under section 3 (1) of the Local Government Act 2003.**

8. Indicator 8 – Adoption of the CIPFA Code

8.1 Warwickshire Police Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

9. Indicator 9 – Limits on interest rate exposures

Indicator 9	% of net outstanding principal sums			
	2008/09 %	2009/10 %	2010/11 %	2011/12 %
upper limit on fixed interest rate exposures	100	100	100	100
upper limit on variable interest rate exposures	25	25	25	25

9.1 This means that the Treasurer will manage fixed interest rate exposures within the range 75% to 100% and variable interest rate exposures within the range 0% to 25%. This is a continuation of current practice and provides flexibility to take advantage of any favourable movements in interest rates.

10. Indicator 10 – Maturity Structure of Borrowing

10.1 It is recommended that the Police Authority approve the upper and lower limits for the Maturity Structure of its borrowings as follows:

10.2 The table shows the upper and lower limits of projected borrowing maturing in each period as a percentage of total projected borrowing at the start of the period:

Indicator 10	Upper limit %	Lower limit %
Under 12 months	20	0
12 months and within 24 months	20	0
24 months and within 5 years	60	0
5 years and within 10 years	100	0
10 years and above	100	0

10.3 It is recommended that the Authority approve an upper limit of 20% of borrowing maturing in any one year.

10.4 As at 31 March 2006 the Authority's debt maturity profile was:

	£'000	% Total Borrowing
Under 12 months	802	4.7
12 months and within 24 months	811	4.8
24 months and within 5 years	2,490	14.7
5 years and within 10 years	3,682	21.8
10 years and above	9,132	54.0
Total	16,917	100.0

11. Indicator 11 – Total Principal sums invested for periods of longer than 364 days

11.1 There are no proposals for the Authority to invest sums for periods longer than 364 days.

12. Monitoring

12.1 The Treasurer will monitor progress against the prudential indicators, as part of the quarterly capital expenditure monitoring report.

Local Government Finance Settlement

	2008/09 £ million	2009/10 £ million	2010/11 £ million	2009/10 Increase £ million	2009/10 Increase %	2010/11 Increase £ million	2010/11 Increase %
Formula Grant	21.077	21.496	21.952	0.419	2.0%	0.456	2.1%
Police Grant	31.691	32.649	33.634	0.958	3.0%	0.985	3.0%
Government Support	52.768	54.145	55.586	1.377	2.6%	1.441	2.7%
Specific Grants Transferred to Police Grant:							
Rule 2 Grant	1.495	1.495	1.495	0.000	0.0%	0.000	0.0%
Total	54.263	55.640	57.081	1.377	2.5%	1.441	2.6%

Specific Grants (Estimated)	2009/10 £ million	2010/11 £ million
Crime Fighting fund	1.685	1.685
BCU Fund	0.284	Under review
Neighbourhood Policing Fund & Community Support Officers	2.700	2.773
Counter Terrorism	0.128	0.045
Total Specific Grants	4.797	4.503