

**Finance, Administration and Resources Committee**

**Tuesday, 8<sup>th</sup> December 2009**

**Joint Report of the Chief Constable and the**

**Treasurer to the Police Authority**

**2009/10 REVISED REVENUE BUDGET**

1. Purpose of Report

1.1 To present to Members the proposed revised revenue budget for 2009/10.

2. Information and Analysis

2.1 The proposed revised budget for 2009/10 set out in this report is the outcome of a comprehensive assessment of the financial position for the year. This assessment itself has built on the budget monitoring work undertaken across the Force in the first six months of the year.

2.2 The overall projected position indicates that it will be possible to make a contribution to its Operational Funding Reserve of £0.578 from its 2009/10 resources while at the same time avoiding taking £0.458m from that reserve, as envisaged when the Approved Budget was set in February. This effectively means that a total underspend of £1.036m or some 0.6% of the total budget is forecast for the year.

2.3 Members will recall that an underspend position of this order had already been anticipated and report to members at the Month 5 monitoring stage (August). Whilst the details of the proposed Revised Budget are set out later in the report, the forecasts on which it is based are heavily influenced by the following key factors:

- (a) Early action has been taken by the Force Command Team to prepare for the very difficult financial circumstances expected from 2010/11 onwards. The background to these circumstances at a local, national, and indeed global level, are well known. Specific measures implemented have been the curtailment of police officer recruitment and the introduction of vacancy control procedures for police staff posts. These measures are already having an impact on expenditure in the current year. The intention to fill every approved vacant post internally wherever possible means that virtually every vacancy represents a full saving to year-end. In addition to these specific measures, budget-holders are being encouraged to minimise costs as much as possible.

- (b) At the point that the approved budget was set the uncertain economic outlook meant it was prudent to allow for non-pay inflation having a significant impact on costs. For example, in October 2008 the prices for gas and electricity increased by 39% and 68% respectively. In the event, general inflation has been very low during the year and indeed the headline annual RPI figure at the end of September was minus 1.4%. Hence inflation pressures have been negligible to date. Prices under the new contract for electricity supply starting from October 2009 are 25% lower than the previous contract and these are now fixed for six months. The revised budget anticipates that no further inflation pressures of a significant nature will impact on the Force to year-end. Clearly organisations have learnt in recent times that economic circumstances can change very quickly and if, for example, a major movement in petrol prices was to occur, this could impact on the projected year-end position.
- (c) The first part of the year has seen major criminal investigations – including the murder of taxi driver Steward Ludlam. The costs incurred on these operations are covered within the projected outturn. Otherwise, the projections assume a ‘normal’ or average level of activity in the remainder of the year. As always, if a further major investigation or investigations should arise this will have a significant impact on the Force’s finances.
- (d) The total costs incurred in policing the BNP event at Denby in August (Operation Dagenham) amounted to £0.447m. This total comprises £0.118m in direct additional costs (for example police officer overtime and charges from regional forces for ‘borrowed’ officers) and £0.329m in ‘Opportunity’ costs. The opportunity costs represent the time spent by Derbyshire officers in planning and preparing for the event and in policing over the weekend of the event itself. This was achieved by either cancelling rest days or by redirecting officers away from other policing activities. Either way it represents a considerable burden on operational capacity. The possibility of obtaining Home Office grant support for Operation Dagenham is being pursued but the projections assume that no such support will be forthcoming.

### Revised Budget

- 2.4 The proposed revised estimates across major budget heading are set out at **Annex A** to this report. They have been built up from the original estimates approved by the Police Authority on 19<sup>th</sup> February 2009 (min no 36/13 refers), with adjustments for inflation changes, virements, carry-forwards from 2008/09 and other Revised Budget adjustments.

- 2.5 For ease of reference, each budget line in **Annex A** has been allocated a reference number. Small bracketed numbers in the sections below indicate the budget headings that are affected by each issue.

### ***Pay and Price changes***

- 2.6 Reference has already been made to the very low level of inflation experienced in the current year. Of the £0.525m set aside for price inflation within the approved budget only £0.176m has been required to be allocated to budgets, leaving an underspend of £0.349m against the Price Contingency [10]. A major component of the actual call on the Price Contingency has been the annual Unitary PFI Fee paid for the Derby Division DHQ building (£0.094m). The level of the fee is determined by movements in specific RPI indices and previous rises in utility costs have had a major influence on the current year's cost.
- 2.7 Members will recall that in 2008 three-year pay settlements were agreed for both officers and staff. Accordingly a full allowance for the September 2009 pay awards (2.6% in both cases) was already built into the relevant budget headings at the approved budget stage [2 & 3].

### **Virements**

- 2.8 These are movements between budget headings for specific reasons, e.g. changes requested by budget holders. Significant virements actioned to date are itemised at **Annex C**.

### **Police Authority costs**

- 2.9 It is expected that expenditure incurred in running the Police Authority will be substantially in line with the Estimates approved at the start of the year [1]. A breakdown of the overall Police Authority budget is provided at **Annex B**.

### ***Other Revised Budget changes***

- 2.10 Other changes consist of:

- Identified over and under-spending on individual Force budgets – **Annex C**.
- Allocations needed to meet priority issues that have arisen or are expected during the year – **Annex D**.

- 2.11 Significant areas are highlighted below:-

(a) Police Officer Pay and Oncosts - £0.330m underspend [2]. This underspend against the main Police Officers budget is partly offset by additional police officer costs totalling £0.214m being incurred towards the East Midlands Special Operations Unit [18], Derbyshire now having 20 officers working within the

unit. Overall, therefore, the projection against all police officers' pay is an underspend of some £0.116m. Only one intake of student police officers has occurred in the year to date with a further one planned for January 2010. Wastage rates in the first part of the year have been at an average of 10.4 officers per month and is forecast to continue on a similar trend. The projection therefore reflects a managed reduction in numbers in line with the approved police officer strength. Actual strength at 31<sup>st</sup> March 2010 is expected to be 2032 officers against a funded strength of 2061.

- (b) Police Officer Overtime - £0.132m overspend [2]. As at the end of October, £0.172m in overtime had been incurred from the Major Crime budget on the two investigations referred to earlier – Operations Retriever and Marple. On the assumption that the remainder of the year sees a 'normal' level of activity in this area it is considered appropriate to increase the Major Crime Overtime Contingency by £0.100m to meet requirements for the whole year. A further £0.024m in overtime was worked for Operation Dagenham, part of the £0.118m direct costs incurred paid by the force on policing the BNP event.
- (c) Police Staff Pay and Oncosts - £0.371m underspend [3]. The forecast underspend in this area is mainly a consequence of the vacancy control arrangements that have been in place since July 2009 and the extent to which the costs of service developments – notably the transformation of HR – have been met within existing resource levels. The underspendings from the above factors are partly offset by an overspend within the Criminal Justice Department. This is a temporary situation due to additional staff having been employed on fixed-term contracts to assist in the implementation of new working procedures within the department. In addition to the underspendings reflected in the Revised Budget, the level of vacancies experienced within the Contact Management Department means that a further underspend of £0.090m is likely to occur within the formation's police staff salaries budget. However, the transfer of all Contact Management staff to the new CCMC building during March and April next year is likely to be a major logistical undertaking. The formation's projected underspend has therefore been retained in the budget to help meet any unforeseen staffing and other costs and the transitional arrangements associated with the move. Taking into account all of its budgets, including Police Officer Overtime, the amount retained by Contact Management for this purpose totals £0.144m. Some or all of this may need to be carried forward into 2010/11.
- (d) Police Officer Pensions - £0.134m underspend [5]. This projection reflects the reduced number of officers who are on the 30+ scheme for whom some pension costs are payable. It also reflects the current best estimate for the number of ill-health

retirements that will occur in the year – now five, as against the six provided for in the original estimates.

- (e) Premises Costs - £0.204m underspend [6]. The key component in this area is an underspend of £0.192m on Property Rates as a consequence of two substantial rebates received for the Force HQ complex and the Beetwell Street Divisional Headquarters in Chesterfield. The re-valuations have been back-dated for a number of years and will result in savings of £43k per annum for future years.
- (f) Supplies & Services - £0.002m overspend [8]. There are a number of projected over and underspends within this heading which virtually cancel out within the overall position. For example, a £0.040m saving is expected against the Uniforms budget reflecting the reduced police officer recruitment referred to earlier and a further £0.068m saving is expected on the required contribution to the East Midlands Collaboration Working Group. Additional costs incurred in other areas include those relating to drugs raids and the boarding up of private premises.
- (g) Agency Costs - £0.341m overspend [9]. £0.200m has been added to the budget for Forensic Science Service costs within the Revised Estimates reflecting the heavy use of these services in the first half of the year. The remaining £0.141m relates to the costs of officers borrowed from other forces. All the other four East Midlands forces provided Police Support Units (PSU's) to assist with the policing of Operation Dagenham and West Yorkshire supplied a specialist mounted unit. These resources cost a total of £0.061m. In addition the force is receiving outside assistance towards an ongoing operation and £0.080m is expected to be incurred by year-end on this.
- (h) Debt Charges - £0.204m underspend [11]. Reference is made below to the extremely low investment returns that are currently available on cash balances. It is therefore financially advantageous to use some of the balances available to delay borrowing to support expenditure within the Capital Programme. This is significant in the current year as resources are required to fund the new Centralised Call Management Centre. Such 'internal borrowing' is compliant with the Local Authority Prudential Code and will save £0.204m in avoided interest payments in the current year.
- (i) General Income - £0.178m underspend [13]. Additional income has been received or is expected against a number of budget headings. For example, income from Proceeds of Crime activities is expected to exceed target by £0.050m and an additional £0.040m is anticipated from the sale of fleet vehicles which are due for replacement.

- (j) East Midlands Counter-Terrorism Unit - It is expected that all the expenditure on the unit will be met by specific grant. Close monitoring and management will ensure that the approved funding is not exceeded and that, therefore, no costs will fall on the Force.
- (k) Treasury Management Income - £0.165m shortfall [16]. The shortfall in this area arises from very depressed rates of interest obtainable which have been regularly highlighted in previous budget monitoring reports. No significant improvement in rates is now anticipated until well into 2010/11.
- (l) Contributions to Regional and National Policing - £0.237m overspend [18]. As previously mentioned £0.214m of this figure relates to the East Midlands Special Operations Unit reflecting an increased contribution of 'in-kind' officers to the unit. The force has also contributed to a number of one-off operations, such as policing environmental protests within Nottinghamshire, for which costs have been partly recovered under Mutual Aid arrangements.
- (m) Force Partnerships - £0.060m underspend [20]. £0.134m additional income is expected to accrue under the Derbyshire 'Reward Money' arrangements and a further £0.115m has been received in relation to the Business Crime Advisor Service. These amounts are partly offset by a payment which will need to be made in relation to the transfer of the overall control of Operation Liberal to Leicestershire Constabulary. As part of the agreed arrangements for this transfer, a total of £0.189m will need to be paid over to Leicestershire, of which £0.134m has already been set aside within the Carry-forward Commitments Reserve [17].

3. Crime and Disorder Implications

3.1 None.

4. Equal Opportunities/Diversity Considerations

4.1 None.

5. Legal/Personnel & Environmental Considerations

5.1 None.

6. Human Rights Considerations

6.1 None.

7. Financial Considerations

- 7.1 The favourable position projected for the current year reflects the positive steps already taken by the force in order to meet the financial challenges that lie ahead. These steps will stand the Force in good stead to face the challenge, albeit they will need to be supplemented by further saving measures currently in development. If the remainder of the year confirms the projections as reflected in the proposed Revised Estimates, the additional £1.036m made available within Reserves will provide much needed resilience for 2010/11 and beyond. The overall position on Reserves is the subject of another report on this agenda.
- 7.2 The revised estimates reflect current operational and economic activity and as was shown during 2008/09 these can change rapidly and could significantly change the projections made.

OFFICER RECOMMENDATIONS

1. That the revised revenue estimates as set out in this report be approved.
2. That Members note the issues which may affect the amount of contribution which can be put to Reserves in the current year.

Attachments: Annex A - Proposed Revised Estimates  
Annex B - Breakdown of PA Budget  
Annex C - Virements over £100,000  
Annex D - Revised Budget Issues