

**WEST YORKSHIRE
POLICE AUTHORITY**

REVENUE AND CAPITAL BUDGET 2012/13

WEST YORKSHIRE POLICE AUTHORITY

FRIDAY, 17 FEBRUARY 2012

EXECUTIVE SUMMARY

- The Authority is required to determine the council tax requirement for 2012/13, calculate the band D police council tax and issue the precept to the Billing Authorities.
- The Local Government Finance Settlement for 2012/13 reduced Formula Grant to police authorities by 6.7% on a like for like basis compared with 2011/12. This is a reduction of £23m for West Yorkshire. Floor damping reduced the authority's raw formula grant allocation by some £9.8m.
- Neighbourhood Policing Fund (NPF) remains a specific grant for 2012/13 at a cash standstill figure of £14.3m.
- The Council Tax Freeze Grant for 2011/12 (£2.2m) has been built into Formula Grant and will continue to be paid in each year of the spending review period. Additionally, a one-off grant is available to those police authorities who agree to freeze the council tax for a further year. This is equivalent to a 3% increase in council tax (£2.7m in 2012/13).
- Capital support has been set at £4.6m in 2012/13, a reduction of £0.3m over the figures previously announced. This represents a top-slice to support the establishment of the National Police Air Service.
- In anticipation of the significant and ongoing reductions resulting from the spending review, a major programme of organisational change called Operation Transform has been developed which aims to protect frontline services as far as possible, while making savings in support functions.
- In addition a new approach called Priority Based Budgeting is being piloted, to deliver future savings options and allow the organisation to slim down proportionately taking account of force priorities and risk.
- Two options are presented for members' consideration – accepting the council tax freeze grant offered by the Government for 2012/13, or increasing the council tax by 4%.
- Both options require savings through Operation Transform of some £27m in 2012/13. The second option would allow the force to recommence the recruitment of police officers, which has been suspended since 2010.
- Members will also consider additional use of balances. Each £1m of balances would allow for the recruitment of 40 police officers in 2012/13.
- The transformation of the organisation will result in a smaller workforce. It is anticipated that force strength will be around 1,913 or 19% less by 31 March 2015.
- The capital programme has been developed around average expenditure of £11.4m over the period 2012/13 to 2014/15, with another three major projects to be delivered via the Private Finance Initiative (PFI).
- Accepting the Government's Council Tax Freeze Grant would mean that the Band D council tax remains at £130.50, unchanged since 2010/11.
- A 4% increase in council tax would mean that the Band D tax increases by £5.22 a year to £135.72.

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PURPOSE OF THE REPORT

1. To provide the relevant information to allow the West Yorkshire Police Authority (WYPA) to approve the revenue budget, capital budget, precept and council tax for 2012/13.

RECOMMENDATIONS

2. It is recommended that:

Revenue

- i) The authority's corporate budget, proposed allocation of resources and initial provision for the budget of the Office of Police and Crime Commissioner for 2012/13, as set out in Appendix A, be approved.
- ii) The proposed budget for force requirements and the Chief Constable's proposed allocation of resources for 2012/13, as set out in Appendix F, be approved.
- iii) The County's taxbase for the year 2012/13, as calculated and notified by the five District Councils, be noted at 686,085.31.
- iv) The authority agrees the statutory calculations for the year 2012/13, as required by the Localism Act, 2011, on the basis of **either**:

Option 1: accepting the Government's Council Tax Freeze Grant (CTFG) in 2012/13

or:

Option 2: a 4% increase in council tax in 2012/13

	2012/13	Option 1 Accepting the CTFG £	Option 2 4% Increase in Council Tax £
a)	The authority's council tax requirement for the year. The aggregate of the amounts which the authority estimates for the items set out in section 42B of the Local Government Finance Act 1992 (as amended by section 75 of the Localism Act 2011) (gross expenditure less gross income)	89,535,917 ¹	93,115,498
b)	The basic amount of its council tax for the year - council tax requirement divided by the taxbase. Calculated in accordance with the formula set out in section 42B of the Local government Finance Act 1992 (as amended by section 75 of the Localism Act 2011)	130.5026	135.7200

¹ This will be supplemented by the Government's Council Tax Freeze Grant of £2.686m in 2012/13

- v) The authority, in accordance with section 40(2) of the Local Government Finance Act 1992 (as amended by schedule 7 of the Localism Act, 2011), sets the following amounts of council tax for the year 2012/13 for the valuation bands shown below:

Valuation Band	Option 1 Accepting the CTFG (£)	Option 2 4% Increase in Council Tax Tax (£)
A	87.0017	90.4800
B	101.5020	105.5600
C	116.0023	120.6400
D	130.5026	135.7200
E	159.5032	165.8800
F	188.5037	196.0400
G	217.5043	226.2000
H	261.0052	271.4400

- vi) The authority issues a precept for the financial year ending 31 March 2013 and authorises the Treasurer to issue a formal precept demand as follows:
- a) to pay the following amounts, calculated in accordance with section 48 of the Local Government Finance Act 1992:

	Option 1 Accepting the CTFG Precept £89,535,917¹	Option 2 4% Increase in Council Tax Precept £93,115,498
Bradford	19,460,548	20,238,566
Calderdale	8,676,636	9,023,522
Kirklees	16,748,182	17,417,762
Leeds	31,327,280	32,579,722
Wakefield	13,323,271	13,855,926

¹ This will be supplemented by the Government's Council Tax Freeze Grant of £2.686m in 2012/13

- b) and to make 12 equal payments to the Authority on the 15th day of each month or the following banking day.

vii) **Use of Balances**

Any additional utilisation of general balances (amount and purpose) in 2012/13 be determined, based on information presented at paragraphs 65-67 and 79. Any proposed change of use to be reported back to the authority for approval.

Capital

- viii) The revised capital budget for 2011/12 and the capital budget for 2012/13 set out at Appendix D be approved.

Section 25 Report

- ix) The Treasurer's report on the robustness of estimates and adequacy of reserves be accepted.

Earmarked Reserves

- x) The protocol for earmarked reserves at Appendix G be approved

BACKGROUND INFORMATION

3. The authority is required, under section 40 of the Local Government Finance Act 1992, to issue a precept for collection by the District Councils (i.e. the Billing Authorities) during the course of the ensuing year. The statutory deadline for issue of the precept to the District Councils is February 29th 2012. However, earlier receipt of the precept and supporting council tax leaflet information is helpful to the Districts to assist in the billing process.
4. The precept proposals have to be consistent with the Policing Plan, supported by a balanced budget and approved by the authority in consultation with the Chief Constable and the Treasurer.
5. In approving the budget, the authority is required to make statutory calculations under sections 42B of the 1992 Act (as amended by the Localism Act, 2011), namely:
 - the council tax requirement for the year
 - the basic amount of tax for the year for band D properties
6. Section 36 of the 1992 Act (as amended by Schedule 7 of the Localism Act) specifies the formulae to be used in calculating council tax figures for different valuation bands.
7. The amount payable by each billing authority (i.e. the precept) is assessed by multiplying the band D Tax by the relevant District taxbase.
8. Proposals for the schedule of instalments for payment of the precept to the authority have to be agreed by 31st January in each year.

9. Issue of the precept and the formal calculations required are only valid if made in accordance with section 19 of the Police Act 1996 that is, the members approving the decisions must:
- constitute at least half of the total members at the time of the decision (i.e. 9); and
 - include more than half of the councillor members (i.e. 5).

FORECAST OUTTURN 2011/12

Police Authority Budget

10. The police authority's budget was set at £1.858m for 2011/12, a 4.5% reduction on the 2010/11 base budget of £1.947m.
11. The forecast outturn is £1.752m, as shown at Appendix A, with savings anticipated on the external audit fee, members' allowances and expenses, salaries and a range of supplies and services.

Force Budget

12. The latest force revenue budget for the year at outturn prices is £435.635m and at 31 December 2011 there was an underspend of £12.722m (3.9%) against profiled budgets. This is as a result of active management of budgets aiming to maximise underspending.
13. Police officer and police staff pay budgets remain ring-fenced and are monitored centrally on a monthly basis by staff from the Human Resources and Finance Departments. This ensures that vacancy savings are retained at the centre. At 31 December 2011 there were 83 police officer vacancies and the police pay budget was underspent by £2.7m. There were 205 police staff vacancies and the police staff pay budget was underspent by £3.487m.
14. Income remains a problem as users of our services cut back on expenditure. The Training and Development Centre continues to be particularly badly hit by this and income is already £0.164m below profile.
15. Tight financial management continues in an effort to ensure that any emerging spending pressures are funded by in-year savings. This approach has enabled the force to absorb the additional costs of a number of operational incidents including Operation Ringway (preventing disorder in August). Budget holders continue to report underspendings as they seek to minimise expenditure.
16. The latest forecast position at the end of the financial year is an underspend of £16m (some of which will be transferred to the Devolvement Reserve). This includes continued underspends on pay budgets, devolved and delegated budgets, organisational change costs and capital financing costs. This level of underspend has been build into the forecast General Balances (Appendix E) and £12m has been used to help balance the budgets in 2012/13, 2013/14 and 2014/15.

Capital

17. The updated Capital Budget 2011/12 is £25.866m and expenditure as at 31 December 2011 was £16.391m, with commitments of £6.020m held on the financial system.

REVENUE RESOURCES 2012/13

18. The authority receives funding from the Department of Communities and Local Government (CLG) through the local government finance settlement and principal formula grant from the Home Office, together with earmarked (specific) grants.

The Local Government Finance Settlement

19. The current formula grant distribution system based on cash amounts of grant was introduced in 2006/07. This is referred to as the four block model, comprising
 - The Relative Needs Block
 - The Relative Resources Amount
 - The Central Allocation
 - The Floor Damping Block.
20. The relative needs block uses funding formulae designed to reflect the relative needs of individual authorities in providing services in seven areas including children's services, adult personal social services, police, fire etc.
21. The police funding formula distributes a basic amount per head of population plus top ups for crime, incidents, fear of crime, traffic and sparsity. There is also a basic amount per head for special events. Indicators which had previously disadvantaged the authority such as proportion of residents in terraced accommodation were removed as part of the review carried out in 2006/07 and replaced by others which have been shown to have a stronger correlation with crime levels such as density of bars within the force area.
22. The relative resource amount is a negative figure, which takes account of the fact that areas that can raise more income locally (i.e. have a high taxbase) require less support from government. The higher the RRA, the "richer" the authority, the less government support is received.
23. The amount left in the total service pot after distribution of relative needs and relative resources is distributed on a per head basis through the central allocation.
24. The floor damping block is intended to guarantee a minimum level of increase to every authority (the floor). The funding to pay for the floor is scaled back from those authorities like West Yorkshire whose raw allocation from application of the funding formula exceeds the floor.
25. The provisional Local Government Finance Settlement including the police settlement was announced by the Government in ministerial statements on 8 December 2011. This confirmed the figures first published for 2012/13 on 13 December 2010, with the exception of capital grant. The settlement was debated and ratified by Parliament on 8 February.

Formula Grant Funding

26. The Home Secretary set out proposals for allocation of grant under the Police Grant Report (England and Wales) 2012/13. Police principal formula grant has been allocated using the same funding formula as the relative needs block. West Yorkshire's grant entitlement for 2012/13 is £179.315m.
27. Details of West Yorkshire's overall settlement are set out below. The figures for 2010/11 have been adjusted to reflect the in year grant reductions announced in May 2010, and the consolidation of former specific grants (Rule 2 Grant, Crime Fighting Fund and Basic Command Unit Fund) into Police Grant. Changes to the Funding Formula mean that grant lost through floor damping is around £9.8m in 2011/12 and £9.7m in 2012/13 as compared with £17.7m in 2010/11.

	2010/11 £m	2011/12 £m	2012/13 £m
Relative Needs	90.290	83.155	76.558
Relative Resources	-3.033	-1.667	-1.535
Central Allocation	92.327	79.237	75.870
Floor Damping	-17.709	-9.844	-9.698
Police Grant	188.633	192.654	179.315
Former Specific Grants (Rule 2, BCU, CFF)	11.632	-	-
Total Formula Allocation	362.140	343.535	320.509
Revenue Support Grant	20.525	35.581) 141.194
Non Domestic Rates	141.350	115.300)
Police Grant	188.633	192.654	179.315
Former Specific Grants	11.632	-	-
Total Formula Grant	362.140	343.535	320.509
Cash Decrease		-18.605	-23.026
Percentage Decrease		-5.1%	-6.7%

28. The Government also offered a grant for 2011/12 equivalent to a 2.5% increase in council tax to those authorities who agreed to freeze their council tax at 2010/11 levels. This was guaranteed for the period of the Spending Review. The grant was accepted by the authority and amounted to £2.226m. This grant has now been built into the settlement, meaning that the total amount of Formula Grant received for 2012/13 will be £322.735m.

Specific Grants

29. The Neighbourhood Policing Fund allocation remains at a cash standstill figure of £14.3m for 2011/12 and 2012/13. The Government statement says "Approximately 90% of the grant will be ring fenced for PCSOs – contributing up to 75% of their salary costs. The remaining 25% will need to be match funded by the police, councils, businesses and other organisations."

Counter Terrorism

30. Counter Terrorism has been prioritised “to ensure that the police will have the necessary resources to respond to the changing demands posed by the terrorist threat”. For security reasons individual allocations will not be available in the public domain. The authority continues to seek assurance on the continuation of funding and the provision of adequate notice periods for any reduction in government support.

Private Finance Initiative

31. The statement says “Specific funding will be given to cover the costs of police PFI projects which are currently operational. This funding was added to the police settlement for this specific purpose. The Home Office will also support the two police PFI projects that are currently in procurement and which are not yet operational”.
32. The first year of PFI grant for West Yorkshire is anticipated to be 2013/14, with the first full year being 2014/15.

Other Resources

33. The authority has been notified of monies due to or from the District Councils’ Collection Funds. There will be an overall deficit of £540,881 to be carried to 2012/13 and this has been included in the figures presented.

COUNCIL TAX FREEZE GRANT AND REFERENDUM LIMITS

34. A particular consideration for this budget is whether the authority should accept the Government’s offer of a further council tax freeze grant for 2012/13. This would be equivalent to a 3% increase in council tax (£2.686m) but unlike the previous grant is for 2012/13 only and is non-recurring. There are clearly budget implications for 2013/14 and future years when the grant falls out, requiring either a higher council tax increase, or additional savings, or a combination of both.
35. Two issues have the potential to limit discretion in setting an increased council tax to compensate for the loss of grant in 2013/14. The Localism Act 2011 replaced the capping system with a requirement to hold a local referendum where the council tax is increased above a level deemed by the government to be “excessive”.
36. The Communities Secretary has announced a limit of 4% on council tax increases for police authorities for the purposes of triggering a local referendum in 2012/13. The costs of the local referendum would fall on the authority which triggers it, and if the proposed increase was not supported by the public then a lower figure would need to be implemented, incurring additional costs resulting from rebilling all households.
37. The first Police and Crime Commissioners will be elected in November 2012 and will be required to consult with the Police and Crime Panel, made up of representatives from the local authorities in the force area. The Panel has a right of veto (with a two thirds majority) over the PCC’s budget proposals.

38. The authority and force have made representations to the Home Office about the difficulties facing police authorities in taking a decision about the non recurring freeze grant, given the provisions of the Localism Act and the change in governance arrangements in 2012. The Association of Police Authorities will also continue to pursue this.
39. Members have received detailed information on a range of options for council tax to enable them to consider the short and medium term financial implications. As a result of previous discussion, two options for a balanced budget are now presented within the report for members' consideration. These are accepting the freeze grant for 2012/13, or increasing the council tax by 4%.

CAPITAL RESOURCES 2012/13

40. Capital expenditure may be financed in the year it is incurred by a variety of means including the application of capital grants, use of capital receipts or by a charge directly on the revenue budget. Financing expenditure by loan allows the capital cost to be charged to revenue over a number of years, the charge being the minimum revenue provision or MRP. The interest due on external borrowing undertaken in support of the loan financing is also a charge to the annual revenue budget.
41. West Yorkshire's capital allocation is as follows, and compares with an allocation of £8.276m for 2010/11 of which £5.225m was capital grant

	2011/12 £m	2012/13 £m	2013/14	2014/15 £m
Announced December 2010	3.3	4.9	4.5	4.5
Announced December 2011	3.3	4.6	4.2	4.3

42. The reduction on the previously announced figures represents a further topslice to support the establishment of the National Police Air Service.
43. Receipts from the sale of capital assets (capital receipts) may be used solely to finance new capital expenditure. Currently the authority has £550k of available capital receipts.
44. There is no restriction, other than affordability, on the amount of capital expenditure that may be financed immediately from the revenue budget, referred to as direct revenue support.
45. Under the Local Government Act 2003, the Authority is able to determine how much capital expenditure it can afford to finance by unsupported or prudential borrowing (which does not attract any government grant) having regard to the Prudential Code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Act requires that the authority set an affordable limit for borrowing each year in accordance with the Code, subject to the scrutiny of the external auditor. The prudential indicators, including the authorised limit for borrowing, are set out in the Treasurer's report on treasury management.

INITIAL REVENUE BUDGET 2012/13

Authority Budget

46. A summary of the authority's proposed budget totalling £1.761m (0.43% of the overall budget) is shown at Appendix A. This reflects the effect of the total anticipated reduction in funding for 2012/13. It includes the savings introduced during 2011/12 and makes the following main assumptions:
- A part year APA subscription (£33,750) at the reduced level agreed by APA Council
 - Business as usual to 22 November 2012 in terms of committee support, members allowances, expenses and subscriptions.
 - Provision for 17 members (Basic and Special Responsibility Allowances) up to 21 November 2012
 - Provision for all existing staff for a full year with a pay award of £250 for those on salaries below £21k
 - Work on transitional planning absorbed within the present budget, with capacity for managed overtime to meet transition demands (met from income)
 - Lease payments, business rates and running costs for Ploughland House for a full year
 - Further reductions to Supplies and Services and Travel and Subsistence
47. This totals £1.659m, which leaves an allocation of £102k for the part year of the Police and Crime Commissioner. This could be supplemented by the amount held in the Devolvement Reserve, estimated at £303k, although the actual demands cannot be forecast with any certainty until such time as the PCC is in post to take decisions. Additional commitments already identified include the proposed increase in External Audit fees and a PCC website.

Force Budget

Assumptions

48. The main assumptions made in formulating the force budget are set out below:
- A pay freeze in 2011 and 2012 for police officers.
 - A pay freeze in 2011 and 2012 for all police staff earning above £21,000 pa and a pay award of £250 in each year for all those earning below £21,000 pa.
 - The full year effect of 2011/12 budget spending pressures.
 - Provision for 10 Public Holidays.
 - Additional £3.450m for the cost of increments and employers national insurance increases. This is significantly higher than normal and is a direct result of the freeze in recruitment.
 - An initial assessment of the savings from the Winsor Review has been included at £1.08m, subject to more detailed analysis and clarification of the proposals.
 - General price increases of 2.0% and larger increases in some specific areas e.g. fuel (20%), energy (gas 10%, electricity 15%), rates (4.7%), buildings maintenance (2.7%).
 - £100k in savings from regional activity pending final confirmation of actual savings on Procurement and Scientific Support Unit regionalisation

- The revenue implications of capital schemes e.g. running costs, maintenance costs etc.
- Debt Repayments linked to prudential borrowing in the 2011/12 and 2012/13 capital budgets.
- Increased charges from the National Policing Improvement Agency (NPIA).
- It is assumed that mutual aid provided throughout the Olympics will be reimbursed and the duty time element will be reinvested to provide cover for absent officers. The net effect on the budget is neutral. Mutual aid income is estimated to be £4m, of which £0.500m relates to overtime, with the balance on duty time and other miscellaneous expenditure.
- Further planned use of balances in 2012/13 and beyond, totalling £16.8m by 2014/15.

49. The preliminary assessment of the base budget prior to consideration of any agreed priority development bids or savings plans is summarised below, with a more detailed movement statement presented at Appendix B:

	£000
Budget Requirement 2011/12	432,793
Council Tax Freeze Grant now included in Formula Grant	<u>2,226</u>
	435,019
Movements	
Pay and Prices	3,492
Revenue Implications of Capital	1,268
Budget Increases	6,080
Budget Reductions	-3,023
Increased Use of Balances	-1,300
Police Authority Savings	-125
BASE BUDGET 2012/13	441,411

STRATEGIC VISION AND PRIORITIES

50. The authority and force have agreed a joint long term vision as follows

“Working jointly with our communities and partners, we will provide the best local policing and specialist services we can, to protect the public from harm and improve public confidence”.

51. Tackling local crime and disorder, providing an effective response and protecting the public from serious harm is essential to improve public confidence. The aim is to protect as far as possible frontline and specialist policing services.

52. The four key priorities are

- Local Policing – focussing on neighbourhood policing, anti-social behaviour and crime reduction/reducing re-offending.
- Protecting the Public from Serious Harm – focussing on serious and organised crime, safeguarding young people and vulnerable adults, counter terrorism and the ability of the force to respond to major planned or spontaneous incidents.

- Partnerships and Collaboration – focussing partnerships on our key priority areas and working more collaboratively in the region
- Transforming the Organisation – managing the budget reductions through Operation Transform to ensure that the force maintains its frontline effectiveness, while reshaping some of its activities so that they are leaner and more efficient and preparing for the introduction of new police governance and accountability arrangements.

Operation Transform

53. The spending reductions required are a significant challenge, but the priority remains to protect frontline policing and services that protect the public from serious harm. The ongoing organisational change programme, Operation Transform, will deliver significant savings over the Spending Review Period, focussing particularly on back office and support functions.
54. A new approach called Priority Based Budgeting is being piloted and will be rolled out during 2012/13. This will deliver future savings options and allow the organisation to slim down proportionately taking account of force priorities and risk. Continued use will be made of Value for Money diagnostics to help identify where the force is an outlier in order to inform decision making regarding the high level programme for Operation Transform.
55. Operation Transform Projects which reached implementation stage in 2011/12 were:
- **Intelligence review** – This developed less costly processes with centralised management of intelligence analysis and dissemination.
 - **Criminal Justice Support Phase 1** – This reduced the number of criminal justice specialists in the Force. In future criminal justice will be delivered at a regional level to reduce costs further. A further review of prosecution team staff will be completed in 2012.
 - **Diversity Review** – The central unit was disestablished with internal diversity issues such as grievance, recruitment and retention being delivered by HR Department and external diversity issues such as the equality duty being delivered by Corporate Support Department.
 - **Roads Policing review** – This centralised the function and delivery of roads policing for the County through three hubs, plus motorway unit and ANPR teams based within Operational Support Services Division (OSSD).
 - **Estates Asset Rationalisation** – Year one objectives have been reached and work is well advanced to remove staff from rented buildings and accommodate them within the existing estate to make cost savings. Further analysis is ongoing to identify future savings through the sale of under utilised buildings. Existing office space is being redesigned as well as making use of ‘hot-desking’ to accommodate significantly more staff.
 - **IT Review** – Has restructured the IT Department to improve customer service and value for money.

- **Operational Support Services Division** – Operational Support, Communications, Training and Scientific Support Departments have all been reviewed and merged to form one Division (OSSD).
- **Organisational Support Review** – This has reviewed the Business Support functions (personnel, finance and administration) of Divisions and Departments.
- **Central Services Review** – This has rationalised and merged five Headquarters Departments (Corporate Review, Professional Standards, Media and Marketing, Office of the Force Solicitor and Local Policing) into one Department (Corporate Support Department).

New projects which will realise implementation in 2012/13 will be:

- **Custody services** – A review of custody services and provision to ensure capability and efficiency.
- **Helpdesk services** – A review of Helpdesk services and provision to customers to maximise efficiencies.
- **Crime Reduction** – A review of crime prevention services and interdependencies with other crime reduction work streams.
- **Prosecution Teams** – A review to identify streamlining processes in court file preparation.
- **Proceeds of Crime Teams (POCA)** – A review to maximise forfeitures and seizures from criminal assets.
- **Events and Planning** – A review of what services the police should dedicate resources to, for planned events and ensuring the most efficient use of those resources when deployed.
- **Identification Units** – aims to maximise the most efficient use of new technology ensuring the service is tailored to needs of victims and witnesses.
- **Divisional Control Rooms (DCRs)** – A review of the structures and operating practices of DCRs to ensure the most efficient use of resources.
- **Front-line Policing** – A review of force structures, processes and staffing. This review will not be completed until next year, but will produce further efficiency savings, whilst protecting front line service delivery to our communities.

56. The very significant scale of the savings requirement over the period of the Spending Review mean it is inevitable that the size of the organisation will reduce. The latest people forecasts are shown at Appendix C. Prior to any police officer recruitment agreed for 2012/13, it is estimated that total strength will stand at 8,546 by 31 March 2013, made up of 5,033 police officers, 2,762 police staff and 751 PCSOs.

CAPITAL BUDGET 2012/13

57. The capital budget at Appendix D has an average annual spend of £11.4m over the period 2012/13 to 2014/15 and reflects the following key issues:
- the final payments for the Scientific Support building;
 - the Huddersfield/Dewsbury Refurbishments;
 - a programme of minor works and Disability Discrimination Act (DAA) works;
 - a programme of estates rationalisation works (funded by Capital Receipts);
 - estimated costs of the Fire Control Centre;
 - IT replacement programme; and
 - Vehicle and equipment replacement programmes.
58. A funding strategy for the period of the forecast is shown on the final page of Appendix D. It includes capital grant of £4.6m in 2012/13, £4.2m in 2013/14 and £4.3m in 2014/15. This is lower than originally assumed as a result of the decision to top slice funding for the National Police Air Service. The level of capital receipts assumed in 2011/12 to 2014/15 totals £8.05m. Direct revenue support remains at £0.5m each year and the balance of funding is from prudential borrowing. The revenue cost of prudential borrowing in 2012/13 is factored into the budget.

PROPOSED BUDGET OPTIONS 2012/13

59. The proposed budget options for 2012/13, after taking account of the savings identified through Operation Transform, and their financing is as follows:

	Option 1 Accepting the CTFG	Option 2 4% Increase in Council Tax
	£000	£000
NET EXPENDITURE		
Authority	1,761	1,761
Force	418,655	419,548
Total Net Expenditure	420,416	421,309
Less		
Use of Balances	-6,000	-6,000
Net Expenditure after Use of Balances	414,416	415,309
Less		
Council Tax Freeze Grant	-2,686	0
Budget Proposal	411,730	415,309
FINANCED BY		
Police Principal Formula Grant	179,315	179,315
Revenue Support Grant	2,727	2,727
Redistributed Non Domestic Rates	140,693	140,693
Collection Fund Deficit	-541	-541
Precept	89,536	93,115
Total Financing	411,730	415,309

60. Savings of £26.995m identified through Operation Transform and use of balances are sufficient to bridge the gap between the draft base budget of £441.411m and Option 1 above. The additional resources of £893k at option 2 would be utilised to recommence police officer recruitment in 2012/13 following the recruitment freeze instituted in 2010.
61. The public consistently identify police officer numbers as a priority and there are serious disadvantages to organisational health from a prolonged recruitment freeze, including the loss of training infrastructure, the negative impact on promotions and changes to the force service profile which can create problems in future years. The proposal would be to recruit 26 police officers in 2012/13.

PROVISIONS, RESERVES AND BALANCES

62. The adequacy of provisions, reserves and general balances is reviewed as part of the budget planning process and again at the year-end during the closure of accounts. The current position is shown at Appendix E.
63. Local Authority Accounting Panel Bulletin (LAAP) 77 recommends using a risk-based approach to determine the minimum prudent amount which should be held in general balances. An exercise has been undertaken to identify the main risks likely to be faced by the force, strategic, operational and financial. An assessment is made of the likely impact on force budgets and the probability of each event occurring. The overall total resulting from this exercise is around £8.7m for 2012/13.
64. The LAAP Bulletin also requires that for each earmarked reserve there should be a clear protocol setting out the reason for the reserve, how and when it can be used, and management, control and review processes. A protocol for the authority's earmarked reserves is set out at Appendix G for members' approval.
65. Members agreed in previous budget planning discussions to consider the use of balances over and above the planned use to support organisational change and the risk assessed prudent level. As shown at Appendix E, this amounts to some £4.6m. The Chief Constable would wish to apply any additional use of balances to recruit police officers during 2012/13.
66. By way of illustration, use of £1m of balances in 2012/13 would allow for the recruitment of 40 police officers phased during the year in two intakes of 20. The full year effect of that would be £1.37m. This would reduce the general balance to £9.6m by 31 March 2015. The sustainability of this approach is covered in paragraph 79.
67. The additional use of balances could be agreed for either of the two budget options identified above.

LONGER TERM PROJECTIONS

68. The medium term financial forecast showing budget projections against estimated funding through to 2014/15 is attached at Appendix F. Key assumptions include a reduction in government funding as set out in the spending review, a two year pay freeze for officers and staff commencing September 2011, the estimated impact on expenditure and funding of the pay cap of 1% from September 2013 announced in the Chancellor's Autumn Statement, and a precept increase of 4% from 2013/14 onwards.

69. The anticipated budget savings required for the two options identified above are as follows:

Budget Savings Required	Option 1 Accepting the CTFG	Option 2 4% Increase in Council Tax
	£000	£000
2012/13	26,995	26,995
2013/14	15,375	12,543
2014/15	32,198	29,217

ROBUSTNESS OF THE ESTIMATES AND ADEQUACY OF RESERVES

70. Section 25 of the Local Government Act 2003 requires that a report be made by the Responsible Financial Officer to the authority when it is considering its budget and council tax. The report must deal with the robustness of estimates and the adequacy of reserves allowed for in the proposals.
71. As the council tax is set before the year begins and may not be increased during the year the Authority must consider risks and uncertainties which might result in spending more than planned. These risks and uncertainties include
- The delivery of the significant level of savings identified to balance the budget.
 - The global economic climate and in particular, levels of inflation, interest rates for borrowing and investment, security of investments, availability and viability of competitive suppliers and so on.
 - A high degree of uncertainty surrounding future funding assumptions
 - Proposals for risk sharing in respect of the localisation of council tax benefit
 - Potential reduction in external funding from partners.
 - The impact of unforeseen events which would fall initially on general balances.
 - The need to meet new national standards and demands.
 - The impact of increasing mandation of national contracts.
 - Ongoing transfer of costs from the NPIA for key systems
72. Allowance is made for these risks by:
- Making prudent allowance in the estimates on each of the budget headings.
 - Ensuring that there are adequate reserves to draw on if the estimates turn out to be insufficient.
 - Robust financial management processes throughout the year to identify emerging spending pressures and manage them appropriately.
73. With reference to robustness, the budget estimates are prepared and validated by qualified staff in the force Finance Department with due care and attention and in accordance with appropriate professional standards. The estimates are consistent with the latest assumptions on timescales for delivery of the organisational change programme as agreed by the Command Team.

74. Known spending pressures have been identified and provided for within the base budget. Provision has been made for specific inflationary pressures on both pay and prices, although some budget heads have been cash limited. Savings identified have been deducted from the budget and these have been phased in such a way that there is a justifiable expectation that they will be achieved, although the assumptions made are more significant than in previous spending review periods.
75. The costs of borrowing and the estimate of investment interest are based on latest forecasts of interest rate movements during the year in accordance with the Treasury Management Strategy.
76. The position faced by the force and authority for 2011/12 following the Government's Spending Review was unlike that of any previous year in the scale of challenge faced, and this is likely to continue into the medium term beyond the current Spending Review period. Substantial effort and resources have been committed to achieving a balanced budget with least impact on service delivery. The longer term strategic planning process and organisational change programme will continue to consume significant levels of resource alongside the ongoing requirements of daily business.
78. On adequacy of reserves, an appropriate level of general balances has been assessed using a risk-based approach in accordance with CIPFA guidance, and the budget proposals allow for this level to be maintained. While balances are currently adequate, there are significant uncertainties in the medium term forecast as outlined above. The adequacy of the insurance provision against estimated known liabilities is assessed throughout the year and at the year-end.
79. Members will be considering the use of balances to fund recurring expenditure on police officers as part of the budget considerations for 2012/13. This is not sustainable in the longer term and all else being equal would require an increase in precept or additional savings to be found in future years. The risk is however mitigated as there are plans for police officer recruitment in 2013/14 and beyond which could be flexed if necessary to compensate for the earlier recruitment funded from non recurring resources.
80. The budget proposals have been subject to regular and detailed scrutiny by members at an expanded number of budget seminars. Regular monitoring of the revenue budget and capital programme is undertaken via the Resources Committee. The risks associated with Operation Transform are considered at the Audit and Risk Committee, and force performance will continue to be scrutinised at the Strategic Planning and Performance Committee.
81. The HMIC has recently reported back on the outcome of the second round of meetings which have examined responses to the financial challenges facing the police service. A number of forces were judged to require additional inspection, which is already underway. West Yorkshire is not one of those forces, but falls into a group which will continue to be monitored, on a light touch basis, by the HMIC. Four of the large metropolitan forces are included within this group, reflecting the significant scale of savings which need to be found throughout the spending review period.

BUDGET CONSULTATION

82. Between 1 and 18 December 2011 an online survey was made available for completion by the public with the key findings being reported to the Budget Seminar on 27 January and summarised in Appendix H.
83. A total of 1,934 responses were received to the survey which represents a small reduction on last year (when 2,127 responses were received).
84. The survey asked respondents to allocate money to policing functions to reflect the importance they placed upon various functions. The top four functions were
 - Public facing officers and staff
 - Anti Social Behaviour
 - Serious and organised crime
 - Acquisitive crime
85. This is entirely consistent with the vision and strategy and confirms the strategic direction underpinning both resource planning and the Policing Plan priorities and targets.
86. 43% of respondents indicated that they would be prepared to pay an increase of 4% or more on their police council tax.
87. 40% of respondents believed the authority should not accept the council tax freeze, 32% felt the freeze should be accepted and 28% were not sure.
88. The draft budget was presented to trade unions and staff associations during a consultation exercise on 19 January 2012. The Authority and Force are grateful for the commitment and support of staff, officers, staff associations and union representatives throughout 2011/12 in managing the overall process of change in as constructive a way as possible in the difficult circumstances.