

**Joint Report of the Chief Executive & Chief Constable  
to the Chair and Members of the Police Authority Executive  
10<sup>th</sup> December 2009**

**Executive & Presenting Officer: Joe McCarthy Chief Executive  
Mrs Ann Hall, Assistant Chief Officer  
(Finance & Commissioning)**

**Status: For Approval**

## **Long Term Financial Plan Update**

### **1 Purpose of this Report**

- 1.1 This report progresses the development of the budget for 2010/2011 against a background of the current national economic climate. This climate provides a complex planning challenge for 2011/2012 and beyond, and as a consequence it is recommended that a further report is brought forward in February about the period 2011/2012 to 2013/14 [incorporating 2010/11].

### **2 Executive Summary**

#### **Current position 2010/11**

- 2.1 The provisional settlement for 2010/2011 was laid before Parliament by the Government on 26<sup>th</sup> November 2009 – It confirmed the final year of the 3 year funding settlement allocating Cleveland Police Authority a 2.5% uplift. This is in line with our assumptions as outlined in the Long Term Financial Plan. The final piece of the jigsaw for 2010/2011 in particular will be to set the Council Tax Precept in February 2010.
- 2.2 On 22<sup>nd</sup> July Members received an update on proposals to deliver a balanced budget in 2010/11 and financial projections for the years 2011/12 to 2012/13. Since then Members have been briefed on 2 possible budget models for financial planning purposes. These were presented to Members during your planning days on the 14<sup>th</sup> August 2009 and again on the 24<sup>th</sup> September 2009.

- 2.3 Since September there has been much discussion in the media, Police Authority Treasurers Society and ACPO Business and Finance Group about the state of the national economy and the implications for the Police service. This has been further discussed at the recent APA Conference where the Policing Minister in confirming the Provisional Settlement, clearly stated that the Government would move to cap Police Authorities who approved Council Tax increases in excess of 5%.
- 2.4 Our existing financial strategy outlines a position whereby spending is constrained by limiting the increase in Council Tax to no more than 4.95%. The current situation is that an increase of 4.6% would enable the Authority to deliver the same level of services. This situation needs to be considered within the context of briefings to Members in August and September 2009. These briefings explored potential scenarios in which increases in Council Tax could be further constrained to a lower level of 2%. In the coming weeks final proposals will be drawn up for Members with a range of options which balance the service needs with current economic conditions that our communities face. The consultation process will commence with the Stakeholder Event on 9<sup>th</sup> December 2009. The full budget timetable is outlined in the Government Grant Settlement report which is considered as part of today's Agenda.

#### **The Future 2011/12 – 2013/14**

- 2.5 At the Members Development Days in August and September 2009 a number of scenarios were discussed. The core assumptions were around a slow down in public sector pay increases, coupled with reductions in Government Grant and Council Tax increases capped at 2%.

Since September there has been significant commentary in the media;

- The economist reported (Britain's Fiscal Emergency 24.09.09) that the Treasury has pencilled in a cut in real department spending of 4% in 2011/2012 with reductions in the ensuing 2 years of 1.8% and 3% - accumulative contraction of 8.6%.....Since expenditure on the NHS makes up almost 1/3 of all departmental budgets, that implies even bigger real cuts elsewhere. The Institute for Fiscal Studies estimates that, even if the Health Service budget were to stay the same in real terms cuts averaging more than 4% a year over 3 years for other public services would be required.
- Sir Hugh Orde President of ACPO was interviewed on Radio 4 11.10.09 and stated that "I can confidently predict cuts in Police budgets of 10-20% over the next few years".
- Most significantly in his introduction to the White Paper (2.12.09), the Home Secretary stated that more challenging financial climate in the years ahead demanded urgent and radical action to squeeze out

unnecessary costs, raise productivity and ensure we continue to focus on front line delivery. The White Paper states that a drive to create greater value for money will deliver savings of at least £545m per year by 2014, which is about 5% of Government Grant.

- 2.6 The Prime Minister, addressing the subject of efficiency savings at a speech to the Royal Society on 7th December 2009, indicated that the budget deficit must be halved over the over 4 years. This deficit is projected to be in the region of £170 billion for 2009/10. It was indicated that Gershon efficiency savings are projected to deliver annual savings of £26 billion over 4 years and that the Government is working on plans to deliver an additional £12 billion over 4 years.
- 2.7 Assuming that the overall savings required over the next 4 years is £85 billion (half of the projected deficit), and that £38 billion is saved through efficiency savings, this leaves roughly £47 billion still to achieve through a mixture of tax increases – such as VAT and National Insurance – and further spending cuts. With total Government spending in 2010/11 projected at £670 billion, this would suggest that the efficiency savings should deliver a 6% reduction in public expenditure and that the remaining £47 billion represents a further 7% reduction of public expenditure.
- 2.8 There are tax increases in the pipeline that will deliver up to £15 billion per annum in revenues, so an estimate of the gap to be filled is reduced from £47 billion to around £32 billion. It is mooted that a further rise in VAT to 20% could deliver a further £12 billion in revenue and, assuming that this is the extent of further tax increases, the remaining deficit to be delivered from service cuts would be £20 billion, which is around 3%. Therefore the public sector may need to achieve average savings of 6% from efficiencies and 3% from cutbacks, a total of 9% over 4 years.
- 2.9 On services The Prime Minister described the “third generation” of public services which are based on greater public involvement. There is an emphasis on using technology to deliver services online and on service standards being widely publicised at a local level, for example crime data and police efficiency measures. Mr Brown stated that public service data will be benchmarked by the overseeing bodies and there will be both a push to improve services towards the excellent and to use this benchmarking data to influence the allocation of funding.
- 2.10 Inevitably the impending General Election is influencing the debate about the scale and emphasis of public expenditure in the years beyond 2010/2011. It will be necessary to analyse further the recent announcements and the pre budget speech due later this week, before a report on potential prospects for 2011/2012 to 2013/14 is brought to Members in February 2010.

### 3 Recommendations

Members are requested:

- 3.1 To agree the current position in relation to the budget for 2010/11 as set out in paragraph 2.4 of this report.
- 3.2 To agree that the Long Term Financial Strategy [2010/11 to 2013/14] is brought for review to the Authority meeting in February 2010.

### 4 Budget 2010/2011

- 4.1 Members received an update on proposals to deliver a balanced budget for 2010/11 and financial projections for the years 2011/12 to 2012/13 at their meeting on 22<sup>nd</sup> July. The LTFP approved by Members on 26<sup>th</sup> February 2009 was approved with a requirement to deliver recurring savings to balance future years of the plan. However, since that plan was approved the tightening economic climate and a number of significant pressures have emerged. A schedule of all the pressures is set out in the table below for Members information. The initial savings target for 2010/11 [£1.1m] has increase to a worst case total of £3.4 million. The total pressures are outlined in the table below.

<b>Pressures</b>	<b>2010/11</b>
	£000s
<b>Initial savings requirement [February 09]</b>	1,100
<b>Income Pressures</b>	
Continued Reduction in Interest Rates	320
	<b>320</b>
<b>Funding Pressures</b>	
Future Potential Council Tax increase at 2.5%	760
Precept Collection Surplus	(200)
	<b>560</b>
<b>Technical Adjustments/Other Pressures</b>	
Review of IPLDP savings	950
Major Incident	200
NSPIS Case and Custody Funding Reduction	150
	<b>1,300</b>
<b>Developments</b>	
Vetting Officer	40
Institute for Local Governance Contribution	25
Operational Accommodation Development	55
	<b>120</b>
<b>Total Pressures</b>	<b>3,400</b>

#### 4.2 Interest Rates

Since the 2009/13 LTFP was approved interest rates have fallen to 0.5%. This is 1% lower than when the plan was set. In addition to this there appears no sign of interest rates increasing in the short term. Therefore the forecast interest we will receive on the investment of our surplus cash balances has been reduced to reflect this.

#### 4.3 Funding Pressures

The pressures in relation to Precept are potentially significant over the four year period of the Plan – an initial reduction in the council tax increase from 4.95% to 2.5% is equivalent to foregoing £760k in resources in 2010/11. This would be a permanent impact on our resource base.

#### 4.4 IPLDP (Initial Police Learning and Development Programme) Savings

Savings of £950k were built into the LTFP on the expectation that we could reduce the amount of time probationers spent being trained by the Force whilst we were paying them. The premise being that if we reduced the current 40 weeks of training to 30, and the first 10 weeks of training were undertaken by the students themselves then we would save money. However, the students would still be available to the front line at the same time (after 40 weeks) although they would technically become an employee of Cleveland Police 10 weeks later than is currently the case and this would result in an increased vacancy rate for the Force. It is the increased vacancy rate that generates the cashable savings, rather than the cutting of costs.

4.5 We will therefore pursue this option on the lines of efficiency but remove the savings from the plan. These savings have been replaced by an increased Police Officer vacancy rate although the monetary value of that effect is at a lower value, reflecting the lower level of probationer recruitment than was anticipated when the work on IPLDP was begun.

#### 4.6 Major Incident Contingency

As reported to Members in the Budget Monitoring paper on the 24<sup>th</sup> November the Major Incident Contingency Fund, whilst managed very closely, continues to require more funds than is currently available to it. This increase in budget for the Fund is therefore firming up the reality of maintaining Policing in this area as opposed to providing additional funds as growth.

#### 4.7 NSPIS Case and Custody

The NPIA have insufficient funds to continue to support NSPIS Case and Custody at the levels that they previously did. In 2009/10 Forces are expected to pick up a bill of just under £5m in relation to the support of this system. Our share of this is £160k. The overall costs are expected to increase significantly in 2010/11 and our share is expected to increase to £440k (we have budgeted £290k) and therefore if the full extent of the costs are passed to us we will need an additional £150k to meet our share of the support costs.

4.8 Members are asked to note that there is no capacity within this plan for any internally generated growth or any growth that is imposed on Cleveland Police through the implementation of National Initiatives.

4.9 Savings and Budget Reductions

In order to deliver a balanced budget in 2010/11 a programme of potential savings and budget reductions has been identified. The Chief Constables Executive Team have identified reductions/contributions which could close the budget gap working on the worst case scenario for 2010/11. Members will need to consider in detail the reductions outlined below prior to setting the budget in February 2010.

<b>Savings Proposals</b>	<b>2010/11</b>
<b>Agreed Reductions/Contributions</b>	£000s
Procurement Cashable Savings Target	(200)
Lower PFI Unitary Charges	(290)
Review Injury/Medical Retirement Pensions	(50)
Contributions from General Fund	(975)
Reduction in ICT and Control Room Costs	(365)
Utilities	(340)
Freeze non-pay inflation	(520)
Police Officer Vacancy Rate increased to 1.5%	(425)
Reduction in Police Officer Allowances	(120)
Income changes	(115)
<b>Total Agreed Reductions/Contributions</b>	<b>(3,400)</b>

**5 Longer Term Financial Strategy**

5.1 As Members will recall from the financial presentation at their briefing in August, the financial outlook beyond 2010/11 is uncertain. Whilst the size of the financial challenge that faces the Authority will be primarily determined by decisions that are outside of our control, the Force will be proactively developing options and strategies that will provide the means to reduce the recurring costs of the services that the Force currently provides whilst endeavouring to maintain current service levels.

5.2 With the above in mind the Force has put the following in place to generate future savings while also looking to maintain current service levels:

- Project I
- Positive Futures Group
- Procurement Transformation Programme

5.3 In addition to this the Force will also use Value for Money indicators and comparative data from all 43 Police Forces to identify areas of best practice that can be used to drive through cashable efficiencies.

**6 Implications**

6.1 Finance

There are no financial implications other than those mentioned above.

6.2 Diversity & Equal Opportunities

Diversity considerations are kept under constant review in line with Force policies and 'Putting People First'. There are no issues arising from this report to bring to Members attention.

6.3 Human Rights Act

There are no Human Rights Act implications arising from this report.

6.4 Sustainability

This report is part of the process introduced by the Authority to establish sustainable annual and medium term financial plans and maintain prudent financial management.

6.5 Risk

If the savings required to deliver a balanced budget for 2010/11, and for the LTFP 2011/14, are not achieved then this could impact on the focus on front line policing and performance improvement.

**7 Conclusion**

7.1 A balanced budget for 2010/11, that maintains the focus on front line policing and performance improvement, will be brought to the February meeting for Members' consideration and decision.

Joe McCarthy  
Chief Executive

Sean Price  
Chief Constable