

**Report of the Treasurer and Chief Constable to the Chair and Members  
of the Police Authority Executive  
20<sup>th</sup> December 2011**

**Executive & Presenting Officer: Mr Michael Porter, Treasurer  
Mrs Ann Hall, Assistant Chief Officer  
(Finance & Commissioning)**

**Status: For Approval**

## **Long Term Financial Plan Update**

### **1. Purpose**

- 1.1 At their meeting on 24<sup>th</sup> February 2011 Members approved the budget for 2011/12 and the Long Term Financial Plan (LTFP) for 2012/16. This report is to provide an update to that position.

### **2. Recommendations**

Members are asked to:

- 2.1 Note the contents of the report.
- 2.2 Agree that updates will be presented to Members in briefings to be held in January and February.
- 2.3 Agree that the final 2012/13 budget and the 2012/16 LTFP are brought to their meeting in February.

### **3. 2011/12 Budget Update**

- 3.1 For the current year, a £80k overspend is forecast as detailed to Members of the Policy and Resources Panel in the Budget Monitoring report – several areas outlined in that report are being investigated in order to mitigate this and bring the Force back to a break-even position for 2011/12; this will be taken back to Policy and Resources panel for scrutiny.

Within the current year, the Authority approved 12 medical retirements and these have taken place at a cost of £880k. As a result of the in-year savings in relation to outsourcing, a decision was taken to fund these from the current year budget as opposed to the Earmarked Reserve currently highlighted to be

spent on medical retirements. The current budget position is after this expenditure for medical retirements.

- It is now proposed to utilise the £900k Medical Retirements earmarked reserve to fund 12 medical retirements in 2012/13.
- It is also proposed to release the Earmarked PFI Sinking Fund Reserve of £684k. The way in which the PFI Grant for Uraly Nook is now paid to the Authority negates the need for this reserve. It is proposed that this £684k is now Earmarked for Workforce Modernisation and the management of the redeployment pool risk.

#### **4. Factors of Change since October**

##### 4.1 Winsor Review

Members will be aware that Part 1 of the Independent Review of Police Officer and Staff Remuneration and Conditions undertaken by Tom Winsor was published in March 2011.

There are a significant number of recommendations within what is a very comprehensive review and decisions have yet to be made nationally on which of the recommendations are to be implemented and it is therefore unlikely that any savings will now be made in the current financial year.

All of the relevant recommendations within Winsor now been costed and it is estimated that, if all recommendations are fully implemented, that the overall potential benefit would be £2.8m in 12/13 rising to £4.4m in 2014/15.

The areas covered within the review and the breakdown of their impact can be seen in Appendix B.

##### 4.2 Police Authority Investigation

The investigation commissioned by HMIC and led by Warwickshire Constabulary is expected to cost in the region of £1.44m in the current financial year which will be funded from reserves.

However, a Special Fund Police Grant will be applied for, and a further update will be provided to Members in February.

##### 4.3 The Olympics

The Olympics will take place in London in the summer of 2012 and are likely to impact on all forces around the country in terms of both local and national demands.

At this stage, it remains difficult to quantify the impact this may have on the LTFP. However, the Home Office currently expects all Forces to collate the expenditure they incur as a result of the Olympics. The re-imburement of this

expenditure is then expected to be co-ordinated through the Home Office in line with the national Hertfordshire mutual aid charging formula.

## 5. **The Long Term Financial Plan (LTFP) 2012/16**

- 5.1 At their meeting on 24<sup>th</sup> February 2011, Members approved a Gross Expenditure Budget for 2011/12 of £141,678k and the LTFP for 2012/16. The plan included all of the information from the Comprehensive Spending Review which covered 2011/13 in detail and gave high level indications for 2014/15.

The gross savings to be made as a result were:

	2012/13	2013/14	2014/15	2015/16
	£000s	£000s	£000s	£000s
<b>Savings Target after Changes in Assumptions</b>	<b>19,117</b>	<b>21,751</b>	<b>24,648</b>	<b>24,241</b>

This was on the basis of Precept rises being capped at 3.5% following a freeze for 2011/12.

After outsourcing, workforce modernisation and identified savings, the 'Savings Graded Red' remaining in the plan was:

	2012/13	2013/14	2014/15	2015/16
	£000s	£000s	£000s	£000s
<b>Savings Graded Red</b>	<b>6,690</b>	<b>7,250</b>	<b>10,311</b>	<b>10,234</b>

At the update provided in September, this had then moved to:

	2012/13	2013/14	2014/15	2015/16
	£000s	£000s	£000s	£000s
<b>Savings Graded Red/Yet to be identified</b>	<b>1,475</b>	<b>1,575</b>	<b>2,635</b>	<b>3,215</b>

### 5.2 Movements since the LTFP 2012/16 September Update

There are a number of changes since the September update, some of which reflect changes in assumptions as better information is now available, some are further savings which have been developed and some are from starting to formulate plans for the longer term that will enable a balanced budget in future years. Details of the movements from the approved 2011/12 Gross Expenditure Budget, of £141,678k, can be seen in Appendix A.

- 5.3 As in previous years the savings plans have been graded (Green, Amber and Red) according to the work still needed to bring them to fruition and the probability of delivery.
- 5.4 A lot of work has been done on identifying further areas of saving, as well as consolidating knowledge around areas that had already been identified so as to reduce their risk status. This work will continue before the final 2012/13 Budget is presented for approval in February, with future briefings to Members in both January and February to keep Members fully informed of progress.

5.5 Project I, Plan B and WorkForce Modernisation

As part of the agreed strategy of the Authority to meet the challenges of the significant cuts in Government Grants it was agreed to 'civilianise back office functions currently undertaken by warranted officers – this will mean an overall reduction in the number of officers and the generation of significant cashable efficiencies'.

The proposals already agreed through the Core Outsourcing Contract, the agreed Wider Scope Outsourcing of Crime Management and Risk, Resilience and Safety, and the internal Plan B Work Force Modernisation Plan (to civilianise 36 roles with 24 being filled as soon as possible), move the Authority from a Police Officer Establishment of 1,727 FTEs to 1,460 FTEs with no expected reductions in service or frontline visibility.

5.6 Based on current indications of Government Grant funding levels, and precept increases of 3.5% per annum, it is currently forecast that Police Officer numbers will move in accordance with the following table over the life of the LTFP:

	Average Police Officers Employed	Establishment
2012/13	1,500	1,500
2013/14	1,457	1,460
2014/15	1,414	1,460
2015/16	1,395	1,460

The challenge therefore will be to close the gap from 2014/15 onwards between the number of Police Officers that the Authority is likely to be able to afford and those that are currently needed to continue to deliver the same level of service as is currently in place. Work is ongoing to identify either additional savings or structure changes to bridge that gap.

5.7 Pay assumptions

The update presented in September assumed a 2 year pay freeze for officers, PCSOs and staff followed by 2% increases in the years after. There is a ministerial statement that pay increases following the freeze would be 1% for 2 years and that assumption is built into the plan presented here.

However, it is assumed that the Government Grants will be reduced in line with this, and although that has not been confirmed, it is the prudent assumption in the LTFP presented here.

5.8 PCSOs

The update presented in September assumed a level of 166 in line with the minimum requirements for central Government funding.

5.9 Precept

During the setting of the 2011/12 Budget the Government announced their capping principles in relation to precept increases. The Government stated that they would instigate capping against any Authority who increased their precept by more than 3.5%. Given this indication the current LTFP remains based on Precept increases of 3.5% for the life of the plan. Capping rules have now been superseded and referenda are required for any Precept rise over 4%. This matter is discussed more fully in Grant Settlement paper on today's agenda.

- 5.10 Members should note that if a 4.0% increase in Precept was proposed for the life of the plan, i.e. 0.5% per annum higher than the level built into the current plan, the additional income would be as follows (cumulative):

<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>161</b>	<b>334</b>	<b>520</b>	<b>720</b>

- 5.11 It has been confirmed that the Department for Communities and Local Government (DCLG) would give a grant equivalent to 3% of Precept for any Authority imposing a freeze on their Precept levels for 2012/13. However, as we are currently assuming a 3.5% increase, this would equate to a £160k pressure on the 2012/13 budget presented here. The grant (equivalent to £960k for Cleveland) would only be for one year, and not the life of the CSR as the current grant and would therefore give rise to a much more significant pressure in future years (£1.2m, £1.2m and £1.4m cumulatively in the years from 2013/14).

5.12 General Reserves

The plan currently assumes a contribution from General Reserves in 2012/13 of £1.1m, consistent with that discussed in September.

It is also assumed that Operation Sacristy costs will amount to £1.44m in 2011/12 and be funded from reserves.

This will mean the Authority still remains above its currently agreed minimum level of General Reserves of 3.0% of Net Budget Requirement, as set out in the following table:

	2011/12	2012/13	2013/14	2014/15	2015/16
	£000s	£000s	£000s	£000s	£000s
General Fund Balance b/f	7,119	5,959	4,859	4,859	4,859
Proposed (Use of)/Contribution to General Fund - CPA	(1,440)				
Proposed (Use of)/Contribution to General Fund - CP	0	(1,100)			
Transfer from earmarked reserves	280				
<b>General Fund Balance c/f</b>	<b>5,959</b>	<b>4,859</b>	<b>4,859</b>	<b>4,859</b>	<b>4,859</b>
<b>Net Budget Requirement (NBR)</b>	<b>(129,843)</b>	<b>(124,427)</b>	<b>(127,190)</b>	<b>(125,806)</b>	<b>(128,918)</b>
<b>General Fund as % of NBR</b>	<b>4.6</b>	<b>3.9</b>	<b>3.8</b>	<b>3.9</b>	<b>3.8</b>

However, to fund Operation Sacristy, a Special Fund Police Grant will be applied for, and a further update will be provided to Members in February.

### 5.13 Projected Financial Position

All savings are graded red, amber or green, and develop over time as ideas are progressed and the operational impact of them is assessed. As a result of the changes mentioned above, and as detailed in Appendix A, the financial position at December is as per the table below:

<b>Long Term Financial Plan 2012/16</b>					
	2012/13	2013/14	2014/15	2015/16	
	£000s	£000s	£000s	£000s	£000s
<b>Savings Target after Changes in Assumptions</b>	<b>7,178</b>	<b>9,830</b>	<b>13,464</b>	<b>14,696</b>	
<b>Project I, Plan B and WorkForce Modernisation Saving</b>	<b>(585)</b>	<b>(3,375)</b>	<b>(3,549)</b>	<b>(3,549)</b>	
<b>Savings already highlighted and agreed</b>	<b>(1,798)</b>	<b>(2,521)</b>	<b>(2,637)</b>	<b>(2,577)</b>	
<b>Savings Graded Orange</b>	<b>(295)</b>	<b>(622)</b>	<b>(2,666)</b>	<b>(3,255)</b>	
<b>Savings Target before Savings Graded Red</b>	<b>4,500</b>	<b>3,312</b>	<b>4,612</b>	<b>5,316</b>	
<b>Winsor Savings Graded Red</b>	<b>(2,772)</b>	<b>(3,896)</b>	<b>(4,246)</b>	<b>(4,336)</b>	
<b>Other Savings Graded Red</b>	<b>231</b>	<b>543</b>	<b>(407)</b>	<b>(1,021)</b>	
<b>Contributions to/(From) Reserves</b>					
<b>General Fund</b>	<b>(1,100)</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Earmarked</b>	<b>(859)</b>	<b>41</b>	<b>41</b>	<b>41</b>	
<b>(Surplus)/Deficit after Reserve Movements</b>	<b>(0)</b>	<b>0</b>	<b>0</b>	<b>(0)</b>	

### 5.14 Summary Position

There is a balanced LTFP at this point however this is heavily reliant on the delivery of savings in the Winsor report which may be implemented wholly, partly or delayed and are not within the control of either the Police Authority or the Police Force. Further work will be brought to Members to address the alternative scenarios should Winsor savings not be fully realised.

## **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**

Risk forms a key part of the regular monthly monitoring of budget delivery throughout 2011/12 and is reported to and scrutinised by Members of the Policy & Resources Panel. Specific risks being monitored are:

- The plan assumes £2.8m of savings from the implementation of the recommendations of the Winsor review, rising to £4.4m in 2014/15. Should implementation be delayed or not carried out at all, alternative savings need to be identified and implemented.
- The plan now assumes pay increases of 1% for 2 years after the end of the freeze but also that grant will be reduced in line with this.
- The current reserves position assumes the funding of investigation costs of £1.44m in 2011/12. Further costs of this investigation have not yet been quantified however and if an application for a Special Grant is not successful then the use of reserves, or further savings, will be required.
- The level of Government Grant the Authority will receive in 2012/13 have been confirmed by the Government and are in line with the LTFP presented here. The funding for 2013/14 however has not been confirmed and there is a risk that the level of Government Grant eventually received in 2013/14 is not in line with the assumptions within the current LTFP and that this may lead to additional pressures.
- At this point, it is still difficult to quantify the potential impact of the Olympics in summer 2012; any significant costs associated with both local and national resilience could affect the position presented.

These risks are significant, both in terms of the uncertainty and the lack of control over some of the savings but also the potential impact the significant cuts in Government Funding could have on operational performance. These risks will continue to be monitored through both the Force and Authority Risk registers with updates on the specific finance related risks being provided to Members in future LTFP update reports.

## **7. Conclusions**

- 7.1 This LTFP update takes Members from the position as at 24<sup>th</sup> February 2011 through the challenges we are facing in 2011/12 into the longer term plan for 2012/16.

Progress has been made since the LTFP 2011/16 was approved by Members in February 2011 and since the update provided in September; however, today's report still outlines financial challenges with further work to be done. Further briefings will be arranged for Members in January and February before the final budget proposals for 2012/13 is presented to Members in February.

Michael Porter  
Treasurer

Jacqui Cheer  
Temporary Chief Constable