



## 1.6 Long Term Financial Plan 2010/11 – 2014/15

### 1.7 The future financial environment

- 1.8 The LTFP update considered by the Members in December 2009 highlighted the significant commentary in the media during the autumn of 2009 regarding the state of Public Finances from 2011 onwards – paragraphs 3.2 to 3.4 of that report highlighted the key potential issues.
- 1.9 In addition to the information already considered by Members, a letter received from the ACPO/APA leads on Value For Money [15 February 2010] talks about the need for producing cashable savings circa 4.5% and non-cashable savings circa 4% and by 2014.
- 1.10 This view is potentially contrasted by a letter in the Sunday Times [14.2.10] by *Leading Economists* which states that "...the next government should set out a detailed plan to reduce the structural budget deficit set out in the 2009 pre-budget speech". Furthermore, it is anticipated that some sectors, such as Education and Health, will be offered a degree of protection, while parts of the national budget are growing, such as interest payments and unemployment benefits. This would suggest that elsewhere there will be larger reductions than the "headline" figures.
- 1.11 The report approved by Members on 25<sup>th</sup> January agreed that in developing future plans that the following assumptions would be made over a three year period to coincide with the next anticipated CSR period (2011/2012 to 2013/2014);
- No growth in Precept over the 3 year period, partly to reflect what may be a new Government's policy for the first year of the CSR, and partly to leave this as a matter for consideration of the CPA at a later date.
  - Two tranches of potential funding reductions:
    - A 3% year on year cash reduction in Formula Funding from the 2010/2011 base.
    - A 5% year on year cash reduction in Formula Funding from the 2010/2011 base.
  - In addition to these funding assumptions the following were also agreed:
    - There is no predetermination of the total number of officers or PCSOs within the Force

1.12 The tables below show the annual budget pressures that could accrue through to 2014/15 on this basis with year on year reductions of 3% and 5% respectively. Should Members approve an increase in Council Tax precept of 2.94% today this would provide for a balanced budget in 2010/11.

1.13 The cumulative impact of 3% reductions year on year would be circa 12% over the four year period 2011/12 to 2014/15. Recurring incremental savings would need to be found on an annual basis totalling £22.2 million per annum by 2014/15. The consequential reduction in the Net Budget Requirement is also identified from 2010/11 to 2014/15.

<b><u>3% Government Grant Reductions</u></b>	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Underlying financial deficit based on 2010-11 levels of Government Grant and Council Tax	Balanced Budget	4.9	6.8	8.7	10.7
3% reduction in Government Grant (cum impact)		3.0	5.9	8.8	11.5
<b>Savings required with 3% Grant Reductions</b>	<b>0.0</b>	<b>7.9</b>	<b>12.7</b>	<b>17.5</b>	<b>22.2</b>
<b>Incremental recurring savings to be found</b>	<b>0.0</b>	<b>7.9</b>	<b>4.8</b>	<b>4.8</b>	<b>4.7</b>
<b>Net Budget Requirement</b>	<b>132.2</b>	<b>124.3</b>	<b>119.5</b>	<b>114.7</b>	<b>110.0</b>

1.14 The impact of 5% reductions year on year would be circa 20% over the four year period 2011/12 to 2014/15. Recurring incremental savings would need to be found on an annual basis totalling £29.3 million per annum by 2014/15. The consequential reduction in the Net Budget Requirement is also identified from 2010/11 to 2014/15.

<b><u>5% Government Grant Reductions</u></b>	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Underlying financial deficit based on 2010-11 levels of Government Grant and Council Tax	Balanced Budget	4.9	6.8	8.7	10.7
5% reduction in Government Grant (cum impact)		5.0	9.7	14.3	18.6
<b>Savings required with 5% Grant Reductions</b>	<b>0.0</b>	<b>9.9</b>	<b>16.5</b>	<b>23.0</b>	<b>29.3</b>
<b>Incremental recurring savings to be found</b>	<b>0.0</b>	<b>9.9</b>	<b>6.6</b>	<b>6.5</b>	<b>6.3</b>
<b>Net Budget Requirement</b>	<b>132.2</b>	<b>122.3</b>	<b>115.7</b>	<b>109.2</b>	<b>102.9</b>

## 1.15 Delivering a balanced budget beyond 2010/11

- 1.16 Under Putting People First recorded crime has reduced from 71,962 victims of crime in 2005/06 to a projected 48,209 in 2009/10. Public confidence in service delivery has been engendered by;
- Delivering a Citizen focused policing service to all our neighbourhoods
  - Reducing antisocial behaviour and protecting our neighbourhoods
  - Reducing the harm caused by drugs and alcohol
  - Ensuring an efficient and effective use of our people and the public's money
- 1.17 However, It is clear that the unprecedented level of efficiencies/ savings needed will require a significant strategic review of the way support services are delivered [through Project I] and continued service improvements to front line policing – restructuring of the support service functions will have a significant positive impact on front line delivery in the same way that CUPID/ Outsourcing of Custody provided much better service levels. It has the potential to deliver both cashable and non-cashable savings.
- 1.18 Having established the potential savings/ efficiency requirements needed through to 2014/15, the precise scale of the issues faced will not be known in detail until the Government commits to the next Comprehensive Spending Review. The Authority's response to the financial pressures will need to be cognisant of issues raised in the Audit Commissions PURE assessment and HMICs VFM profiles and Report Card.
- 1.19 The Authority's strategic approach to addressing the potential pressures identified in paragraphs 1.6 – 1.14 is centred on;
- The delivery of Project I
  - The civilianisation of 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.
  - Critically, whilst the overall numbers of officers will reduce from 2011/12, the front line service will be maintained and improved through collaborative projects and further business process engineering
  - Improving scrutiny of all resource issues through the existing MPR process and Police Authority scrutiny functions
- 1.20 Putting People First is at the heart of everything we do – in the current economic climate this remains at the forefront of our considerations. Within a strategy of service transfer and subsequent civilianisation it is envisaged that the Authority will be in the strongest position to ensure employment longevity for transferring staff for the period of service delivery within Project I.

- 1.21 The report approved by Members on 25<sup>th</sup> January agreed that;
- *“There is no predetermination of the total number of officers or PCSOs within the Force” &*
  - *“That a timetable and governance arrangements be brought forward relating to the production of options appraisal for delivery of optimal service levels within the estimated available resources and to maximise value for money. This to include reporting of initial results in the LTFP report in February 2010”.*
- 1.22 This position outlined in paragraph 1.21 has been significantly strengthened by the strategy outlined in paragraph 1.19. An initial meeting of the team charged with governance of this issue met on 9<sup>th</sup> February 2010. Initial work has also been undertaken by the Project I team on the posts that have the potential to be civilianised across all areas. Some of the back office roles are currently performed by officers on recuperative or restrictive duties – there will always be a requirement for such officers to be placed in these posts as opposed to front line roles. There is no intention that these officers will leave their posts other than through recovery from injury or retirement. It should be emphasised that posts will continue to be available to officers who are on restricted or recuperative duties in the future.
- 1.23 A report will be brought to the next meeting of the Police Authority Executive detailing the timetable and developments within the strategy to address the resource pressures.

## **2 Recommendations**

Members are requested to:

- 2.1 Approve the proposed budget for 2010/11.
- 2.2 Consider and agree a Net Budget Requirement of £132,172k which is an increase of 2.6% and a precept increase of 2.94% in the Band D level for 2010/11.
- 2.3 Agree contributions from Reserves of £1,070k in 2010/11 including £925k from the General Fund taking the General Fund to 3.4% of net budget.
- 2.4 Take cognisance of the Robustness of Estimates and Adequacy of Financial Reserves Report of the Chief Executive considered earlier in the meeting.
- 2.5 Agree the basis of the development of the Long Term Financial Plan 2010/11 to 2014/15 as outlined in paragraph 1.11.
- 2.6 Agree the strategy for dealing with the financial pressures in the period 2011/15 as outlined in paragraph 1.19.

### **3 Financial Strategy & Framework**

- 3.1 The continued success and development of policing is dependent upon a stable financial position which supports longer term planning and sustainable service delivery. As Members will recall from their December and January meetings there are significant uncertainties in developing a Long Term Financial Plan (LTFP) due to the flux caused by the relative weakness of public finances. The financial objectives of the Authority and Force remain unchanged and are detailed below;
- 3.2 The financial objectives of the Authority and Force are:
- Retaining a frontline focus
    - Embedding Neighbourhood Policing;
    - Strengthening Protective Services;
  - Enhancing the effectiveness of officers and staff;
  - Continuing to drive performance improvements;
  - Maintaining financial & operational resilience.
- 3.3 The financial planning framework aims to:
- Provide a planned, structured and transparent approach to the allocation of resources;
  - Target resources to Policing Plan priorities to improve policing outcomes;
  - Review and challenge the resources and assets required for service delivery;
  - Recognise and address changes to funding streams;
  - Maximise funding sources;
  - Identify and deliver cashable savings targets;
  - Provide appropriate financial & operational flexibility to District Commanders & Service Unit Managers through a framework of devolved resource management.
- 3.4 The annual budget framework for Service Units is the model that allocates resources to Service Units within the control totals approved by the Authority. District Commanders & Service Unit Managers are responsible for allocating this overall budget across individual expenditure heads as appropriate to deliver their performance targets and provide a quality service. Members will recall that pay budgets, with the exception of overtime, are retained and managed centrally in accordance with the decision of the Authority in 2004.
- 3.5 During the year robust monitoring of budgets is undertaken at the monthly Management Performance Review meetings and the outcomes reported to the Authority Policy & Resources / Corporate Development Panel.
- 3.6 The 2010/11 Budget is set out for Members' consideration at Appendix A.

## 4 Planning Assumptions

- 4.1 Members are aware that the current 3-Year funding round ends in 2010/11. Indications are that due to the unprecedented economic conditions and consequent impact on public finances, future settlements are unlikely to be at the same level as those in the past.
- 4.2 Grant  
Members will recall that the Government announced a three year settlement in December 2007. The settlement provided firm figures for 2008/09 and indicative allocations for 2009/10 and 2010/11.
- 4.3 In November 2008, the Minister of State for Local Government confirmed the figures for 2009/10 and provisional figures for 2010/11. In both years these were the same as expected.
- 4.4 In November 2009, the Minister of State for Local Government confirmed the figures for 2010/11. However there was no indication of the likely funding levels for future years.

<b>Funding Settlement 2009/10 to 2010/11</b>		
	2009/10	2010/11
	£m	£m
<b>Formula Grant</b>		
Police Grant	48,939	50,149
RSG/NNDR	48,721	49,953
	<b>97,660</b>	<b>100,102</b>
% Increase in General Grant	2.5%	2.5%
<b>Rule 2 Grants</b>		
Forensics	514	514
SPP	814	814
IPLDP	150	150
	<b>1,478</b>	<b>1,478</b>
% Change in Rule 2 Grants	0.0%	0.0%
<b>Specific Grants</b>		
Crime Fighting Fund	2,184	2,184
NPF/PCSOs	2,702	2,775
Basic Command Unit	512	512
	<b>5,398</b>	<b>5,471</b>
% Increase in Specific Grants	1.3%	1.4%
<b>TOTAL GRANT</b>	<b>104,536</b>	<b>107,051</b>

4.5 General Fund

The level of General Fund balance required by the Authority is dependent upon the risk environment in which it is operating. The Chief Executive, in his role of Section 151 Officer, undertakes a risk based assessment of the requirements to hold balances and reserves and reports his conclusions to Members in his 'Robustness of Estimates & Adequacy of Financial Reserves' report that is on today's agenda as a separate item for Members' consideration.

4.6 The financial plan approved by Members in February 2009 provided revenue support from General Fund of £250k in 2010/11.

4.7 However, Members will recall that at the Policy & Resources / Corporate Development Panel on 10<sup>th</sup> September they approved a revised expenditure plan for 2009/10 that returned £625k to General Fund. In addition Members also requested a review of the expenditure plan for 2009/10 and proposals for reducing further the support from General Fund during 2009/10 to help support the 2010/11 budget given the financial difficulties that were forecast. As a result of this Members approved a final revision to the 2009/10 budget that returned a further £350k to the General Fund. The impact of this was to reduce the revenue support required to £925k resulting in the forecast General Fund balance being £975k higher than originally planned by the end of 2009/10.

4.8 Consequently, the budget presented to Members today proposes revenue support from General Fund of £925k in 2010/11 resulting in a General Fund Balance of 3.4% of NBR by the end of the 2010/11 budget.

4.9 Pay

The largest component of force expenditure is on pay, pensions and allowances, accounting for 78% of spend.

4.10 Members will recall that 2010/11 is the final year of the 3 year pay settlements for both Police Officers and Police Staff. The 2010/11 budget has been set on the basis that both of these agreements will result in the following pay awards coming into effect from the 1<sup>st</sup> September 2010:

- Police Officers – 2.55%
- Police Staff – 2.58%

4.11 Members are asked to note that the 3 year pay settlements contain a 'reopening clause' which means that if there is a substantial change in economic and labour market conditions and they are impacting on police officer recruitment then, in August 2010, Staff Side of PNB can go to the Police Arbitration Tribunal (PAT) to seek re-opening of pay negotiations. If the PAT agrees the conditions of the re-opening clause have been satisfied that decision to re-open negotiation will be binding on the Home Secretary.

- 4.12 Budgets have been set based on the establishments and vacancy rates set out in the following table.

<b>Establishments</b>		
	Number	Vacancy Rate
	FTE	
Police Officers	1,727	1.00%
PCSOs	197	1.00%
Police Staff	735	2.00%

## **5 Establishing the 2010/11 Budget**

### **5.1 Precept**

Members will recall that at their meeting in December the expectation was that an increase in Council Tax of 4.6% would allow the same level of service to be delivered in 2010/11 as in 2009/10. Through increases in the number of Band D equivalent properties within Cleveland, further reductions in Utility prices and confirmation of some Partnership funding this has now been reduced to 3.67%. (Appendix A refers).

- 5.2 To further reduce the required level of increase in precept a review of the level of resources required to cover the costs of Police Officers who need to retire early on the grounds of ill health or injury has been undertaken. This has reduced the budget required in this area by £225k and has reduced the overall requirement for an increase in precept to 2.94%. (Appendix A refers)

- 5.3 The plan presented to Members today therefore assumes a council tax increase of 2.94% and an increase in Net Budget Requirement of 2.6% in 2010/11. The table below identifies those service pressures that have been incorporated in the 2.94% precept increase.

<b><u>Analysis of Increase in Precept required to maintain service at 2009-10 levels</u></b>	<b>%age</b>	<b>£k</b>
<b>Position as at January 2010</b>	<b>4.61%</b>	<b>1,338</b>
Further Reductions in Utility Prices	-0.18%	(58)
Additional Band D Properties	-0.39%	(122)
Confirmed Partnership Income	-0.37%	(118)
<b>Position as at February 2010</b>	<b>3.67%</b>	<b>1,040</b>
<b><u>Agreed Service Reduction to reduce Precept Increase</u></b>		
Reduced capacity for Medical Retirements	-0.73%	(225)
<b>Final Proposed Precept Increase</b>	<b>2.94%</b>	<b>815</b>
<b><u>Service Reductions Considered but not implemented</u></b>		
Increased Police Officer Vacancy Rate (2.5 FTE fewer Police Officers)	-0.41%	(125)
Reduced Planned Maintenance of the Estate	-0.48%	(150)
<b>Increase in precept</b>	<b>2.05%</b>	<b>539</b>
Increased Vacancy Rate for PCSOs by 0.5% (1 FTE fewer PCSO)	-0.08%	(25)
Increased Vacancy Rate for Police Staff by 0.5% (3.5 FTE fewer Staff)	-0.42%	(130)
<b>Increase in precept</b>	<b>1.55%</b>	<b>384</b>
Increased Police Officer Vacancy Rate (3 FTE fewer Police Officers)	-0.50%	(150)
<b>Increase in Precept</b>	<b>1.05%</b>	<b>234</b>

- 5.4 Legislation requires that the Police Authority agree its budget and associated precept and basic council tax for the forthcoming year before 1<sup>st</sup> March 2010. The proposed budget for 2010/11 is set out in the table below:

<b>2010/11 Budget</b>	
	<b>2010/11</b>
	£000s
<b><u>Funding</u></b>	
Police Grant	(50,149)
RSG/National Non Domestic Rate	(49,953)
<b>Total Formula Funding</b>	<b>(100,102)</b>
Council Tax Precept	(32,070)
<b>Funding for Net Budget Requirement</b>	<b>(132,172)</b>
Specific Grants	(12,583)
Partnership Income	(1,164)
Fees & Charges	(2,585)
<b>Total Funding</b>	<b>(148,503)</b>
<b><u>Planned Expenditure</u></b>	
Police Pay	86,633
Police Community Support Officer Pay	5,959
Staff Pay	23,444
Non Pay Expenditure	33,538
Unidentified Savings Requirement	0
<b>Total Planned Expenditure</b>	<b>149,573</b>
<b>Surplus/Deficit</b>	<b>1,070</b>
Planned Transfers to/(from) Reserves - Revenue Support	(925)
Planned Transfers to/(from) Reserves - Other	(145)
<b>Net (Surplus)/Deficit After Reserves</b>	<b>(0)</b>

- 5.5 The starting position for the 2010/11 budget is the Net Budget Requirement (NBR) for 2009/10 i.e. the net cost of services after taking account of specific grants, partnership income, fees and charges and contributions to or from reserves. This is the sum to be funded from formula grants (Police Grant, Revenue Support Grant & National Non-Domestic Rates) and the Council Tax Precept. The precept requirement is a 2.94% increase in the Band D level for 2010/11.
- 5.6 The Minister for Local Government has recently repeated previous warnings over Council Tax levels, saying "We have made clear that we expect the average Band D council tax increase in England to fall to a 16 year low".
- 5.7 The Government has already initiated capping action against three police authorities in advance for 2010/11 to limit their council tax increases to

"I am also putting all authorities on notice that the Government will not hesitate to cap any excessive council tax increases set by individual authorities in 2010/11 and that it would be a mistake for any authority to presume they will not be capped if they stay within the capping principles which applied in 2009/10."

## **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 factored into the balanced budget for 2010/11 are not achieved then this could impact on the focus on front line policing and performance improvement.

## **7 Conclusion**

7.1 The proposed 2010/11 budget underpins the Authority's financial objectives of:

- Retaining a frontline focus through:
  - Embedding Neighbourhood Policing;
  - Strengthening Protective Services;
- Enhancing the effectiveness of officers and staff;
- Continuing to drive performance improvements;
- Maintaining financial & operational resilience.

Joe McCarthy  
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