

**Report of the Chief Constable to the Chair and Members
of the Policy & Resources Panel
27th October 2011**

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

Status: For Approval

Budget Monitoring Report to 31st August 2011

1. Purpose

1.1 At their meeting on 24th February 2011 Members approved a Net Budget Requirement (NBR) of £129,843k and budgeted revenue expenditure of £141,678k, the balance of expenditure being funded by specific grants, other income and transfers from reserves. This report sets out the progress against delivery of the budget and is part of the process introduced by the Authority to maintain prudent financial management.

2. Recommendations

2.1 Members are asked to note the contents of the report.

3. Reasons

3.1 Summary of the position to the end of August 2011

Forecasts suggest that the Authority has pressures against the expenditure plan for 2011/12; but has sufficient predicted underspends to more than cover these pressures and therefore forecast a £100k underspend after medical retirement expenditure. The position to date and the year-end forecast are shown at Appendix A. No material risks, other than those set out in the Risk Monitor at Appendix D, have been identified to this position.

3.2 Police Pay & Allowances

The Force set a budget based on an agreed establishment of 1,572 FTE's and an in-year vacancy rate of 0% - the number of Police Officers employed at the 31st August was 1,581 FTE's; Appendix B refers.

3.3 Due to a slowdown in recruitment, the current financial climate, workforce modernisation under Project I and internal civilianisation, the overall number of Police Officers will continue to reduce across the year. This continues to be possible due to the release of officers from back office roles under workforce modernisation thus releasing them to sustain the number of front line officers. These officers are also available on the front line earlier than probationers who, after their recruitment, would be in training for 40 weeks.

3.4 By the end of the year, Police Pay is forecast to overspend by £350k due to the following reasons:

- In line with the principles of Putting People First the decision was taken to grant those Police Officers, with in excess of 30 years service, 3 months notice as part of the implementation of Regulation A19. As this did not align with the budget put forward in February this is expected to incur unbudgeted costs during 2011/12.
- A level of acting across the organisation has resulted in a differing rank mix to that which was budgeted for, leading to an additional pressure. This continues to be monitored and managed by the Executive team through the Resource Management Group.

3.5 This £350k pressure is after the medical retirements of 9 officers (with a further 3 planned in March 2012) as reported to the last panel in June. The costs of these retirements was agreed to be funded from an earmarked reserve by Members but due to the underspends presented here, it is proposed that c. £900k of the current year underspend is utilised to fund the retirements, leaving the earmarked reserve intact to underpin next year's budget proposals. These retirements will save the Force approximately £340k in the current year; £600k per annum thereafter.

3.6 Police Community Support Officers

As at the 31st August, 173 FTE PCSOs were employed against an establishment of 182.5 FTE's and a vacancy rate of 1.5%; Appendix B refers. We have had a higher number of leavers than anticipated and therefore, if the vacancies are maintained, an underspend of £270k is forecast in this area.

3.7 Staff Pay & Allowances

The number of staff in post at the end of August was 245 FTE's against an establishment of 251.5 FTE's and a vacancy rate of 2% agreed against staff budgets at the start of the year; Appendix B refers. The average number of staff for the year is expected to be below that of the budget, and therefore,

again should the vacancies be maintained, an underspend of £200k is forecast.

3.8 Service Units

Service Units continue to robustly manage their budgets and Appendix A illustrates a £79k underspend across Operational and Central Service Support Services.

3.9 Overtime budgets continue to be closely managed and monitored and Police Overtime is currently £166.1k overspent against budget to date, with a forecast break even position for the 2011/12 financial year Appendix C refers.

3.10 Major Incidents

The start of 2011/12 has seen a higher than expected level of incidents; and a pressure is beginning to materialise in this area. However, the level of pressure is unknown at this stage and is therefore highlighted on the Risk Register in Appendix D. This budget remains sensitive to operational requirements and updates will be given in all future reports.

3.11 All expenditure against the Major Incident budget is closely monitored. ACC White chairs monthly meetings to scrutinise all expenditure.

3.12 Core Budgets

Several pressures and underspends exist within this area:

Underspends:

- The Employers Contribution Rate into the Local Government Pension Scheme was reduced from the start of 2011/12 to 14.3%. This was previously set at 15.7% within the outsourcing contract with Steria. This change has now been reflected in the contract price which will save £117k per year.
- The 2011/12 budget assumed the vast majority of the redeployment pool risk within the outsourcing contract would transfer to the Authority during April and May. Given changes to the release plan of the staff into the redeployment pool the timing of this responsibility has moved back and therefore £900k previously set aside for this is not expected to be needed during 2011/12. This underspend of £900k encompasses an underspend of £1.4m as the £2.05m set aside in the 11/12 budget for workforce modernisation as a result of the contract has not all been feasible; offset by a pressure of £500k for payments to Steria regarding the redeployment pool which haven't been absorbed into that anticipated modernisation.
- A budget of £100k was set for 30+ pensions during the year, however as at 31st August there are no more to be paid and this will lead to a £70k underspend in the current year.

- Condition survey priorities for the year have been revisited and £43k of these have been re-categorised as capital expenditure for which bids have been prepared and are on today's agenda as part of the Capital Monitoring Report. A further £7k has been reprioritised as work for a future year. This will therefore lead to a £50k reduction in spend against the £230k budget set aside for condition survey work.
- As reported in the Treasury Management report, also on today's agenda, a Public Works Loan Board (PWLB) loan was taken out in June for £4m – earlier than expected and at a higher interest rate than budgeted. It is also likely that further borrowing will need to be taken out leading to a pressure on interest payable of approximately £120k. However, as less capital expenditure was financed by borrowing in 2010/11 than expected at the time of setting the 2011/12 budget, the pressure on interest payable will be more than offset by a £170k saving on Minimum Revenue Provision (MRP). This will therefore, overall, lead to a £50k saving in these areas.

Pressures:

- Expected costs of covert operations are forecast, at this stage, to lead to a potential pressure of £400k.
- 3.13 In light of the above, it is proposed to use c. £900k of this overall underspend within Core budgets to fund the medical retirements in the current year thus negating the need to utilise the Earmarked Reserve in 2011/12, leaving it to underpin plans for 2012/13 as per the LTFP update presented to Members in September.
- 3.14 The Force also continues to look at all areas of spend in order to drive out savings which can facilitate the bolstering of general reserves in order to support the financial position of the Force going forward. Any savings identified will only be captured if they do not undermine operational performance.
- 3.15 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 that comprehensive review and decisions have yet to be made nationally on which of the recommendations are to be implemented. It is therefore unlikely that this will result in any benefit for 2011/12 but it is still worth pointing out that if all are fully implemented it would result in savings to the Authority of around £1.1m.
- 3.16 If any savings do arise from this review during the current year then they will also be added to reserves in order to facilitate the plan going forward.

- 3.17 Members will be aware of Operation Sacristy and, in line with the Long Term Financial Plan (LTFP) Report presented to Members of the Police Authority Executive in September, it is assumed that estimated 2011/12 costs of £1.3m will be met from reserves as opposed to affecting the expected outturn position of £100k underspend. Costs to the end of August are £507k.
- 3.18 Again in line with the LTFP Report, it is proposed that the £1m is utilised to set up a reserve in 2012/13 for a programme of Workforce Modernisation in order to provide funds for further medical retirements and to deal with the redeployment pool risk outside of the 24 roles being dealt with under Plan B. This £1m would be sourced from the forecast £100k underspend in 2011/12 along with use of the re-instated Earmarked Reserve of £900k, subject to Member approval.

4. Implications

4.1 Finance

There are no financial implications other than those mentioned above.

4.2 Diversity & Equal Opportunities

Diversity and equal opportunities 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.

4.3 Human Rights Act

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

4.4 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.

4.5 Risk

A risk analysis of the 2011/12 budgets is attached at Appendix D for Members' attention.

5. Conclusions

- 5.1 The position to date and the year-end forecast are shown at Appendix A. No material risks, other than those set out in the Risk Monitor at Appendix D, have been identified to that forecast.

Jacqui Cheer
Temporary Chief Constable