

**Report of the Treasurer and Chief Constable to the Chair and Members
of the Police Authority Executive
28th September 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 24th 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 a further update on progress towards setting the 2012/13 budget and the 2012/16 LTFP is brought to their meeting in December.

3. 2011/12 Budget Update

- 3.1 While Member's of the Policy and Resources panel considered a report to the end of June that forecast a breakeven Outturn for 2011/12, before the impact of the costs of the investigation had been taken into account, further work and information is now available around the workforce modernisation element of Project I.

Members will recall that within the 2011/12 budget, £2,050k was set aside for workforce modernisation around the extended scope of Project I, this allowed for 100 Police roles, that did not require warranted powers, to be civilianised, therefore creating 70 staff jobs to enable the Authority to meet its commitment to job continuity for the staff TUPE'd to Steria while also generating significant savings and maintaining service levels. To date however, this has not all been completed with the outsourcing of only the Crime Management Unit, Risk, Resilience & Safety and Events Planning having taken place.

As a result of the above it is now expected that an underspend of £1m will develop during 2011/12.

Proposals will be brought forward to the P&R panel, as part of the normal budget monitoring process, for consideration of the best use of this underspend. The LTFP assumes that the £1m is Earmarked to manage the workforce modernisation plans of the Authority going forward with specific focus being on managing the redeployment pool risk and also Police Officers on restricted/recuperative duties.

4. Factors of Change since June

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. It is therefore unlikely that any savings will now be made in the current financial year; though the LTFP still assumes a recurring benefit of £1.3m from 2012/13, rising to £1.4m in 2015/16.

A further update will be presented to Members in December.

4.2 Operation Sacristy

Members are aware of the on-going criminal investigation that is currently being undertaken by Warwickshire Police *'into a number of people with current or past associations with Cleveland Police Authority and the manner in which the Authority may have conducted some of its business'*

The costs of this investigation will fall to Cleveland Police Authority to pay for, based on the actual costs incurred by Warwickshire Police, both in relation to the resources it has specifically allocated to this operation and also for the work that is being undertaken, on behalf of the Chief Constable of Warwickshire Police, by Police Officers from both North Yorkshire and West Yorkshire.

In addition to this the Authority will also incur costs in relation to the professional advice and support it has requested from both Eversheds and North Yorkshire Police Authority to support and advise the Authority through these unique times.

Alongside the current criminal investigation Members also made the decision to refer conduct matters relating to the Chief Constable and Deputy Chief Constable to the IPCC. Members have been briefed on the process **if** it is determined that there is a case to answer and also informed that the cost of the misconduct investigation and any subsequent proceedings will fall on the Authority.

Further information in relation to the costs of the investigation and the proposal for managing those costs will be brought to the P&R panel in October. The LTFP, at this stage, is based on the investigation requiring £2m from General Fund.

Members are aware that an application for a Special Grant has been made to the Home Office seeking funds to pay for this investigation and further updates will be provided to Members through the P&R panel.

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 the resourcing and financing arrangements are in development nationally, therefore the impact on the LTFP is to be quantified. Work will be carried out to ascertain those details further and an update will be provided to members in December.

4.4 The Force also continues to review all areas of expenditure to drive out further savings for both the current and future years in order to further support the financial position moving forward.

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

- 5.1 At their meeting on 24th 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 2013/15.

The gross savings to be made as a result were:

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

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
Savings Graded Red	6,690	7,250	10,311	10,234

At their update in June, 'Savings Graded Red' and savings yet to be identified were as follows:

	2012/13	2013/14	2014/15	2015/16
	£000s	£000s	£000s	£000s
Savings Graded Red	6,015	4,869	7,891	7,782

5.2 Movements since the LTFP 2012/16 June Update

There are a number of changes since the June 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 control the Authority has over their delivery.
- 5.4 A lot of work has been done on identifying further areas of savings, as well as consolidating knowledge around areas that had already been identified so as to reduce their risk status. This work will continue towards an update in December before the final 2012/13 Budget is presented for approval in February.

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 either already agreed or put forward within this plan, 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, 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	1,504	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 try and identify either additional savings or structure changes to bridge that gap.

5.7 PCSOs

The update presented in June assumed a level of 176 PCSOs across the life of the plan; however, 2011/12 has seen natural attrition in those numbers. Currently there are 173 in post and therefore it is proposed that vacancies are maintained and a level of 166 is proposed in the LTFP in line with the minimum requirements for central Government funding.

5.8 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.

- 5.9 Members should note that if a 4.5% increase in Precept was proposed for the life of the plan, i.e. 1% per annum higher than the level built into the current plan, the additional income would be as follows (cumulative):

2012/13	2013/14	2014/15	2015/16
£000s	£000s	£000s	£000s
322	670	1,046	1,450

5.10 General Reserves

The plan currently assumes a contribution from General Reserves in 2012/13 of £1.1m.

It is also assumed that investigation costs will amount to £1.3m in 2011/12 and a further £700k in 2012/13; 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 table below:

	2011/12	2012/13	2013/14	2014/15	2015/16
	£000s	£000s	£000s	£000s	£000s
General Fund Balance b/f	7,119	6,099	4,299	4,299	4,299
Proposed (Use of)/Contribution to General Fund - CPA	(1,300)	(700)			
Proposed (Use of)/Contribution to General Fund - CP	0	(1,100)			
Transfer from earmarked reserves	280				
General Fund Balance c/f	6,099	4,299	4,299	4,299	4,299
Net Budget Requirement (NBR)	(129,843)	(124,427)	(127,715)	(127,221)	(130,759)
General Fund as % of NBR	4.7	3.5	3.4	3.4	3.3

5.11 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 September is as per the table below:

<u>Long Term Financial Plan 2011/16</u>				
	2012/13	2013/14	2014/15	2015/16
	£000s	£000s	£000s	£000s
Savings Target after Changes in Assumptions	6,547	8,560	11,710	12,768
Project I, Plan B and Work Force Modernisation Savings	(1,985)	(4,375)	(4,549)	(4,549)
Savings already highlighted and agreed	(1,070)	(1,424)	(1,540)	(1,430)
Savings Graded Amber	(959)	(1,227)	(3,027)	(3,616)
Savings Graded Red	(1,475)	(1,575)	(2,635)	(3,215)
<u>Contributions to/(From) Reserves</u>				
General Fund	(1,100)	0	0	0
Earmarked	41	41	41	41
(Surplus)/Deficit after Reserves	(0)	0	0	(0)

This represents a significant amount of progress since June, with the level of savings graded red over the 4 years of the plan reducing from £19.2m in June to £8.9m as per this update. In addition to this, and arguably more important, is that based on the assumptions within the plan there is now a balanced LTFP in place that can be developed and adapted as the planning cycle continues.

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 LTFP presented is based upon a forecast £1m underspend for 2011/12, primarily as a result of slower than planned implementation of Workforce Modernisation linked to Project I. Any change in this forecast will create a risk to the LTFP presented here.
- The plan assumes £1.3m of savings from the implementation of the recommendations of the Winsor review, rising to £1.4m in 2015/16. Should implementation be delayed or not carried out at all, alternative savings would need to be identified.
- The current reserves position assumes the funding of Operation Sacristy of £1.3m in 2011/12 to be followed by costs of £700k in 2012/13. As the Authority has no control over either the length of the investigation or the resources used in the investigation this is an area of significant risk to the Authority in trying to develop a balanced LTFP.
- This update to the LTFP assumes the management and implementation of the proposals set out elsewhere on today's agenda in relation to Plan B and also that the redeployment risk that the Authority current has will be mitigated within current and available resources.
- At this point, it is 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.
- As is normal at the September update planning assumptions are made around some areas of expenditure, for example, pay. More detailed work is then carried out to verify some of the assumptions made.

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 24th February 2011 through the challenges we are facing in 2011/12 into the longer term plan for 2012/16.

Significant progress has been made since the LTFP 2011/16 was approved by Members in February 2011 and since the update provided in June; however, today's report outlines the difficult financial challenges that the Authority still faces. It also highlights that there is still more work required to implement the workforce modernisation and savings plans that will enable the Authority to set a budget in February 2012 that provides the most effective balance between affordability and operational performance. This work will continue over the coming months with a further update to Members in December.

Michael Porter
Treasurer

David Pickard
Temporary Deputy Chief Constable