

**Joint Report of the Chief Executive & Chief Constable  
to the Chair and Members of the Police Authority Executive  
24<sup>th</sup> February 2011**

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

**Status: For Approval**

**Budget 2011/12 and Long Term Financial Plan 2011/12 to  
2015/16**

**1. Executive Summary**

**1.1 Purpose of the Report**

This report asks Members to agree the Budget proposals for 2011/12 and the Long Term Financial Plan (LTFP) for 2011/12 – 2015/16.

**1.2 2011/12 Budget and beyond**

The settlement for 2011/2012 was confirmed by the Government on 13<sup>th</sup> December 2010 as part of the detail issued to underpin the Comprehensive Spending Review announced in October 2010.

**1.3 Paragraph 3.11 of the LTFP Update presented to Members on 15<sup>th</sup> December 2010 stated:**

*“On Monday 13<sup>th</sup> December, the Government announced Force allocations which gave details of Grant plus RSG/NNDR for both 2011/12 and 2012/13, plus indicative amounts for 2013/14 and 2014/15.*

*The major points of note:*

- *Overall cash reductions of 5.1% and 6.7% in 2011/12 and 2012/13 respectively which is higher than previously announced and therefore anticipated.*
- *From 2011/12, the Specific Grants of the Rule 2 Grant, BCU Grant and Crime Fighting Fund will be rolled up as part of the overall grant.*

- *The PCSO Grant will continue to be paid separately for the next 2 years but will form part of the overall grant from 2013/14.*

*The impact is highlighted and summarised below:*

<b><u>Summary Financial Position</u></b>	<b>2011/12</b> <i>£000s</i>	<b>2012/13</b> <i>£000s</i>	<b>2013/14</b> <i>£000s</i>	<b>2014/15</b> <i>£000s</i>
<b><i>Savings Target after Force Allocations announcement</i></b>	<b>11,214</b>	<b>18,440</b>	<b>20,681</b>	<b>23,130</b>

*No detail has been given for RSG/NNDR allocations for the latter two years and therefore an assumed reduction of 1.4% in cash terms is made – in line with the figures announced for their overall reduction in payment.”*

- 1.4 Paragraph 3.9 of that report also stated the following assumptions around Precept:
- *2011/12 – 0%*
  - *2012/13 – 2.5%*
  - *2013/14 – 4.9%*
  - *2014/15 – 4.9%*
- 1.5 This reflected the national assumptions made by the Office of Budget Responsibility of 3.4% adjusted to reflect the precept base, in Cleveland. Since that detail was announced, various changes have been made to the LTFP due to improved information.
- 1.6 This results in a revised savings target as per the table below. All assumptions around central funding remain the same as the report seen by members on 15<sup>th</sup> December 2010.

<b><u>Summary Financial Position</u></b>	<b>2011/12</b> <i>£000s</i>	<b>2012/13</b> <i>£000s</i>	<b>2013/14</b> <i>£000s</i>	<b>2014/15</b> <i>£000s</i>	<b>2015/16</b> <i>£000s</i>
<b><i>Revised Savings Target as per the LTFP presented</i></b>	<b>11,995</b>	<b>19,117</b>	<b>21,751</b>	<b>24,648</b>	<b>24,241</b>

- 1.7 Delivering a balanced budget 2011/12 and beyond  
Under Putting People First recorded crime has reduced from 71,962 victims of crime in 2005/06 to a projected 42,433 in 2010/11. Public confidence in service delivery has been engendered by:
- Delivering a Citizen focused policing service to all our neighbourhoods;
  - Reducing anti-social 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.
- 1.8 During 2010/11, the budget that Members approved in February 2010 has been deployed to deliver:
- Reductions in crime and anti-social behaviour. As at 31<sup>st</sup> January 2011:
    - Overall crime reduction of 10.4% (4,120 fewer offences)

- Anti-social behaviour down 12.2% (6,679 fewer incidents)
  - Sanction detection rate of 40%
  - Public confidence ratings
    - Cleveland Police is now the 3<sup>rd</sup> highest in the country, as measured by the British Crime Survey
    - The Local Public Confidence Survey reports that 89.5% of residents have confidence in Cleveland Police.
  - Roll out of CUPID to 1200 officers and staff increasing the time spent on the front line in Cleveland's communities and reducing bureaucracy.
  - Collaboration with Durham Constabulary on Roads Policing Unit and Firearms Unit.
- 1.9 However, it is clear that the unprecedented level of savings detailed above require a significant strategic review of the way support services are delivered and continued service improvements to front line policing.
- 1.10 A balanced position for 2011/12 can be presented based on the planning assumptions in this paper, subject to approval, along with non-pay savings identified as a result of both the £1.366m grant cut seen in 2010/11 and the Futures Group set up by the Executive to identify potential areas for savings.
- 1.11 However, the largest portion of savings identified (£7m) are sourced from the delivery of Project I.
- 1.12 From 2012/13 onwards, the plan acknowledges that further work to identify ongoing recurring savings must be completed along with the continued embedding of Project I in order to maximise the savings deliverable.
- 1.13 The Winsor review around Police Pay may potentially significantly impact pay costs and the Force will work together with the Authority to assess the impact of any developments in this area.
- 1.14 Finally, the work ongoing looking at the feasibility and affordability of a new Headquarters could potentially deliver savings in terms of both running costs and reduced interest charges. Should the capital receipt be greater than the cost of the new building, excess could be utilised to pay off some unsupported prudential borrowing.

## **2. Recommendations**

Members are requested to:

- 2.1 Approve the proposed budget for 2011/12.
- 2.2 Consider and agree a Net Budget Requirement of £129,842k which is a decrease of 3.8% and holding precept static in the Band D level for 2011/12.

- 2.3 Agree contributions to Reserves of £41k in 2011/12. After transfer of the TOIL reserve previously in earmarked reserves, this takes the General Fund to 5.0% of net budget.
- 2.4 Note the revised establishment levels explained in paragraphs 4.11 to 4.17.
- 2.5 Take cognisance of the Robustness of Estimates and Adequacy of Financial Reserves Report of the Treasurer considered earlier in the meeting.
- 2.6 Agree the basis of the development of the Long Term Financial Plan 2011/12 to 2015/16 as outlined in paragraphs 1.2 to 1.6.
- 2.7 Agree the strategy for dealing with the financial pressures in the period 2015/16 as outlined in paragraphs 1.12 to 1.14.

### **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 earlier 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 Value for Money (VfM) strategy approved by Members outlined the financial objective of the Force and Authority. These are:
  - Maintain and enhance front line services.
  - Optimise financial & operational resilience.
  - Deliver LTFP savings targets.
  - Demonstrate robust corporate approach to VfM
  - Have auditable outcomes.
- 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 and operational flexibility to District Commanders and 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 and 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.
- 3.5 During the year robust monitoring of budgets is undertaken at the monthly Performance Review (MPR) meetings and the outcomes reported to the Police Authority's Policy & Resources Panel.
- 3.6 The 2011/12 Budget is set out for Members' consideration at Appendix A.

#### **4. Planning Assumptions**

- 4.1 Members are aware that the latest Comprehensive Spending Review was issued in October 2010 with further detail being released in December 2010 which gave detail around funding for four years from 2011/12. This followed on and was in addition to the in year cuts announced in June 2010 which cut £1.366m from revenue and £0.1m in capital funding.
- 4.2 Grant  
The four year settlement announced in December 2010 provided firm figures for 2011/12 and 2012/13 and indicative allocations for 2013/14 and 2014/15.
- 4.3 The table overleaf shows the funding for 2011/12 compared to that for 2010/11 (post the £1.366m in year cut) and illustrates a 5% reduction in that funding.
- 4.4 The detail provided also explained that both the Basic Command Unit (BCU) Grant and the Crime Fighting Fund Grant would be rolled up into the main Police Grant going forward and would no longer exist in their own right.

<b>Funding Settlement 2010/11 to 2011/12</b>		
	2010/11	2011/12
	£m	£m
<b>Formula Grant</b>		
Police Grant	50,149	51,355
RSG/NNDR	49,953	46,264
	<b>100,102</b>	<b>97,619</b>
% Change in General Grant	2.5%	(2.5%)
<b>Rule 2 Grants</b>		
	<b>112</b>	<b>0</b>
% Change in Rule 2 Grants	(92.4%)	(100.0%)
<b>Specific Grants</b>		
Crime Fighting Fund	2,184	0
NPF/PCSOs	2,967	2,967
Basic Command Unit	512	0
	<b>5,663</b>	<b>2,967</b>
% Change in Specific Grants	4.9%	(47.6%)
<b>TOTAL GRANT</b>		
	<b>105,877</b>	<b>100,586</b>
% Change in Total Grant	1.3%	(5.0%)

4.5 Moving forward, the settlement for 2012/13 represents a further 6.7% reduction in funding; and from 2013/14, the PCSO Grant of £2.967m will also be rolled up into the main Police Grant and no longer exist in its own right. The Long Term Financial Plan 2011/16 is built on that basis.

4.6 General Fund

The level of General Fund balance required by the Authority is dependent upon the risk environment in which it is operating. The Treasurer, 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.

4.7 The budget presented to Members today proposes revenue contribution to the General Fund of £41k in 2011/12 resulting in a General Fund Balance of 5.0% of NBR by the end of the 2011/12 budget.

4.8 Pay

The largest component of Force expenditure is on pay, pensions and allowances, accounting for 68% of spend. This was previously a larger percentage (78% in 2010/11) but due to the transfer of 473 posts to Steria, as agreed by members on 15<sup>th</sup> June 2010, staff pay, and therefore overall pay, now accounts for a lower percentage of the Force's budget.

- 4.9 Members will recall that as part of the Emergency Budget in June 2010, the following was announced:
  - A 2 year pay freeze for public sector workers, except for those earning less than £21,000 per year who will receive an increase of at least £250 per year.
- 4.10 The 2011/12 budget has been set on the basis of allowing for the effects of the 5 months of the September 2010 pay awards (2.55% and 2.58% increases for Police officers and staff respectively) which fall into the 2011/12 financial year; followed by 0% for 2 years as per the Government announcement rising to 2% in the latter years of the plan.
- 4.11 Budgets have been set based on the establishments and vacancy rates set out in the following table.

	<b>Number</b>	<b>Vacancy Rate</b>
<b>Police Officers</b>	1572.0	0%
<b>PCSOs</b>	182.5	1.50%
<b>Staff</b>	251.5	2%

- 4.12 The Police Officer establishment has been set at 1,572 FTE, reduced from 1,727 FTE, as a result of Project I. This assumes a second phase of civilianisation of 100 officer posts, internally by the Force or as part of the wider outsourcing.
- 4.13 Members will recall that as part of their overall strategy for maintaining service they approved under Project I civilianising non warranted posts and outsourcing back of house functions. This entails the drop in overall police officers posts whilst maintaining front line service. The capacity of the Force overall is maintained as those roles are then performed by non warranted members of staff either in Cleveland Police or in our Strategic Partner.
- 4.14 The PCSO establishment has previously been set at 197 FTE but the loss of partnership funding for the equivalent of 14.5 FTE PCSOs leads us to revise the establishment at 182.5 FTE PCSOs, which is 1.5 over our current number of PCSOs in post. This is achieved by freezing and deleting vacancies.
- 4.15 The vacancy rate for 2010/11 was at 1.5% and this is maintained for the 2011/12 financial year.
- 4.16 Prior to the outsourcing arrangement with Steria, the Force's staff establishment stood at 743 FTE. However, 473 FTEs were TUPE transferred as part of that agreement which would take us to 270 FTE. Further vacancies, along with the deletion of roles funded by the Criminal Records Bureau and the Local Criminal Justice Board, who have both withdrawn funding, takes the Force to an updated establishment of 251.5 FTE.

4.17 The vacancy rate for 2010/11 was at 2.0% and this is again maintained for the 2011/12 financial year.

## **5. Establishing the 2011/12 Budget**

### **5.1 Precept**

Members will be aware from previous update reports that, as part of the Emergency Budget, the Government proposed there should be a Council Tax freeze in 2011/12.

5.2 In order to aid those Authorities fulfilling that, the Government also pledged funds by way of an additional grant equivalent to a 2.5% rise.

5.3 The 2011/12 Budget presented today is based on a freeze in the Precept level, meaning that the Council Tax Band D rate will remain at the 2010/11 level of £187.84.

5.4 The additional grant provided by the Government in lieu of a 2.5% rise equates to £800k and is non-recurring.

5.5 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 2011. The proposed budget for 2011/12 is set out in the table overleaf.

5.6 Following the recent guidance issued on capping the Long Term Financial Plan is based on:

▪ 2011/12	0%
▪ 2012/13	3.5%
▪ 2013/14	3.5%
▪ 2014/15	3.5%
▪ 2015/16	3.5%

5.7 Members attention is drawn to the fact that in setting the CSR, the Government assumed a precept rise of 3.4% nationally, and a growth in tax base of 0.8% would mitigate the effects of the cuts in Government grant. The numbers of properties in Cleveland at the lower bands means that this would require a precept rise of 4.9% to produce the same effect. This amount would exceed the capping level set by the Government.

	2011/12
	£000s
<b>Funding</b>	
Police Grant	(51,355)
National Non Domestic Rates	(46,264)
<b>Total Formula Funding</b>	<b>(97,619)</b>
Council Tax Precept	(32,223)
<b>Funding for Net Budget Requirement</b>	<b>(129,842)</b>
Specific Grants	(9,280)
Partnership Income	(486)
Fees & Charges	(2,112)
<b>Total Funding</b>	<b>(141,720)</b>
<b>Planned Expenditure</b>	
Police Pay	81,306
Police & Community Support Officers	5,378
Staff Pay	9,413
Non Pay Expenditure	45,581
Unidentified Savings Requirement	0
<b>Total Planned Expenditure</b>	<b>141,678</b>
<b>Surplus/Deficit</b>	<b>(41)</b>
Planned Transfers to/(from) Reserves - Revenue Support	0
Planned Transfers to/(from) Reserves - Other	41
<b>Net (Surplus)/Deficit After Reserves</b>	<b>(0)</b>

5.8 The starting position for the 2011/12 budget is the Net Budget Requirement (NBR) for 2010/11 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 0% increase in the Band D level for 2011/12.

## 6. The Development of the Long Term Financial Plan

6.1 Members will recall in their briefing of the 13<sup>th</sup> December 2010 they were briefed on the workstreams being undertaken by the Futures Group. These were namely:

- Structures
- Estates
- Fleet
- Workforce Modernisation
- Income Generation & Sponsorship

- Staff payments & allowances
- Value for money

6.2 All savings are graded red, amber and green, and develop over time as ideas are operationalised. A summary of the savings is set out below and the detail included in Appendix B to this report, and formed a core of the briefing to Members on the 22<sup>nd</sup> February 2011.

	2011/12	2012/13	2013/14	2014/15	2015/16
	£000s	£000s	£000s	£000s	£000s
<b>Savings Target</b>	<b>11,995</b>	<b>19,117</b>	<b>21,751</b>	<b>24,648</b>	<b>24,241</b>
<b>Savings Plans</b>					
Total Potential Project I Savings	(7,077)	(7,131)	(8,575)	(8,575)	(8,575)
<b>Savings graded Green</b>	<b>(4,959)</b>	<b>(5,180)</b>	<b>(5,645)</b>	<b>(5,480)</b>	<b>(5,151)</b>
Savings graded Amber	0	(157)	(323)	(323)	(323)
Savings graded Red	0	(6,690)	(7,250)	(10,311)	(10,234)
<b>Total Savings</b>	<b>(12,036)</b>	<b>(19,158)</b>	<b>(21,793)</b>	<b>(24,689)</b>	<b>(24,283)</b>
<b>(Surplus)/Deficit after Savings</b>	<b>(41)</b>	<b>(41)</b>	<b>(41)</b>	<b>(41)</b>	<b>(41)</b>

6.3 Members' attention is drawn to the value of the savings graded red which will require further development to achieve financial balance 2012/13 onwards. As is also set out in the Treasurer's report on the Robustness of Estimates there is significant risk around the delivery of the required savings in 2012/13 to enable a balance budget to be achieved.

## 7. Implications

### 7.1 Finance

There are no financial implications other than those mentioned above.

### 7.2 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.

### 7.3 Human Rights Act

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

### 7.4 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.

7.5 Risk

If the savings factored into the balanced budget for 2011/12 are not achieved then this could impact on the focus on front line policing and performance improvement.

7.6 Risk will form a key part of the regular monthly monitoring of budget delivery throughout 2011/12 and will be reported to and scrutinised by Members of the Policy & Resources Panel.

**8. Conclusion**

8.1 The proposed 2011/12 budget underpins the Authority's financial objectives of:

- Maintain and enhance front line services.
- Optimise financial & operational resilience.
- Deliver LTFP savings targets.
- Demonstrate robust corporate approach to VfM
- Have auditable outcomes.

Sean Price  
Chief Constable

Julie Leng  
Acting Chief Executive