

### Budget 2010/11 and Three Year Financial Strategy to 2012/13

#### Recommendations:

- (i) That the three year Financial Strategy be considered, including capital and revenue spending, savings, reserves, and council tax implications;
- (ii) That the savings targets identified across the three years of the strategy be agreed as means of helping to limit council tax increases and that the Chief Constable prepare savings plans accordingly;
- (iii) That the impact of the strategy to invest in infrastructure and systems through the capital and Force development programmes be noted; requiring active change management
- (iv) That the uncertainty over the two later years of the strategy be noted;
- (v) That within this strategy, the budget requirement and capital programme for 2010/11 be determined, including provisions, reserves, and council tax;
- (vi) That the prudential indicators as set out in the strategy be approved;
- (vii) That the Treasurer's conclusions on the robustness of the strategy estimates, the adequacy of balances and reserves and issues of risk be considered;
- (vii) That the Value For Money (VFM) statement be approved.
- (ix) That the strategy be reviewed following the impending General Election for consideration of any policy or funding changes affecting the strategy.
- (x) That consideration is given to a public consultation exercise to support future year budget and council tax proposals.

## 1. INTRODUCTION

- 1.1. This report invites members to consider the third year of the current three year strategy, set the budget for 2010/11 and roll forward the strategy by setting the direction of travel for the years to 2012/13. More detailed analysis is attached in a series of tables. The strategy sets a clear direction of travel; its primary focus is on 2010/11 because of the lack of any certainty beyond then. Review will be needed following the impending General Election and an expected new Comprehensive Spending Review 2011/12 to 2013/14.
- 1.2. The main aim of the strategy is to continue the support for the Chief Constable's vision to make Devon and Cornwall a top performing force by 2012. The strategy has already delivered the movement of 200 police officers to the front line and now focuses on maintaining front line policing whilst investing in infrastructure and systems to release efficiency and productivity gains.
- 1.3. The intention is to provide as sound a resource base for future planning as is possible faced with an expectation of little or no real terms increases in central government funding for policing in years 2 and 3 of the strategy. Productivity gains from investment must enable more to be achieved with less. This is a key issue. It is implicit in the strategy that, all other things remaining

equal, it is not affordable to maintain both the planned high levels of investment and existing numbers of personnel without cash efficiency savings and/or Council Tax increases beyond the levels already assumed in this strategy.

## 2. PERFORMANCE AND PUBLIC CONFIDENCE

- 2.1. The focus of the police service in Devon, Cornwall and the Isles of Scilly is to provide the best possible service to the public. Performance has been enhanced and Devon, Cornwall and the Isles of Scilly are safe places to live, work and visit with crime rates down 25% since 2005. This strategy provides the resources to meet the targets set by the authority in the annual policing plan. Key targets are to achieve 'top 10' performance by 2012; improving public confidence being one of the key measures. The latter may prove particularly challenging given the target is a shared one with local authority partners and is not therefore solely in the hands of the Force. Past emphasis has been on more police officers on the street and on combating anti-social behaviour. That was the basis for the previous three-year strategy. The challenge now is maintaining the front line of visible local policing and improving public confidence in the light of the resources scenario above.
- 2.2. Force investment plans imply a significant ongoing change agenda with attendant management risks around delivery and performance. There are major challenges affecting staff including the ongoing reshaping of support functions and a major business transformation programme that will need to contribute substantial savings over time. The Force and the Authority's management processes must be robust enough to provide effective control over three years. Like all good strategies, the current financial strategy must be kept under review. It is proposed that this be done following the impending General Election. The Authority may wish to keep under review the Force development programme and to consider any changes which may be necessary following further information on police funding proposals beyond 2010/11. It may also be worthwhile considering the merits of planning for a public consultation exercise to support the strategy beyond 2010/11.

## 3. NATIONAL PERSPECTIVES

- 3.1. Government policy had been to announce three-year settlements, rolled forward every two years, smoothing the transition from one spending review period to another. This is not borne out in the latest settlement for 2010/11, where no details are given beyond 2010/11. That finance settlement has, however, remained unchanged since its initial publication in December 2007. This is welcome as it provides some financial stability for 2010/11 service planning at this time of financial turmoil.
- 3.2. In his December 2009 pre-budget report the Chancellor, Alistair Darling, said front-line schools, hospitals and policing would receive real-terms increases, but made no announcement regarding specific departmental spending limits after 2010/11. The only specific details released related to a promise of 'sufficient funding....available in the years to 2012/13 to enable police authorities to maintain the current number of warranted Police Officers, Police Community Support Officers and other staff exercising police powers'. Authorities are left to consider forward financial planning to 2012/13 and beyond in the context of a lack of certainty magnified by the downturn in public finance. This leads to concerns over how this will affect police funding and, most importantly, the impact this could have on front-line policing services.

- 3.3 The Government has set out expected savings of £545m per year by 2014 from police authorities in its December 2009 Policing White Paper, with £100m of that expected to be delivered in 2010/11. It remains to be seen whether future years' settlements will be reduced to account for these additional efficiencies. The Force has a strong past record in making savings and the relationship between future national savings targets and Force savings plans is addressed in the attached VFM statement. Essentially, the level of cash budget savings the Force is forecasting from 2011/12 appears consistent with national targets referred to in the white paper and Chancellor's pre-budget report.
- 3.4 The pressures on the police service are likely to be exacerbated by the current economic climate of falling revenues and rising demands. Government pressure to keep Council Tax increases to a 16 year low (below 3%) would act to reduce budget flexibility, which would likely result in service and personnel cuts. Some flexibility in setting police council tax levels is therefore desirable.

#### 4. THREE YEAR FINANCIAL STRATEGY

4.1 The financial plan for 2010/11 is largely unchanged to that forecast this time last year, in line with the expected and now confirmed financial settlement. The impact of sustained recession will continue to impact in years 2 and 3 (2011/12-2012/13) and key assumptions have been built into the budget data for those years, supporting this report as follows:

- A nil increase in central government resources from April 2011
- ongoing council tax increases of 4.95%
- pay awards of 1% per annum for all staff from September 2011
- nil increase in employer pension contributions from April 2011
- employer national insurance increase of 1% from April 2011
- general inflation of 1%
- no additional net costs arising from the Olympic games policing issues
- investment income continuing at lower levels as set out in the Treasury Management Statement
- additional revenue implications from the capital programme and from an additional revenue contribution to force development from 2011/12.
- significant planned saving which are referred to further below and in the attached VFM statement
- maintaining adequate reserves whilst enabling some use of reserves for earmarked purposes including force development

4.2 Members will have noted Government exhortations to keep council tax increases to a 16 year low (below 3%). A clear message was sent by Barbara Follett M.P. in her letter of 9.12.09. That said, with the suggested increase of 4.95% for 2010/11 it is expected that the overall council tax bill across the whole area will be around 3%, given that policing represents only some 10% of the total council tax bill. The Authority wrote to the Police Minister two years ago explaining our 3 year strategy and the impact on council tax. The Authority has not been designated in the subsequent two budget rounds. Nonetheless the Government's aspirations are clear and capping remains a very real risk where Authority's budget and tax increases are above 3%.

4.3 With an increase of 4.95% in the police element of the council tax, Devon and Cornwall is still expected to be the lowest in absolute terms in the south west and below the national average. Members will, however, need to balance the demands for policing with those other considerations over government policy and the ability to pay of local people.

- 4.4 It is worth noting that the budget increase - as opposed to the council tax increase - suggested here is 3.29%. The extra impact on council tax is entirely due to the gearing effect of the way council tax is determined. With pay awards at 2.6% rising to some 3.6% when increments are added, it is difficult to see how a 3.29% budget increase can be regarded as 'excessive' but members will need to form their own view.
- 4.5 There has been helpful preparatory work done with members and the Force in informal budget working groups. This report is based on the assumption that members will wish to continue to support the Chief Constables vision with budget proposals that invest in infrastructure and systems to deliver efficiency and productivity gains enabling the Force to manage better with less. Financial details are set out in the attached tables as are the yields of different council tax options. If members choose a different path, the strategy will have to be significantly amended. It would be impracticable to expect the Force to find even more savings on top of the challenging targets already assumed for 2010/11 without a direct impact on police officer numbers.

## 5. SAVINGS

- 5.1 The financial strategy is based on providing for inflation, continuing investment in the capital and Force development programmes, essential commitments and the delivery of a significant savings programme over three years. Savings can only be achieved in the medium term by improving efficiency and/or reducing personnel. The strategy assumes 100 posts are removed from the police staff establishment by the end of 2010/11. This amounts to around 5% the total police staff workforce and follows substantial reductions in 2009/10. The scale of the challenge in human resource terms should not be underestimated. The need to avoid 'de-civilianisation' should also be noted.
- 5.2 Overall savings of £14.5m are shown, as needed over three years. Of this, £5.3m from non-pay, the balance of £9.2 from personnel. In 2010/11 the sums are £3.6m savings, of which £2m is from non-pay savings including tighter control of inflation, overtime, agency staff and other procurement savings. The balance of £1.6m is from 100 police staff reductions by the year-end, together with some reductions in police officer numbers in the last quarter of the year. Future personnel savings in years 2 and 3 amount to £7.6m, predicated as reductions in police officers at this stage. Delivering £14.5m of savings will be a major challenge to the Force. Devon and Cornwall has a good record on savings and this is reflected in the VFM statement attached. However, it is not getting any easier and it is the Treasurer's view that planning for future years savings, taking into account the Government's national assumptions, should be ongoing to seek to minimise the default impact of finding savings from officer numbers. The choices are from cash efficiency savings, reducing personnel, cutting back investment or putting up Council Tax. We do not have a risk free option on any of them.

## 6. INVESTMENT IN THE CAPITAL PROGRAMME AND FORCE DEVELOPMENT

- 6.1. Given the demands on the revenue budget and the problems likely to be faced over the medium-term, it is clear that a large and growing buildings programme together with a large force development programme is not sustainable without reductions elsewhere. All other things

remaining equal the impact is directly on personnel. The strategy shows this in the forecast reduction in police staff and police officer numbers through to 2012/13.

- 6.2. Police authorities can determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services, provided that their capital investment plans are affordable, prudent and sustainable. They must take treasury management decisions in accordance with a "Prudential Code" of good professional practice supporting prudence, affordability and sustainability. This requires an authority to consider a number of prudential indicators before the start of each financial year. Specified indicators and suggested measures are noted in the strategy document for members' consideration.
- 6.3. Members will be aware of the work on the estates strategy and the pressures on the buildings programme. However, borrowing to fund such a programme creates additional problems for the revenue budget. Much of the ICT programme relates to the Force Development Programme. At this stage significant uncertainty still remains over scale of expenditure whilst the funding currently identified is set out in the attached tables. The process is being monitored by the Chairs' Committee and a financial plan for the programme is expected later in the year. An additional £1m is included in the base budget from 2011/12 to support the programme and this will need to be reviewed for affordability when further information on future police funding levels is known.
- 6.4 Capital programme delivery problems have been experienced in the past. Risk areas around the management of the capital programme are identified in the attached overview. The programme needs to be kept under review to facilitate a realistic assessment of the impact on the revenue budget. The capital programme illustrated in the strategy shows spending of £20.2m in 2010/11, £18m in 2011/12 and £18.2m in 2012/13 partly funded by total borrowing of £38m over the three years.
- 6.5 Borrowing for the programme has a direct impact on the revenue budget. The strategy assumes a 'flatlining' in central government resources from 2011/12. In that scenario increasing investment costs consume a relatively bigger share of resources leading to less available for personnel, all other things remaining equal. The strategy identifies that, showing a direction of travel of reducing numbers of police staff and police officers.

## 7. RESERVES AND BALANCES

- 7.1 Balances, reserves and provisions have been built up as part of the current financial strategy of the Authority and now help provide for future liabilities and unforeseen events. It is never easy for any organisation to reconcile a sensible level of reserves with the need to keep tax increases as low as possible, but experience has shown how sudden calls on resources could otherwise leave the Force seriously short of funding and unable to meet its regular commitments to the local community. In addition, we are in a resource world where new developments can only be undertaken by recycling existing resources. Adequate reserves are essential to oil the wheels of that process and ensure business continuity. Major changes such as workforce and system modernisation also often call for "spend now to save later" if they are to be effective and sustainable. This is particularly relevant in the present environment of radical strategic change. In addition, funding the capital programme and Force development plans will deplete reserves over time. The strategy shows a planned, significant but manageable reduction in reserves over time but one that maintains the existing level of general balances.

7.2 The current policy of the Authority is to set its general balances at between 2% and 3% of the net revenue budget. It is anticipated that balances as at March 2009 through to the end of March 2013 will be around the 2.2% level. A review of the risks identified in the Police Authority and Force Risk registers has been undertaken and the financial implications have been identified as far as possible. This has shown that in the short term this level of reserves and balances is judged to be appropriate. Over the medium term reserves and balances are maintained at what are judged at present to be prudent, sustainable yet not excessive levels. Details of forecast movements in balances, reserves and provisions are shown in the strategy. All in all, the Authority is prudently placed in its level of balances, reserves and provisions to have some flexibility and control over its revenue and capital spending. The table below summarises the movements in reserves to 31.3.13, a net reduction of £12m over the three years.

	£m
Helicopter Replacement	+ 0.8
Force Development Programme	- 3.0
Capital Programme	- 8.4
Workforce Modernisation	+ 1.2
Revenue Smoothing	- 2.2
Estates Development	<u>- 0.4</u>
	<u><b>-12.0</b></u>

It is envisaged that any windfall gains and budget underspends replenish the revenue smoothing reserve over time allowing the benefits to be enjoyed for longer.

## 8. RISK

8.1 Risk is inherent in all functions of an organisation; some of these risks can be managed or mitigated, some cannot. The Audit Commission have reported that here “a good financial management framework is in place, supported by sound procedures”. Some of the main risks in the strategy are set out below and include some that are faced every year:

- risk of capping
- deliverability of planned savings
- exceptional demands placed upon the service, particularly from major incidents
- delivery of major capital schemes and projects delayed or unsuccessful
- impact of interest rate movements on investments/borrowings from the levels assumed in the treasury management strategy
- the size and scale of organisational change and business transformation
- changes in economic conditions and potential influence on criminal activity
- changes in funding as a result of changing central government policy and developments in the national economic situation

8.2 Members have considered the more significant risks for 2010/11 in the informal budget working groups. The Police Authority and the Force have examined all the major risks on their risk registers and determined as far as possible the financial implications. Where appropriate, budgetary

provision has been made available. Reserves and balances are available to mitigate the major financial risks and these are judged to be sufficient to meet the potential risks in the short term.

- 8.3 Budget monitoring remains important. The risk assessment has assumed that for 2010/11 the standard of monitoring and budget management will be maintained and this will be vital.
- 8.4 In years 2 and 3 there is greater uncertainty. Risks include growing commitments, doubts over the capacity to keep finding increasing levels of savings and pressures on reserves and the council tax. The Authority and Force have made good progress on risk management. We are well placed to cope into the future and better placed than many but risk cannot be eliminated. That is the nature of the policing environment. Public finances, including policing face a difficult future. Developments will need to be closely monitored and the level of reserves and balances will need to be kept under review.

## 9. CONCLUSION

- 9.1 Over the last few years members have been able to make significant additional investments in police officers, infrastructure and force development all as part of a rolling medium term financial strategy. We have reached the point now where uncertainty over resources and likely reductions in real terms mean we cannot envisage sustaining investment in infrastructure and systems as well as existing personnel levels. The Chief Constable's vision requires continued investment in infrastructure and systems. It depends on the consequent release of efficiency and productivity gains, particularly from police officer time but also in support staff, to enable the Force to deliver higher levels of productivity from lesser numbers of police officers and support staff.
- 9.2 The policing plan sets a range of performance targets aligned with this strategy, including the achievement of a top 10 performing force by 2012 and maintaining visible front line policing, all in a time of future financial uncertainty. Tough savings targets are set impacting on both police staff posts and police officers. Work to deliver future cash efficiencies, taking into account government national targets, must be ongoing to minimise the default impact on personnel. Reserves are used in a planned way over time with the level of general balance planned to remain constant.
- 9.3 The past financial strategy has served the Authority and the Force well. It is a means of allocating resources to deliver effective policing outcomes. To continue to be effective it needs to be kept under review, particularly with an impending General Election and the considerable uncertainty over financial plans beyond 2010/11.

Steve Barrett  
Interim Treasurer

Stephen Otter  
Chief Constable