

Devon and Cornwall Police Authority
 13 February 2008
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 Joint Report of the Treasurer and Chief Constable

Budget and Financial Strategy

Recommendations:

- (i) That the roll forward of the approved Financial Strategy be considered, including capital and revenue spending, savings, reserves, and council tax implications;
- (ii) That the substantial savings targets identified be agreed as means of helping to limit council tax increases;
- (iii) That the budgeted capacity for 3,500 police officers and 356 police community support officers together with the continued resourcing of the move of 200 police officers to the front line be welcomed;
- (iv) That the increasing uncertainty over the later years of the strategy be noted;
- (v) That within this strategy, the budget requirement and capital programme for 2009/10 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;
- (viii) That it be accepted that continuing Force development will involve significant changes requiring robust and dynamic resource management;
- (ix) That the summary efficiency plan be approved.

1. INTRODUCTION

- 1.1. In February 2008 members approved a three-year financial strategy. This report invites members to consider rolling forward the strategy by reviewing changes in potential income and expenditure for what is effectively year 2 of the approved three-year approach. More detailed analysis is attached in a series of tables but members will note the focus on the early part of the strategy because of increasing uncertainty of the resource position as we enter a new Comprehensive Spending Review period and the nation faces a General Election.
- 1.2. The main aim of the strategy is to support the Chief Constable's vision to make Devon and Cornwall a top performing force in part by enhancing front line policing. The strategy sustains the movement of 200 police officers to the front line.
- 1.3. The intention is to provide as sound a resource base for the future as is possible in these challenging times whilst recognising that significant and continuing resource shifts will be necessary to ensure the Force provides more visible front line policing and drives up performance.

2. PERFORMANCE AND PUBLIC PREFERENCE

- 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 is a safe place to live, work and visit. Nevertheless, successive consultations with the public confirm a fundamental and continuing demand for more police officers on the street and greater emphasis on combating anti-social behaviour. That was the basis for the three-year strategy. People want more visible local policing. The challenge is how this can be delivered in a financial environment dominated by the credit crunch and the recession.
- 2.2. Much has been achieved but much remains to be done. The Police Authority has endorsed the Chief Constable's policing vision to become a top performing force in part by moving a significant number of police officers from support functions to the front line. The three-year financial strategy was produced to provide the resources to help achieve this within an already very constrained economic and financial environment. It was acknowledged that delivery will be a major challenge involving significant staff movements, reshaping of support functions and a major business transformation programme that requires substantial savings over time. Change was acknowledged as on-going and the Force and the Authority's management processes must be robust and sensitive enough to provide the necessary flexibility within an overall controlled process over three years. Like all good strategies, the current financial strategy must be reviewed to reflect changes since adoption to test if it can still be delivered.

3. STRATEGY UPDATE

- 3.1 The credit crunch and the prospects of sustained recession will impact on the three-year strategy. Increased demand on policing services will be combined with reduced income and price volatility. In addition there is significant uncertainty around central government and council tax funding especially for the third year of the strategy, given the on-going re-evaluation of national public expenditure policy.
- 3.2 One likely impact of the recession is that acquisitive crime is likely to increase. This has already started and, if anything, will intensify public demand for more visible local policing. There is no doubt that the background to the strategy - public demand - can only increase. 200 police officers will have been moved to the front line under the existing strategy. Full delivery will be felt next year just when it is needed most.
- 3.3 The credit crunch and falling interest rates will cost the Authority almost £1m next year. This would have been much worse but for some pre-emptive action to lend out over longer periods when rates were high. This intensifies pressure to find compensatory savings.
- 3.4 At the same time, inflation is close to expectations, especially on pay where we have more certainty with a 3 year deal on police and police staff pay. Government has confirmed our grant increase for the next 2 years at 2.5% - lower than some but in line with expectations. Figures beyond 2010/11 have unsurprisingly not been provided. Perhaps the biggest change from the recession is likely to be in the ability to pay of local people. Members will need to balance the growing demands for policing with constraints on ability to pay for it.

3.5 Other key elements of the financial strategy have been re-examined and amended as in the attached tables. The conclusion is that delivery of the strategy is now even more necessary. Despite the increased pressures, it remains achievable if

- promised savings are delivered, particularly on reductions in police staff posts,
- there is some dynamic use of reserves,
- members confirm the council tax increase of 4.94% or some £6 extra per average household as agreed for 2009/10 when the strategy was adopted this time last year.

3.6 Members will have noted Government exhortations to keep council tax increases significantly under 5%. Even with the suggested increases here, it is likely that the overall council tax bill across the whole area will still be significantly under 5%, given that policing represents only some 10% of the total council tax bill. In addition, the Authority wrote to the Police Minister last year explaining our 3 year strategy and the impact on council tax. The Authority was not designated so implying that the increases were not regarded as 'excessive'. Even with the increases here, the police element of the council tax in Devon and Cornwall will still be the lowest in the south west and well below the national average.

3.7 It is worth noting that the budget increase - as opposed to the council tax increase - suggested here is 3.5%. 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 3.5% budget increase can be regarded as 'excessive' but members will need to form their own view.

3.8 The rest of this report is based on the assumption that members will wish to stick to their original approach. 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 without reducing front line policing at a time when it is needed most.

4. SAVINGS

4.1 The financial strategy is based on providing for inflation, essential commitments and the delivery of a significant savings programme over three years largely to fund the move of 200 police officers from support functions to the front line in year 1. Savings can only be achieved in the medium term by improving efficiency and reducing police staff posts. The strategy assumes 196 posts are removed from the police staff establishment by June 2009 and that a further 50 are removed later in the year. This amounts to over 10% of the total police staff workforce. The scale of the challenge in human resource terms should not be underestimated.

4.2 Overall savings of £5.5m are shown. This is a formidable challenge after so many savings have been delivered over the years. Devon and Cornwall has a proud record on savings and this is reflected in the efficiency strategy attached. However, it is not getting any easier and it is the Treasurer's view that further savings are not feasible in the short term without affecting front line policing or officer numbers. Indeed, delivering £5.5m will be a major challenge to the Force but there is nowhere else to go. If significant savings are not delivered, the strategy will fail. The next 2 years will not be comfortable but neither will it be in the rest of the economy and for those who have to pay the bill.

5. CAPITAL

- 5.1. Police authorities can, in theory, now 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.
- 5.2. 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. Given the demands on the revenue budget and the problems likely to be faced over the medium-term, it is clear that a very large and rapidly growing buildings programme is not sustainable.
- 5.3. Much of the ICT programme relates to the Force Development Programme. Clearly there is much to be done and many decisions to be taken. At this stage significant uncertainty remains over scale, direction, timing and financing of expenditure. The process is being monitored by the Chairs’ Committee and revisions to the programme later in the year are to be expected.
- 5.4. Capital programme delivery problems have been experienced over several years. Management of the programme is changing and the capital programme shown in the strategy shows key areas of risk. Clearly, borrowing and the programme must be limited to avoid even more demands on the revenue budget and to facilitate far more realistic phasing and flexibility. The capital programme illustrated in the strategy shows spending of £22.6m in 2009/10 and £21.6m in 2010/11 with borrowing limited to £12- £14.2m per year. The strategy documents indicate that reductions from phasing or changing priorities will be necessary each year to keep within spending limits.

6.0 RESERVES AND BALANCES

- 6.1 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 entering a new resource world where new developments can only be undertaken by recycling existing resources. Healthy 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 will deplete reserves over time. The strategy shows a progressive, significant but manageable reduction in reserves over time – particularly as a result of funding short-term capital assets where borrowing would not be prudent.

- 6.2 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 and March 2010 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.
- 6.3 It was always envisaged that £1m of reserves would have to be used in 2009/10 to fund the Force Development Programme. In addition, it is now proposed that a number of remaining reserves be gathered together into a budget smoothing reserve. This will be released to support the revenue budget and mitigate some of the impact on council tax payers over a 5 year horizon. This will help to smooth out shocks to the budget over time and is to start with £1.3m next year then reducing progressively. It is envisaged that windfall gains and budget underspends may replenish this reserve over time allowing the benefit to be enjoyed for longer.

7. RISK

- 7.1 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”. The main financial risks that may impact upon the delivery of the strategy are similar to the ones faced every year:
- exceptional demands placed upon the service, particularly from major incidents
 - requirements of new legislation or government directives
 - delivery of major capital schemes and projects delayed or unsuccessful
 - impact of interest rate movements from the 1-1.5% assumed for new lending and 3% for borrowing
 - business transformation
 - changes in economic conditions
 - unexpected changes in funding as a result of changing central government policy and developments in the national economic situation
- 7.2 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.
- 7.3 The most significant risks for next year concern lack of certainty about our Counter Terrorism Grant, the delivery of savings, potential terrorism and recession. The Counter Terrorism Grant is assumed at £1.7m as this year. However, as this report was being printed, information on our allocation for 2009/10 was still awaited. Savings from job cuts will prove difficult and slow in a sensitive employee relations environment. One major terror incident has already been

experienced costing the Force over three quarters of a million pounds and that was a single, quickly contained incident. It is possible that the recession will be more severe than Government is forecasting with unforeseen consequences for policing and police budgets including council tax yields and recovery rates. Budget monitoring is always important. The risk assessment has assumed that for 2009/10 the standard of monitoring and budget management will be maintained and this will be vital.

- 7.4 In the medium term there is greater uncertainty. Risks include growing commitments, doubts over our 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. Members will clearly be aware of the increasing risk and uncertainty of year 3 of the strategy as it covers a new Comprehensive Spending Review period and a General Election. Public finances, including policing face a difficult future. Given the current turmoil on finance it is doubtful if anyone really knows what the situation in 2011/12 will be. Clearly developments will need to be closely monitored and the level of reserves and balances will need to be reviewed.

8 CONCLUSION

- 8.1 Over the last few years members have been able to make significant additional investments in police officers, the extended police family, partnership arrangements and priority infrastructure such as property and ICT, all as part of a rolling medium term financial strategy. There is little doubt that financial management and financial planning to date have left us better placed than many to face the challenges ahead.
- 8.2 The updated strategy proposed here should provide the Force with sufficient resources to sustain and enhance front line policing in a very difficult financial environment, to achieve its vision and deliver on performance targets for the coming years. Very tough but realistic savings targets are set both to keep within budget and to move resources to the front line to enhance performance. Reserves are used in a helpful and prudent way over time. Firm spending limits are recommended on capital. The strategy is risky but deliverable and the extra front line policing is ever more necessary.
- 8.3 The strategy is not an end in itself. It is a means to the end of enhanced policing - a contribution to a journey that, by 2012, should see Devon and Cornwall as a higher performing policing service for the communities of Devon, Cornwall and the Isles of Scilly.

John Glasby
Treasurer

Stephen Otter
Chief Constable