

Cumbria Police Authority

17 February 2010

Agenda Item Number 9

Budget Proposals for 2010-11 and Medium Term Financial Forecast to 2013-14

A report by the Chief Constable

1. Summary

- 1.1 This report represents the final in a series of papers which members have received during the budget cycle. It follows on from earlier, more broadly based, forecasts of the financial position over the medium term, presented during the summer and deals with the likely financial impacts of the quickly changing national economic situation. The report provides an updated position in relation to a number of the main financial risks which were articulated in the earlier Medium Term Financial Forecast (MTFF), confirming that, with few exceptions, there has been little change to earlier assumptions, to the extent that they impact on 2010-11.
- 1.2 More recently, members received reports at the meetings in November and January, setting out the progress made in support of a budget for 2010-11 and, in some detail, the current work within the Constabulary via the 'Sustainability and Excellence' initiatives. In addition a budget seminar involving both members of the Authority and senior officers of the Constabulary took place in January, which provided the opportunity to discuss budget issues in some detail.
- 1.3 This paper follows on from those reports and now reflects the most up to date and final budgetary analysis completed by the Constabulary finance team. The position now reported is that, for 2010-11, the costs of a continuation budget exceed the resources likely to be available, based on an increase in Council Tax of 3%, and excluding any provisions for planned or vital new growth which the Chief Constable wishes to bring forward by £2.9m.

The report contains a detailed package of suggested measures which both provide a balanced budget for the forthcoming year, whilst at the same time providing the vital headroom for the Chief Constable to be able to deliver more sustainable efficiencies for the medium term, including from the Strategic review programme, and thus helping to deliver a vision of achieving an excellent and sustainable constabulary beyond 2012.

- 1.4 It is important that a longer term view of the financial position is maintained at all times. To that end, all budget reports now synchronise with the annual Medium Term Financial Forecasts in showing longer term impacts of spending proposals. Whilst members have previously signalled, for planning purposes, a Council Tax increase of 3% in 2010-11, previous assumptions as set out in MTFF centred on annual increases of 1% from 2011-12 and beyond. There will be many changes over the next 12 months, of a political, economic and financial nature. In addition, to presenting the Constabulary's final budget proposals, this paper ends by starting to look ahead and considers the broad impact of a number of Council Tax increases, within a range of between 1% and 3%.

2. Recommendations

- 2.1 Members are asked to: -
- (i) note the contents of the paper
 - (ii) endorse the 2010-11 budget proposals

3. Medium Term Financial Forecast (MTFF)

- 3.1 Members will recall the longer term financial position for the current cycle, which was first articulated in the Medium Term Financial Forecast, presented to members in June and subsequently discussed in more detail at a members' seminar in September. This was the first formal recasting of the Authority's forecasted longer term financial position since the effects firstly of the 'credit crunch' and then the downturn in the national economic position, which have both impacted in an exceptional way on the public purse.
- 3.2 The opening statement in the MTFF spoke about the downbeat assessment and the associated difficulties of making forward predictions in the current climate. And with a general election to take place at some point over the coming four months, there is the added complexity of attempting to take some account of publicly stated economic philosophies adopted by the two main political parties, together with the timing of any approach they might agree to. But as the MTFF articulated, however uncertain the future might be, some judgements have to be made about the future to allow planning to take place. Most members will probably recall that some sensitivity analysis took place, looking at a range of changes to key areas of the budget, notably in relation to external income, Council Tax income and pay. In the event, the net effect of this work produced a relatively narrow range of possible requirement for savings and efficiencies, since optimistic and pessimistic assumptions were applied to resource and funding (expenditure and income) lines in broad equal measure.
- 3.3 Those earlier assumptions appear to be broadly in line in most regards with those made in many other forces and authorities. Indeed, in the most recent and more detailed work undertaken by the finance team, reported to the authority in November 2009, only one relatively small change was made to the earlier assumptions. To remind members, the table below, consolidating earlier analysis, shows that the longer term estimates of savings and efficiency required

to produce a balanced and sustainable budget has remained relatively static during the year.

Headline / Core Assumptions	2010-11 £m	2011-12 £m	2012-13 £m	2013-14 £m
Annual Saving (June)	3.8	1.5	0.6	1.5
Cumulative Saving (June)	3.8	5.3	5.9	7.4
Annual Saving (November)	3.65	1.5	0.6	1.5
Cumulative Saving (November)	3.65	5.15	5.75	7.25

3.4 But whatever the circumstances, financial planning must proceed based on the best intelligence. Against that general background, this report now sets out to show: -

- (i) the final continuation position for 2010-11
- (ii) the impacts of any final changes to the projections from the position reported to members in November, December and January
- (iii) the impact of how efficiencies and productivity gains will impact on the budget and the efficiency target set by the authority.

This report articulates again the view of the Chief Constable about how he proposes to move forward towards delivery of a sustainable Constabulary in the longer term, including some options to provide a balanced budget for the forthcoming year in line with the philosophy which members endorsed earlier.

4. Financial Settlement - 2010-11

4.1 The draft financial settlement for 2010-11 for the wider Local Government sector was announced by the Department for Communities and Local Government on 26 November 2009; the final year of the first three year funding arrangements. The Home Office also made an announcement setting out the settlement from a police perspective on the same day. Members received a substantive paper on the finer points of the settlement in December, but, to summarise, the announcement merely confirmed the indicative information provided at this time a year ago. The final settlement announced on 20th January was exactly in line with the earlier announcement. The salient features are briefly set out below for members' information: -

- (i) An overall increase in funding for the service of 2.7% in 2010-11.
- (ii) Guaranteed uplifts in grant of 2.5% as part of the system of protection. This is an important aspect of the settlement for Cumbria, with its reliance on the 'safety net' which, proportionately, is more than any other force and authority's external income. To remind members, Cumbria's grant is augmented by £12.8m in 2010-11 to provide the guaranteed minimum annual uplift in each of those years, representing about 22% of total general external grant aid. To add some context, the positioning of the 'safety net' should perhaps be compared with arrangements for other

Local Government groups, where, for example, both Fire and Rescue Authorities and District Councils are guaranteed a minimum uplift of only 0.5% for 2010-11.

- (iii) With regard to the range of specific grants: -
- a) Crime Fighting Fund grant amounting to £2.100m has been awarded. To remind members, this grant has not been indexed since 2004-05.
 - b) BCU grant is cash limited at its 2009-10 level (£0.25m) in 2010-11. There had been some speculation that the BCU fund would be channelled towards Community Safety Initiatives in 2010-11, and thus the certainty of the value of the allocation could not be guaranteed. But for the moment, the status quo has been maintained, with a request that funding is allocated locally in a way which best supports the attainment of confidence targets.
 - c) Neighbourhood Policing and other PCSO funding will amount to £2.349m in 2010-11, representing an increase of 2.7% pa
 - d) The special formula grant (sometimes known as 'rule 2' grant), which is an amalgamation of previous specific grant support: -
 - a. The Rural Fund
 - b. To create a national DNA database and
 - c. Special Priority Payments,and augmented by a further grant in support of IPLDP (Initial Police Learning and Development Programme), has been cash limited at its current level of £2.662m for 2010-11.
 - e) The settlement assumes that there will be no amending reports to retrospectively adjust entitlement to grants arising from previous misallocations. Government previously agreed to only produce such reports to cater for the most significant needs.
 - f) Most recently, specific security grant of £0.362m has been announced, representing a reduction of £0.052m on the 2009-10 figure.

5. Continuation budget

5.1 The fulcrum around which the annual budget is constructed is represented in the Continuation budget. Its place in financial planning is a requirement of the Police Authority Financial Regulations. It is, in essence, a means of demonstrating the cost of providing the current level of policing services in the forthcoming financial year. Longer term forecasts also show the same position for up to three future years. The traditional reporting style has been to show a continuation budget via a table of movements from the prevailing base position, which will highlight the impact of: -

- (i) Pay awards
- (ii) Price inflation
- (iii) Unavoidable spending commitments to provide the same level of service
- (iv) The future full year impact of previously approved decisions

- (v) Other technical changes, including the possible integration of the above with designated reserves.

5.2 The final calculations of the Continuation position are now complete and include minor amendments from the figures previously reported to the Authority in January to reflect new intelligence. A breakdown of the movements to the 2010-11 continuation budget are set out in some detail at Appendix 1 to this report, but, for members' information, is also summarised below: -

Area of Budget	Amount £'000
Approved budget 2009-10	100,300
Pay and Prices	2,881
Unavoidable commitments	1,099
Additional Running costs from capital schemes	495
Reduction in income	572
Full Year impact of decisions made in 2009-10	-58
Budget reductions and efficiencies	-596
Movement in earmarked reserves etc	1,263
Continuation budget 2010-11	105,956

The following table provides a reconciliation between the earlier planning assumptions as articulated in the first MTFF of the current cycle, and the final position. The close proximity between the earlier higher level analysis and the more detailed calculations now undertaken by the finance team is reassuring and vindicates the range of planning assumptions made earlier: -

Description	£m
Continuation budget as summarised in MTFF in June 2009	105.5
Revised Continuation position – December 2009, incorporating amended assumption about energy costs	105.7
Final adjustments, reflecting, in the main, new information, summarised as: -	
(i) Changes to Loan Charges Grant £50k	
(ii) Adjustment for ICT contracts £60k	
(iii) Insurance adjustment £40k	0.3
(iv) Contribution to the Regional Crime Squad £70k	
(v) Removal of planned reduction in SPP £100k	
(vi) Misc £10k	
Final Continuation position	106.0

- 5.3 To remind members, the principal assumptions now represented in the latest calculations are set out below: -

Budget Area	Assumption
Police Pay	Takes account of the three year deal, based on uplifts of 2.6% in September 2009, 2.55% in September 2010 and 0.5% thereafter
Police Staff Pay	Takes account of the three year deal, based on uplifts of 2.6% in September 2009, 2.58% in September 2010 and 0.5% thereafter
National Insurance	Reflects latest uplifts announced by Gov't in Pre budget report – November 2009
Police Pensions	Adopts the current notional employers rate for the period of this forecast
Police Staff Pensions	Adopts the current employers' rate until the next actuarial review, which will take effect in 2011-12. A broad assumption about the rate of increase has been made, reflecting performance of pension funds during the current three year envelope.
General Price Inflation	Based on uplift of 2% in 2010-11, and 2.5% thereafter
Energy Costs	Based on savings offered through the OCG contract for 2010-11, and annual uplifts of 5% thereafter.
Fuel	Based on annual uplifts of 5%,
Investment Income	The Constabulary uses a detailed cash flow model to facilitate more accurate calculations relating to investment income. The assessment of income for 2010-11 assumes base interest rates will increase slowly towards the end of the financial year towards 1%, followed by further gradual uplifts.

- 5.4 As summarised above, the final continuation budget amounts to £106.0m after the final information and diligence checks undertaken by the Constabulary finance team. They provide a sound platform to determine the scale of savings and other financing adjustments to deliver a balanced budget for 2010-11. Members will recall from the Chief Constable's budget report to members in November that a strategic approach is required to produce the level of savings and efficiencies to make the Constabulary's likely financial position sustainable in the longer term.
- 5.5 The Chief Constable has a firm vision about how he intends to achieve a sustainable financial position. This includes having a clear view about areas of activity where he would like the force to be classed as excellent, linked to others where he would be content to merely meet the standard.
- 5.6 In support of delivering longer term sustainability, members accepted the principle that the scale of change now needed requires time and headroom to implement. The programme of works under the collective banner of

'Sustainability and Excellence' is the vehicle by which much change will ultimately be delivered, although, for the reasons described elsewhere in this paper, it is not possible at this stage to make any accurate changes to the 2010-11 budget in support of this work.

For this reason, budget planning has been engineered to include a variety of technical changes and some short term measures, the aim of which is to provide time and headroom to agree more strategic change, albeit specifically not at the direct expense of front line operational policing. The following section sets out a number of proposals in support of this aim.

6. Towards the Delivery of a sustainable budget in 2010-11 and beyond

6.1 Over the last eighteen months the financial prospects of the Authority and Constabulary, along with all other public bodies have deteriorated with a growing realisation that whichever Government is elected in 2010 it is likely to have to significantly reduce public expenditure to address its budget deficit. Local Government bodies have been provided with some protection from immediate reductions, virtue of the commitment by Government to the increases as articulated some time ago, when the three year funding settlement was announced. Home Office officials have referred to 2010-11 as representing the year of opportunity, ie a year to bring about substantial organisational change to prepare for the leaner times ahead. The Chief Constable has always concurred with this view and, recognising the scale of challenge facing the Constabulary to maintain good performance, has initiated the 'Sustainability and Excellence' review programme, which was outlined in some detail in the November report to the Authority, along with other initiatives agreed by the Chief Officer Group and some further proposals, specifically designed to provide headroom to allow longer term change to take effect.

6.2 As indicated in that earlier paper, whilst the 'Sustainability and Excellence' reviews remain a cornerstone of the Constabulary's approach to developing a sustainable budget in the longer term, the changes proposed are of a strategic nature and, in many regards, will not be possible to budget for in 2010-11. To briefly remind members of the range of review activity being undertaken. Firstly, in relation to Sustainability and Excellence, a programme of work containing five main themes:-

- (i) Review of IT and Project Management – Consultants were appointed earlier in the financial year and have reported to the Chief Officer Group, alongside some internal work looking at a suitable structure. Some internal restructuring has commenced, to help make the service more fit for its current purpose. Some initial work looking at possible collaborative opportunities has also taken place. The publication of the policing White Paper "Protecting the Public: Supporting the Police to Succeed" will require forces to reflect, so as to better understand the expectation that up to £200m can be saved across the service by a national convergence programme, as part of the ISIS initiative. The local implications arising from the White Paper are currently being evaluated and will be reported back to members when more is known and understood.

- (ii) Regional Shared Services initiative for Finance and Human Resources
Members will be aware that the regional initiative ceased several weeks ago due to the lack of a sufficiently robust business case. The Governance Committee will receive a summarised de-brief at the meeting on the 24th February. To move forward, a more attractive local business case has been prepared looking at a range of options to provide leaner and more cost effective systems and transactional services, which anticipates annual savings and efficiencies of up to £375k, which can be achieved, subject to the up front investment of £550k.
- (iii) Regional Procurement - Discussions are still ongoing with regional colleagues about how this can be taken forward, although it is not expected, in itself, to deliver significant additional cashable efficiencies over and above the collaborative procurement already undertaken, both regionally and nationally. The finance and HR proposal outlined above includes proposals to enhance the use of technology around procurement activities, which, by adopting leaner processes and better controls, may generate savings of up to £300k, once implemented. There are specific references in the recent White Paper about future national procurement savings, which Home Office estimate will ultimately amount to £200m, “by the quick adoption of national frameworks”. As with the statement in relation to IT above, more work needs to be undertaken to understand the full implications of this statement, not least in the context of the amount of procurement already undertaken under a range of regional and national contracts and agreements.
- (iv) Workforce Modernisation – To remind members, £0.2m of savings from civilianising police posts will be accrued in the current financial year, the full year effect, amounting to £0.4m, will be reflected in 2010-11. The Chief Constable has previously undertaken to continue to search for further opportunities, where: -
- i. There is business benefit from doing so
 - ii. There is no compromise to officer capacity and resilience, especially in specialist areas
- (v) Reviews of BCU's. The report to members in November provided a detailed breakdown of the scope, expected outputs and then current position and it is not necessary to repeat all that detail here. Members also received an update in the January seminar and, in addition, there is a further update elsewhere on this agenda. But, briefly, to remind members, there are four current reviews of BCU activities, as follows: -
- i. CID functions in BCU's
 - ii. Community Safety Function (and HQ partnership role)
 - iii. Criminal Justice Unit function in BCU's
 - iv. Review of Confidence in BCU

Each of these reviews contains four stages and the Chief Officer Group received an update at the end of stage 3 in late December. A number of options were discussed before commencement of the final fourth stage.

An update was received by the Constabulary Chief Officer Group on the 1ST February.

Under the circumstances, taking account of the current position of the reviews, the work still outstanding, the need to consult with affected parties and to plan to implement required changes, the budget for 2010-11 has, by design, omitted including what would have been part year effects of the outcomes from these reviews. It has also not catered for any 'one off' costs of change, notably for the costs of any redundancy or early retirement (where applicable) arising from recommendations in the reviews.

The Chief Constable believes that it will be necessary, in the first instance, as a principle, for any such costs, which are, by definition still to be fully assessed, to be met in the first instance from the management of change reserve with any excess being funded from the general reserve. That said, it is recognised that any draw on the Authority's reserves will need to be repaid in the longer term. Notwithstanding that the budget has not catered for the part year effect of any impact the reviews might have in 2010-11, it is the intention of the Chief Constable to implement change as soon as is practical. It is hoped that such an approach will generate some early savings which would be able to contribute to the costs of their implementation and, accordingly, reduce the call on balances as set out above.

- 6.3 In addition to the Sustainability and Excellence reviews, the production of a budget for 2010-11 has also included a combination of other initiatives which include: -
- (i) A programme of smaller scale efficiency and productivity plans principally developed by commanders and managers in response to delegated targets set by the Chief Officer Group.
 - (ii) Strategic decisions by the Constabulary Chief Officer Group involving
 - (a) the number of officers and staff the Chief Constable believes the organisation is capable of sustaining in the longer term.
 - (b) the affordability of some capital items
 - (c) a movement towards a leaner management structure which will aim to become best in class in comparison with senior police officer numbers in a group of similar forces.
 - (iii) Some 'headroom for change proposals' such as the use of local contingencies, which do not reduce the scale of the longer term savings requirement, but provide a further breathing space whilst the strategic proposals included in the Sustainability and Excellence Programme are developed and delivered.
- 6.4 A schedule of the measures proposed is set out below for members' information:-
- (i) Implement a range of smaller savings, put forward by local BCU commanders and HQ directors as part of the devolved arrangements supporting the Constabulary efficiency and productivity regime, valued at £436k. These have been risk assessed by those proposing the changes

- and classed as low risk. The package has, in addition, been discussed and agreed by the Constabulary Senior Managers Forum (Chief Officers, BCU Commanders and Directors).
- (ii) The Chief Officer Group decision to reduce police officer recruitment by 30 posts in 2009/10 in anticipation of the implementation outcomes from Sustainability and Excellence reviews, which will reduce the number of police officer posts not engaged in front line roles. This proposal is forecast to save £1.011m in 2010-11. Whilst it is anticipated that this will become a recurrent saving for the purposes of future budget projections it has been treated as non-recurring until a more detailed articulation of savings arising from the Sustainability and Excellence Programme is available.
 - (iii) Reduction in the IT capital replacement programme by £300k per annum with a corresponding reduction in revenue support for the capital programme.
 - (iv) Rationalisation of communications centre and help desk staffing structures, following the introduction of a new Command and Control system. (The net saving in 2010-11 will be £240k, rising to £340k from 2011-12 onwards when transitional allowances for re-located staff end).
 - (v) Increase the police staff turnover allowance by £200k on the basis of the current level of vacancies and the intention to actively manage recruitment during 2010-11.
 - (vi) Re-appropriate funds previously earmarked from unspent year end balances for use by commanders and directors to support local initiatives, under the Constabulary's scheme of Devolved Resource Management, to support the corporate budget, amounting to £444k
 - (vii) Earmark the whole of the forecast under-spending from the 2009-10 budget, amounting to £515k, to underpin the budget for 2010-11. This figure will be reported in more detail in the budget monitoring report to the Governance Committee on the 24th February. The budget monitoring report includes an initial estimate of the impact of the net costs to the Constabulary of the damage caused by and the operational response to the floods in November, which are still being finalised. A working assumption has been made that these unique costs (net of any insurance receipts) will, in the most part, be met from the existing earmarked reserve for major operational incidents, established some years ago.

6.5 The above schedule of chosen options contains a combination of items which have an ongoing and sustainable impact on finances. Others help to provide the necessary headroom to identify further efficiencies and savings in line with the Chief Constable's philosophy of achieving excellence and sustainability beyond 2012. The table below summarises the proposals: -

Area of Expenditure	Recurrent Saving	Amount £'000
Package of local savings	Yes	436
Reduction in revenue support for the Capital Programme.	Yes	300
Rationalisation of Communications Centre and	Yes	240 in 2010-11 340 thereafter

Help Desk staffing		
Total recurrent savings		976
Reduced police officer recruitment in 2008-09. It is anticipated that a large portion of this saving may become recurrent pending the review programme.	No	1,011
Temporary increase in turnover allowance for Police Staff.	No	200
Re-appropriate funding originally earmarked for local initiatives under the scheme of DRM.	No	444
Earmark funding from likely 2009-10 under-spend.	No	515
Total non recurrent items		2,170
Grand total of proposals		3,146

6.6 As far as possible the Constabulary has endeavoured to manage all new demands for growth from within existing resources. However, the two items of additional expenditure £140k have been deemed of sufficiently high importance to merit inclusion within the budget these are as follows: -

- 1) A temporary additional Chief Superintendent post to oversee the implementation of the 'Sustainability and Excellence' programme over the next two years at a cost of £100k per annum.
- 2) The one off revenue costs of the upgrade of financial and other business systems (over and above those planned to be met from existing earmarked reserves), as approved in principle by the Authority in January. The additional revenue resource requirement amounts to £40k for one year only.

7. Efficiency and Productivity

- 7.1 The Chief Constable continues to take the view that increased efficiency and productivity are fundamental to the longer term sustainability of the Constabulary. The Constabulary has a long established regime to find and implement ongoing efficiencies and this has been given added weight and status by the setting of formal efficiency targets for BCU's and HQ Directorates. It is proposed that targets continue to be given in 2010-11 and beyond, linked to any wider target which the Authority might set and oversee for the Constabulary.
- 7.2 As members of the Policing Plan and Performance Committee were advised in November and January, proposed efficiency and productivity gains for 2010-11 of around £2.0m were identified earlier in the year, co-ordinated by the Constabulary's Efficiency Manager, of which £0.435m deliver immediate budget savings from 2010-11, and these have been incorporated into the proposals at

Paragraph 6 above. The remainder, which in the main have been realised through the detailed budget process, consist of resource (but not cash) releasing efficiencies and productivities which have been declared by BCU's and departments. The Chief Constable is committed to ensuring these are utilised in the most effective manner, which both: -

- (i) help satisfy the demand for new resources within the Constabulary, which the Chief Constable accepts must be from within the existing budget
- (ii) link to the continuing main strategic objectives as approved by the Authority

7.3 Although delivery of many anticipated budget savings from the 'Sustainability and Excellence programme' are now unlikely to be delivered until the end of 2010-11, other initiatives and decisions during the budget process have identified budget savings totalling £1.136m which qualify as cashable efficiencies under the Home Office's efficiency regime (total cashable savings of £1.571m = £1.136m, above, plus £0.435m, from paragraph 7.2).

7.4 A summary of 2010-11 efficiencies is found in the table below :-

Nature / Area of Efficiency	Value of Efficiency £000's
Budget Saving efficiencies: -	
Delegated budget saving efficiencies	436
Civilianisation Programme (full year effect)	234
Direct crime input	200
Energy price reductions through a new Office of Government Commerce	162
Reduction in revenue support for the capital programme.	300
Rationalisation of communications centre and help desk staffing.	240
Total budget saving efficiencies	1,572
Delegated productivity efficiencies	1,495
Total efficiencies Budget & Productivity	3,067

7.5 Whilst the total of efficiencies identified of £3.066m is below the Police Authority's annual target of £3.5m, the surplus of efficiencies generated in previous years means that the Constabulary remains on target to achieve the previous Home Office Efficiency target, subsequently adopted by the Police Authority of 10.3% in the period 2008-11. However, it is also recognised that the level of recurrent budget savings efficiencies identified for 2010-11, without any contribution from

the Sustainability and Excellence reviews, is below that required to deliver a balanced budget in the medium term.

8. Strategic Partnerships and Risks

- 8.1 Constabulary budget proposals are formulated and properly recognise that policing takes place in a context of working with partner agencies and that the philosophy of joint working will represent the best means of delivering agreed objectives. This is a fundamental principle to which the Chief Constable is fully committed. As part of the planning process for 2010-11, the Chief Constable has shared the Medium Term Financial Forecast with a number of partners, including all Cumbrian Local Authorities.
- 8.2 There are a wide range of partnerships, which range, on the one hand, from quite informal working relations with partner bodies to achieve shared objectives, which have no additional resource implications, other than the cost of the time involved. But at the other end of the spectrum, are more formal partnerships, in which the Constabulary either contributes to or benefits from partnership funds. The Constabulary has involvement in a number of such partnerships, which include the Safety Camera Partnership, which receives operational funding from the Department of Transport, via Cumbria County Council, the Scafell Prolific and Priority Offenders Project, which has received significant grant funding in the past within the LAA regime, CDRP's and the Criminal Justice Board.
- 8.3 In the past the Constabulary has received contributions from partner agencies to support various initiatives. However, one of the principal difficulties with partnership working is the short term nature of external funding arrangements associated with such initiatives and how the initiatives are funded on a continuing basis if the external funding ends. During the current economic downturn the Constabulary has experienced some reduction in the level of external support it receives including the loss of the remaining support for PCSOs from partner organisations amounting to £160k in 2010-11 following the withdrawal of Neighbourhood Renewal Funding for Cumbria. This has been factored into the budget. In relation to the Scafell Priority and Prolific Offenders Project, pump riming funding through the LAA comes to an end in 2009-10. Whilst continued funding into 2009-10 has been pledged by the Primary Care Trust's Drug and Alcohol Action Team and the Safer and Stronger Communities Thematic Partnership and there has been a commitment 'in principle' to provide further funding for this valued initiative from the 'Reward Grant' element of the LAA agreement from autumn 2010, there may be a requirement for the Constabulary to provide funding in the interim which would need to be found from within existing budgets.
- 8.4 In relation to risk, the most significant element of uncertainty in the budget forecasts in this report relates to the level of funding which the Constabulary can expect to receive from 2011-12. With all political parties being reluctant to signal where and how much public expenditure will need to be reduced until after the forthcoming election, the funding assumptions from 2011-12 inevitably carry a high degree of risk. Nevertheless, the assumptions made are considered prudent and in line with those of other police and public sector organisations. Members

are also provided a range of budget scenarios based on different assumptions regarding Council Tax income.

- 8.5 A related assumption within the forecast is that a reduced level of funding will be accompanied by tight control on public sector pay settlements beyond the current three year pay agreement. Whilst the main political parties have signalled an intention to restrain pay and even impose a pay freeze, if this is not delivered the scale of savings required by the Constabulary could increase substantially. Modelling during preparation of the Medium Term Financial Forecast in June suggested that average pay settlements of 1.5% per annum from 2011-12 compared with the assumption of 0.5% would add approximately £2.5m to the savings requirement by 2013-14.
- 8.6 Current inflation assumptions are broadly in line with the Government's forecast that inflation will hit the target of 2% per annum over the medium term. However, recent volatility in oil prices suggests that energy and fuel cost inflation might run above the general level of inflation, particularly if there is a rapid return to world economic growth. Accordingly an assumption that fuel and energy costs will increase by 5% per annum has been incorporated into the forecast.

9. Financial Planning, Service Planning, Cost Drivers and Performance

- 9.1 One of the cornerstones of strategic planning is the alignment of financial and service plans to help ensure at all times that resources required to deliver strategic objectives will be available and, similarly, to bring about the most effective use of the limited resources available. In support of this objective the Policing Plan and Performance Committee has agreed a strategic timetable to glue together the various strands of the planning process. Various functional strategies are also aligned to this process to ensure that those plans reflect the main corporate objectives.
- 9.2 So far as planning for 2010-11 is concerned, the Authority received and endorsed a report from the Chief Constable at its meeting on 14 December. Amongst other things, that report set out the vision, objectives and key principles, taking account of community, partner and national priorities. Links between main priorities, performance targets and resource allocation are summarised in the following table: -

Our priorities	Our targets	Resource commitment
We will protect Protecting people from harm and saving lives.	By end March 2012, 64.8% of people in Cumbria will agree that the police and local councils are dealing with the crime and antisocial behaviour that matter in their area.	The Chief Constable has committed to protecting frontline policing services, ensuring that all police resources are allocated based on the level of risk facing the county. A range of partnership initiatives will be supported to
We will prevent Preventing crime and antisocial behaviour, ensuring that roads are safe		

and preventing terrorism.	By end March 2011, 60.8% of people will agree.	deliver policing and criminal justice services for the county.
<p>We will prosecute</p> <p>Making sure that crimes are detected, criminals are caught and people are brought to justice.</p>		
<p>We will deliver a professional service</p> <p>Making sure that we respond to communities' concerns and have an organisation that can deliver quality services, effectively and efficiently.</p>	<p>Deliver budget savings over three years, consistent with the requirements as set out in MTFF to remain sustainable and, where possible, invest in front line policing services.</p> <p>Meet the efficiency target set by the Authority.</p> <p>Reduce police officer and police staff sickness.</p> <p>A diversity target.</p>	<p>Local policing will continue to improve, building on previous investments whenever possible by using the efficiency and productivity gains generated within the Constabulary.</p> <p>Frontline delivery will be improved through more effective management of resources, utilising technology and maximising opportunities for collaborative and partnership working where this is beneficial for Cumbria.</p>
<p>We will have pride in what we do and who we are.</p> <p>Making sure that we support staff to deliver services professionally.</p>		

10. Overall impact and longer term sustainability

10.1 At the commencement of the current cycle, the MTFF described the financial forecast as the most downbeat in recent times and referenced the scale of the financial challenge ahead. The Chief Constable's approach, as reported to members, has been to recognise that a strategic approach would be necessary and, accordingly, a solution would take time to properly consider and implement and could not be properly formulated in the current round. Delivering sustainable budgets will be a significant problem for all public bodies in the foreseeable future with many uncertainties ahead, both in terms of the availability of resources and the speed at which significant organisational change can be delivered.

10.2 In light of the strategic challenge, members endorsed the longer term work programme "Beyond 2012 – Achieving Excellence and Sustainability". There are a significant number of initiatives and work programmes, described in the paper, now in place, to move the Constabulary towards the sustainable position it needs to occupy. In the interim, a package of measures are now put forward to provide a balanced budget for 2010-11 which, collectively, provide both a range of recurrent savings and efficiencies and a number of further adjustments which will

provide the necessary time and headroom to deliver further changes and savings in the coming years. 2010-11 needs to be considered, in many regards, as a year of change (or a year of opportunity, as described by Home Office officials).

- 10.3 At the meeting of the Authority in November, the Chief Constable sought guidance and clarity about members' preference for setting a Council Tax for 2010-11. The general consensus was that, for planning purposes, an increase of 3% should be considered, although in the report at December's meeting, members were also advised on the potential impact on the Council Tax base arising from damage to properties, predominantly in West Cumbria, as a consequence of the severe flooding in mid November. In the event the impact has not been as severe as first feared. The proposals in the paper are based on a Council Tax increase of 3% in 2010-11.

In many ways, the delivery of a sustainable longer term financial position is aided by some ongoing certainty about Council Tax levels. The Authority and Constabulary have always taken the view that annual budgets are, in many regards, but one element of a longer term financial strategy. There is much uncertainty about the amount of grant aid which the Authority will receive after 2010-11 and it may be some time after the general election before the position becomes clearer. There is, in addition, some uncertainty about Council Tax income. Some prudent assumptions were made in the MTFF, when the economy was in a deeper recession, around increases at 1%. Notwithstanding that more pressure may be imposed by an incoming government to moderate Council Tax increases, the impacts of a range of annual increases are set out in Appendix 2. The cumulative impact on the savings and efficiency requirement beyond 2010-11 is highlighted in the table below: -

Council Tax increase	2011-12 £m	2012-13 £m	2013-14 £m
1% cumulative	5.3	5.2	6.2
2% cumulative	5.0	4.5	5.1
2.5% cumulative	4.8	4.1	4.6
3% cumulative	4.6	3.8	4.0

Many members will recall from previous reports the cumulative effects of reducing Council Tax levels, which will impact on subsequent financial years to the year of reduction. The effects of differing Council Tax levels over the medium term can add, materially, to the financial challenges ahead. The table above, using information from the future forecast emphasises the scale of those challenges, based on a range of annual increases, after 2010-11, in a range between 1% and 3%.

- 10.4 And finally, previous reports have consistently referred to the challenging times ahead. The scale of those challenges remains undiminished. But, to remind members, the Chief Constable has a clear view about the way ahead – he continues to believe that the Constabulary will continue to be a sustainable and excellent organisation over the medium and longer terms. As he set out in the most recent MTFF, external economic influences will no doubt affect the nature of the journey in the coming years. However, this will not detract from the

NOT PROTECTIVELY MARKED

Constabulary vision of building a Safer and Stronger Cumbria and the ambition of continuing to be amongst the best performing forces in the country over the longer term.

Craig Mackey
Chief Constable

Not Protectively Marked

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Finance and Resources / Police Authority / 2009-10 / Budget 2010-11 and beyond / WMT- WRM /

Appendices

- Appendix 1 Continuation budget Movements table to 2010-11
- Appendix 2 Latest Medium Term financial projections
- Appendix 3 Movement on Reserves

Background papers

HM Government

- Financial Settlement papers 2010-11, various
- Statement of Home Secretary in support of three year financial settlement
- Statement of Home Secretary in support of three year police pay award

Cumbria Constabulary / Cumbria Police Authority

- Medium Term Financial Forecast to 2013-14 – June 2009
- Report to Police Authority on Financial Settlement 2010-11
- Response to Consultation on financial settlement
- Police Authority's own budget proposals – September and December 2009
- Cumbria Constabulary budget issues reports to Police Authority – November 2009 and January 2010.

Contact points for additional information

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Human Rights Implications: None Identified

Race Equality / Diversity Implications: None Identified

Risk Management Implications: As identified in the report. Specifically, the report provides an update about a range of earlier identified financial risks across various budget areas and the extent to which those earlier predictions have materialised or have been, to some extent, ameliorated.

Financial Implications: As identified in the report

Personnel Implications: As identified in the report

Budget Movements Table 2009-10 to 2010-11

Appendix 1

	£	£
2009-10 Base Budget		100,300,000
<u>Pay & Prices</u>		
Police Pay Award	1,657,630	
Police Staff Pay Award	761,195	
Other Inflation	462,433	2,881,258
<u>Turnover</u>		
Removal of additional turnover reflecting delayed recruitment in 2009-10	214,010	214,010
<u>Increments, & Staff Mix</u>		
		394,645
<u>Unavoidable Commitments</u>		
Public Holiday Overtime	206,372	
Increase in Business Rates	112,250	
ICT Contracts increase	150,410	
Various	21,560	490,592
<u>Changes in Income</u>		
Reduction in PCSO contributions from partners	160,000	
Reduction in Interest Receivable	325,000	
Firearms Licencing Income Increased for 2010-11 (cyclical)	-65,000	
Reduction in Loan Charges Grant	47,877	
Mobile Data Grant - Reduction in grant applied for 2010-11	105,000	572,877
<u>FYE of 2009-10 Decisions</u>		
Unison additional support re re-structuring	52,908	
MARAC Co-ordinators	60,000	
Police Authority Post - Community Liason Officer	60,314	
Super-numerary Police Officer Posts	103,017	
Removal of P&D post (ER) funded for 2 yrs to 31 Mar 10	-37,794	
Witness Intermediaries and Protection	25,000	
Removal of temporary funding to facilitate additional 08-09 recruitment	-122,279	
Removal of one off expenditure re reviews	-250,000	
Contribution to the Regional Crime Squad	71,000	
Various	-20,473	-58,307
<u>Revenue Effects of Capital</u>		
Change in Revenue Effects of Capital Schemes	494,464	494,464

Recurrent Efficiencies

Civilianisation Programme (full year effect)	-233,811	
Direct Crime Input	-200,000	
Energy Price reductions (new OGC contract)	<u>-162,000</u>	-595,811

Reduction in Revenue Contributions to Capital

Reduction in revenue support for capital to base level of £1.5m	<u>-3,335,100</u>	-3,335,100
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Movement in Reserves

RESERVES - Trfr to / from General Reserve	<u>76,000</u>	76,000
RESERVES - Trfr to / from PH Overtime Reserve	-150,000	
RESERVES - Trfr to / from Airwave Reserve	70,000	
RESERVES - Trfr to / from Sleuth Reserve	12,000	
RESERVES - Trfr to / from Support for 09-10 Budget Reserve	807,000	
RESERVES - Trfr to / from Command & Control Training Reserve	227,000	
RESERVES - Trfr to / from Capital Reserve reduced to nil	4,030,000	
RESERVES 4C - Earmarked Reserve (Re-appropriated from Capital Reserve)	-115,033	
RESERVES Sleuth - Earmarked Reserve (Re-appropriated from Capital Reserve)	<u>-359,700</u>	4,521,267

Continuation Budget 2010-11

105,955,895

Non Recurrent Movement in Reserves

Transfer to General Reserve	<u>138,000</u>	138,000
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Temporary additional requirements

Supernumerary post to Lead Implementation of Sustainability and Excellence Reviews	100,000	
One off revenue costs of the upgrade of Finance & Business Systems	<u>40,000</u>	140,000

Recurrent Efficiency and Savings Proposals

Local Efficiencies (BCUs and Departments)	-435,895	
Reduction in Revenue Support for the Capital Programme	-300,000	
Rationalisation of communication centre and help desk staffing structure	<u>-240,000</u>	-975,895

Non Recurrent Efficiency and Savings Proposals

Reduction in Police Officer numbers	-1,011,000	
Increase in Police Staff turnover	<u>-200,000</u>	-1,211,000

Expenditure funded from Earmarked Reserves and Appropriations

Earmark projected under-spending from 2009-10 to support the 2010-11 revenue budget.	-515,000	
Reappropriate local Chief Constable's delegated reserves to support the 2010-11 revenue budget.	<u>-444,000</u>	-959,000

2010-11 Budget at 3% Council Tax Increase

103,088,000

Committed Revenue Expenditure 2009-10 to 2013-14

	2009-10	2010-11	2011-12	2012-13	2013-14
	Expected £'000	Budgeted £'000	Forecast £'000	Forecast £'000	Forecast £'000
Constabulary Budget					
Pay and Employment Costs	92,206	93,869	97,100	97,490	98,046
Pensions	9,276	8,589	9,562	10,445	11,565
Total Employment Costs	101,482	102,458	106,662	107,935	109,611
Premises	5,656	4,775	4,954	5,078	5,230
Transport	2,720	2,704	2,695	2,777	2,872
Supplies and Services	12,507	11,454	12,904	11,902	12,059
Support Services	139	135	139	143	147
Third Party and Contract Services	522	575	590	605	621
Less Income					
Fees, and Charges	(4,690)	(3,151)	(3,296)	(3,558)	(3,643)
Ad Hoc revenue Grants	(17,847)	(16,796)	(17,763)	(18,332)	(19,433)
Other Items					
RCCO	1,014	3,389	2,030	1,745	1,630
Amending Report	0	0	0	0	0
Financing Costs	268	259	297	293	284
Police Authority Costs	876	959	983	1,008	1,034
Contingency	2	55	55	55	55
Capital Reserves	(15)	(2,189)	(830)	(545)	(430)
Earmarked Reserves	(2,208)	(1,827)	(463)	156	306
General Reserve	(126)	288	150	150	150
Additional Savings Required	0	0	(5,311)	(5,181)	(6,167)
Net Constabulary Budget	100,300	103,088	103,796	104,231	104,326
Financed by					
Principal Police Grant	31,577	32,405	32,567	32,567	32,404
Revenue Support Grant	6,680	4,625	4,648	4,648	4,625
Non Domestic Rates	28,942	31,849	32,008	32,008	31,848
Council Tax	33,180	34,206	34,623	35,058	35,499
Council Tax Deficit	(79)	3	(50)	(50)	(50)
Total Financing available	100,300	103,088	103,796	104,231	104,326
Increase over previous year	2,905	2,788	708	435	95
Local Tax Base (estimated from 10-11 onward)	176,253	176,423	176,800	177,250	177,700
Amount per Band D Property	£188.25	£193.89	£195.83	£197.79	£199.77
Increase over previous year	£8.79	£5.63	£1.94	£1.96	£1.98
Percentage increase	4.90%	2.99%	1.00%	1.00%	1.00%

Amount per Band D Property	£188.25	£193.89	£197.76	£201.72	£205.75
Increase over previous year	£8.79	£5.63	£3.87	£3.96	£4.03
Percentage increase	4.90%	2.99%	2.00%	2.00%	2.00%
Total Additional Savings Required		0	(4,970)	(4,484)	(5,104)
Amount per Band D Property	£188.25	£193.89	£198.73	£203.70	£208.79
Increase over previous year	£8.79	£5.63	£4.84	£4.97	£5.09
Percentage increase	4.90%	2.99%	2.50%	2.50%	2.50%
Total Additional Savings Required		0	(4,799)	(4,133)	(4,564)
Amount per Band D Property	£188.25	£193.89	£199.70	£205.69	£211.86
Increase over previous year	£8.79	£5.63	£5.81	£5.99	£6.17
Percentage increase	4.90%	2.99%	3.00%	3.00%	3.00%
Total Additional Savings Required		0	(4,627)	(3,780)	(4,018)

Estimated movement of Reserves and Provisions

	Balance 31.3.2009 £'000	Receipts 2009-10 £'000	Payments 2009-10 £'000	Balance 31.3.2010 £'000	Receipts 2010-11 £'000	Payments 2010-11 £'000	Balance 31.3.2011 £'000	Receipts 2011-12 £'000	Payments 2011-12 £'000	Balance 31.3.2012 £'000	Receipts 2012-13 £'000	Payments 2012-13 £'000	Balance 31.3.2013 £'000	Receipts 2013-14 £'000	Payments 2013-14 £'000	Balance 2013-14 £'000
Capital Reserves																
General Capital Reserve	7,079		(1,563)	5,516		(2,143)	3,373		(830)	2,543		(545)	1,998		(430)	1,568
DDA Capital Reserve	61		(15)	46		(46)	0			0			0			0
Total Capital Reserves	7,140		(1,578)	5,562		(2,189)	3,373		(830)	2,543		(545)	1,998		(430)	1,568
Revenue Reserves																
Total General Reserves	4,968	74	(200)	4,842	288		5,130	170		5,300	170		5,470	170		5,640
Earmarked Reserves - Police Authority Control																
Insurance Reserve	791		(54)	737		(54)	683		(54)	629		(54)	575		(54)	521
Management of Change	678	200	(238)	640			640			640			640			640
Operational Reserve	350		(200)	150			150			150			150			150
Support For 2009-10	807		(807)	0			0			0			0			0
Support For 2010-11	0	515		515		(515)	0			0			0			0
Police Authority	131			131			131			131			131			131
PFI Future Funding	800	140		940	140		1,080	140		1,220	140		1,360	140		1,500
Earmarked Reserves - Force Control																
Public Holidays	289			289		(150)	139		(75)	64			64	150		214
Airwave Revenue	480		(120)	360		(50)	310		(60)	250		(30)	220		(30)	190
Pensions Liability	253		(100)	153			153			153			153			153
Health & Safety	180		(42)	138			138			138			138			138
LPT Accommodation	0			0			0			0			0			0
Probationer Training Reserve	35			35			35			35			35			35
Sleuth / Impact	344	1,098	(490)	952		(502)	450		(414)	36			36			36
Mountain Rescue Services	0			0			0			0			0			0
Incentivisation	31			31			31			31			31			31
South Estates Review	119		(119)	0			0			0			0			0
PPU Review	0			0			0			0			0			0
Mobile Data	300		(100)	200		(100)	100		(100)	0			0			0
Risk Management	175			175			175			175			175			175
PND Earmarked Reserve	0	276	(104)	172			172			172			172			172
Budget Holders Funds	1,988	194	(693)	1,489	100	(696)	893	100		993	100		1,093	100		1,193
Total Earmarked Revenue Reserves	7,751	2,423	(3,067)	7,107	240	(2,067)	5,280	240	(703)	4,817	240	(84)	4,973	390	(84)	5,279
Total Reserves	19,859	2,497	(4,845)	17,511	528	(4,256)	13,783	410	(1,533)	12,660	410	(629)	12,441	560	(514)	12,487
Provisions																
Insurances	457	141	(141)	457	141	(141)	457	141	(141)	457	141	(141)	457	141	(141)	457
Total Provisions	457	141	(141)	457	141	(141)	457	141	(141)	457	141	(141)	457	141	(141)	457
Capital Receipts	0	142	(142)	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Grant Unapplied	5,288	1,127	(4,681)	1,734	1,127	(2,861)	0	845	(845)	0	845	(845)	0	845	(845)	0