

MEDIUM TERM FINANCIAL STRATEGY 2011/12-16

PURPOSE OF THE REPORT

1. The purpose of this report is to introduce new Police Authority Members to our Medium Term Financial Strategy (MTFS) and to help Members understand the headline projections within the MTFS covering this and the next four years, as endorsed by the Police Authority on 15 February 2011.
2. The report also seeks to highlight the opportunity for Members to work through the MTFS and raise queries at one of a series of Finance Open House Sessions to be run in late August/early September 2011. This would be in advance of a fundamental review of the latest MTFS which will be reported to the Business Development Committee in September.

BACKGROUND

3. Following the General Election, the Coalition Government acted swiftly to address the UK budget deficit. A package of £6.2bn cuts in 2010/11 was announced at the time of the Emergency Budget in June 2010 and warnings of front-loaded budget cuts for 2011/12 and 2012/13 followed in the Comprehensive Spending Review (CSR) presented by the Chancellor of the Exchequer in October 2010. These cuts have been confirmed in the provisional and final grant settlements for the Police Authority.
4. A Police Authority Priorities Workshop held on 18 January 2011 provided the opportunity for the Authority and Force to consider feedback from local partners, including Local Strategic Partnerships (LSP), Crime and Safety Partnerships (CSP) and the Local Criminal Justice Board (LCJB) to develop shared priorities.
5. The meeting also considered feedback from various consultation events and questionnaires circulated during the year including the "Big Conversation" which supplemented information from the Authority's Citizen Panel surveys that have provided public views on local policing and on their spending priorities.
6. Against this background, the Chief Constable commissioned work to examine the effect of cuts of £20m and £30m in addition to those already agreed and in the Medium Term Financial Plan (MTFP) being realised through Business and Workforce Modernisation and Choices Programmes.
7. The resulting CSR 2015 Savings Plan has been considered at briefings with Members. At these briefings, Members considered the savings proposals with

the benefit of detailed information from the Authority's community consultation and engagement process.

8. The outcomes from the Priorities Workshop and CSR Savings Plan were subsequently incorporated into a draft of the 2011/2016 MTFP, the first year of which underpins the 2011/12 Budget. Both were discussed at the Police Authority Budget Workshop on 31 January and subsequently 2011/12 Budget and MTFP related papers submitted and approved unanimously at the Police Authority meeting on 15 February 2011.
9. At the Police Authority meeting, Members approved a net Budget for the 2011/12 financial year of £180.6m which excluded any approved amounts carried forward from 2010/11. In support of the 2011/12 Budget, the Police Authority set a Band D equivalent precept of £166.47, freezing it at the level set for 2010/11 in line with the clear expectations of the Government. Members also agreed to ring-fence a facility of up to £6m of funding from the Performance Improvement Reserve in order to help delivery of savings to a sensible timescale against the significant front-loading of the grant reductions and therefore the savings requirement.
10. The detailed MTFS Paper¹ is available via the Member's Website, and consequently this paper references rather than rehearses the detail in that paper. The Medium Term Financial Plan itself is however reproduced as an annex to this paper, at Appendix 1.

OPTIONS, RISKS AND OPPORTUNITIES

11. The issue of risk is a complex one, but may be discussed as the failure to meet organisational objectives. Strategic, focused and timely business monitoring and modelling assists the Force and Authority in identifying risks and opportunities and the corrective options available.

POLICING PLAN AND PERFORMANCE

12. The MTFP is a financial overview of the activities supporting the long term aims and priorities outlined in the Police Authority's Policing Plan 2011-15.

IMPACTS ON OR LINKS TO COLLABORATION

13. The purpose of this report and its recommendations, developed in line with Police Authority guidance, is outlined in paragraphs 1 and 2.
14. The given brief does not facilitate the consideration of "proposals" for collaborative, partnership, shared service, outsourced or cloud based provision.

¹ Agenda Item 3 Police Authority 15th February 2011

FINANCIAL IMPLICATIONS

15. The MTFS reflected the best available information on external funding when the 2011/12 Budget was set and incorporates provision for the full year effect of the 2010 pay settlement, which was the final part of the previously agreed three year deal, and the proposed public sector pay freeze for most workers in 2011 and 2012. The police officer and police staff pay assumptions will be subject to adjustment as recommendations from the Winsor Review of Police Officer and Staff terms and conditions emerge and the outcomes of Lord Hutton's report on public sector pensions become clear.
16. It will be necessary to continuously review and revise the assumptions and to amend the MTFS as and when necessary. The Authority and the Force need to be sufficiently flexible to react to changes.
17. For the current financial year the Government sent out a clear message that they expected to see all principal local authorities freeze the Council Tax and that where authorities did not comply Ministers would not hesitate to cap increases that they regarded as excessive. For 2012/13 the Government is planning to make increases above a predetermined level, approved in advance by Parliament, subject to a referendum.
18. The MTFS incorporates provision for known price increases, particularly in connection with fuel energy and utilities but no general contingency provision has been made for other non-pay inflation.
19. Provision has been made for the costs associated with Regional working. The Joint Police Authorities' Committee (JPAC) has been appraised of actions in respect of initial proposals for implementation of the Regional Efficiency and Productivity Strategy. Two fast track projects, Scientific Services and Procurement have been endorsed for implementation. The MTFS provides details of the suggested savings contained in the business cases reported to the Regional Collaboration Board, JPAC and the former Strategic Policing Committee. However, in line with the precedent set with the early years of the Force Business and Workforce Modernisation (BWFM) project, the planned savings from these projects have not been 'hard-wired' into the budget and MTFS at this stage. Progress will be closely monitored so that account can be taken of the scale and timing of net savings accruing to Humberside when the detailed information becomes available and there is sufficient assurance that these savings will be delivered. Unique to the Yorkshire and Humber Region, our MTFS makes explicit financial provision for the costs of regional working.
20. Savings have been hard-wired into the budget and MTFS however in respect of completed Choices Programme reviews and BWFM. In view of the track record of delivery against targets to date, estimates have also been made and included for reviews currently nearing completion (Table 1). Achievement of the savings targets to date has had the added advantage of releasing reserves previously earmarked to support the budget in the event that planned savings were not made. These have been returned to the Performance Improvement Reserve and are available to make up part of the £6m underpinning the CSR2015

Savings Plan that was agreed by Members at the February 2011 Budget Setting meeting of the Police Authority.

21. The MTFS does not as yet contain assumptions on the potential loss of income and external funding that may arise as a result of the cuts in funding for local authorities and other public sector partners.
22. The MTFS identifies a budget gap as a result of the funding cuts, but BWFM and Choices savings have already had a significant impact in reducing this. The remaining deficit can be covered by the end of the MTFS period by implementing proposals from the CSR 2015 Savings Plan, but as the majority of the savings required fall in the first two years, the Chief Constable requested support from the Authority by providing a flexible facility of up to £6m from reserves to bridge any difference between actual savings and the target in-year.
23. The Force has recently brought together all savings work streams (BWFM, Choices and CSR) under the one banner of the CSR 2015 Savings Plan, to clearly show the progress against the savings requirement. Implementation is through the Integrated Business Management process overseen by a Force Board with Police Authority representation. Resources Committee on 12 July received in-year financial and Human Resources (HR) information setting out the delivery on savings against plan in 2011/12. This Committee has at agenda item 7 financial and HR information covering future years, planned savings.

CSR Target Reductions

24. Table 1 below shows the discrete headings and phasing for the targeted cut in annual expenditure of £30.7m by 2015/16.
25. Members will note the reduction profile is front-end loaded with an annual reduction of £22.5m required by the close of the second year, compared to the 5 year target of £29.7m that is tracked in detail through the Force's IBM process.

Table 1 (Extract From MTFS)

Cost Savings £,000	2011/12	2012/13	2013/14	2014/15	2015/16	Total
BWFM and Choices Savings (Estimates discussed in Paragraph 20)	-£ 5,492	-£ 1,952	-£ 273	£ -	£ -	-£ 7,717
Balance required to Balance Annual Budget	-£ 5,163	-£ 9,147	-£ 1,652	-£ 4,623	-£ 1,494	-£ 22,079
<i>In Year Cut</i>	-£ 10,655	-£ 11,099	-£ 1,925	-£ 4,623	-£ 1,494	-£ 29,796
<i>Cumulative Annual Effect</i>	-£ 10,655	-£ 21,754	-£ 23,679	-£ 28,302	-£ 29,796	-£ 114,186

Cashflow

26. Throughout the period of the MTFS the Authority remains solvent.
27. The Authority will undertake borrowing and the peak debt period is 2015/16 when new debt of £46m is carried.²
28. The requirement for debt is driven by the Capital Programme with the financing costs incorporated into the MTFS. The peak debt is well within the authorised limit for external debt of £73m, with the balance of £33m representing debt and debt servicing costs avoided, through the management of internal cash flow.
29. The MTFS and Treasury Management Strategy endorsed by the Police Authority³ incorporated a “trigger” of £10m Cash Balance at which point the Authority would drawdown external borrowing. At 30 June 2011 the Authority had £14.3m available as a bank balance, in line with forecast underpinning the 2011/16 MTFS.
30. The updated rolling Short and Medium Term Cashflow Forecast, incorporating the latest Clough Road Custody Project programme suggest that the external funding requirement will not be triggered until November/December rather than late Autumn of 2011 anticipated in the previous forecasts.

MTFS Development

31. Supplementing this and other reports and presentations Members have an open invitation to contact the ACOS or Head of Finance to discuss any matters, along with an invitation to attend the rolling programme of Finance Open House Sessions.
32. The Open House Sessions which have been running for two years have been attended by the vast majority of the former Finance Committee Membership, and several “non-Finance” Police Authority Members. The two hour sessions have invariably resulted in positive feedback from Authority and staff members alike, influencing reporting formats and a broader but detailed understanding of the Force and Member challenges. To facilitate member attendance three identical sessions are usually run with 10am, 2pm and 7pm starts several days apart, with the added bonus of an optional tour of the cells or other operational police area at Queens Gardens. Dates for the next set of sessions have been proposed to the Police Authority secretariat, and are likely to be in late August or early September. Members are actively encouraged to attend and forward items for discussion or presentation.

LEGAL IMPLICATIONS

33. The Authority has a duty to ensure that proper procedures are in place for the management of its financial affairs. This paper endeavours to contribute to that process by achieving the purpose set out in paragraphs 1 and 2.

² Item 11 Police Authority 22nd March 2011

³ Item 3 Police Authority 15th February 2011

EQUALITY AND DIVERSITY AND HUMAN RIGHTS

34. The recommendations in this report endeavour to support the Authority and Force in achieving the goals outlined in the Strategic Policing Plan. Specific equality, diversity and Human Rights Act implications relating to individual proposals will be properly addressed as they are actioned.

CONCLUSION

35. The Force faces significant financial challenges in an unfamiliar environment working with significantly reduced budgets.
36. The Forces liquidity position remains within the boundaries of that planned.

RECOMMENDATIONS

37. It is recommended that Members:
- (i) Scrutinise this paper.
 - (ii) Develop items for discussion at the Finance Open House Session.

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Background documents: Medium Term Financial Plan Appendix 1

MEDIUM TERM FINANCIAL STRATEGY @ 0% Precept in 2011/12, 2.5% thereafter.

July 12, 2011
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2011/12 £000's	2012/13 £000's	2013/14 £000's	2014/15 £000's	2015/16 £000's
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Base Budget					
Allocated Budget	181,828	180,603	172,139	173,189	173,237
Reversal of one year funding cut (now permanent)	1,809				
Adjusted base	183,637	180,603	172,139	173,189	173,237
Other Commitments/Cost Pressures					
Loss of BCU Grant	757				
Loss of Crime Fighting Fund	3,962				
Reduction in DIP Funding	127				
Capital financing and revenue consequences of capital schemes	163	1,922	781	1,470	769
Identified pay and non pay pressures	2,076	-128	155		
Previously approved business cases	-81	52	-46	-473	
Lg Superan-Triennial Valuation		365	365	400	
Business Development	300	500	500	0	
Business Development (2010/11) Reduction of £882k Less TSU £110k	-772				
Estimated Regional Working	100	15			
	6,632	2,726	1,755	1,397	769
Cost Savings (Removal of one year/set up costs)					
Previously approved cost savings	-681	-91	-134	10	
BWFM and Choices Savings	-5,492	-1,952	-273	0	0
Balance required to Balance Annual Budget	-5,163	-9,147	-1,652	-4,623	-1,494
	-11,336	-11,190	-2,058	-4,613	-1,494
Contingency Fund					
Part Year	0	0	1,353	2,288	2,381
Full Year	1,671	0	0	976	1,504
Non Pay Inflation					
	1,671	0	1,353	3,264	3,885
PERMANENT BUDGET REQUIREMENT					
	180,603	172,139	173,189	173,237	176,397
Funding From Reserves to Support Budget Base					
TOTAL BUDGET REQUIREMENT					
	180,603	172,139	173,189	173,237	176,397
FUNDED BY:-					
Budget Settlement	180,223	172,139	173,189	173,237	176,397
Reserves Funding to Support Base Budget	0	0	0	0	0
Net Budget Requirement	180,223	172,139	173,189	173,237	176,397
Funding from Reserves	0	0	0	0	0
Funding for BWFM Savings Slippage from BWFM Reserve	380				
FUNDING AVAILABLE	180,603	172,139	173,189	173,237	176,397
SURPLUS/(DEFICIT)	-	-	-	-	-

PERFORMANCE IMPROVEMENT RESERVE

TEMPORARY FUNDS

BALANCE BROUGHT FORWARD (From 2009/10 Final Accounts)
Adjustment for Holding Account balances

BALANCE BROUGHT FORWARD

ACTIONED FROM RESERVES

Reserves Funding to Support Base Budget
Reserves funding to mitigate slippage in BWFM

ISSUED IN YEAR

ACTIONED TO RESERVES

RETURNED IN YEAR

TRANSFERRED (TO)/FROM OTHER RESERVES

Transfer from/to General Reserve (3% of Budget requirement)

RECONCILED TO E-FINANCIALS

APPROVED RESERVE COMMITMENTS/TRANSFERS

TRANSFER FROM REVENUE BALANCES

Under/(Over) spend - Month (9)

Planned Commitments (estimate)

Transfer from/to General Reserve (3% of Budget requirement)

BALANCE CARRIED FORWARD

BALANCE ON RESERVE

28,970

-40

28,930

-3,966

-775

-217

-4,958

133

-157

-157

23,948

-3,209

3,140

-1,140

2,000

22,739

Appendix 1a

2011/12	2012/13	2013/14	2014/15	2015/16
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22,739	21,751	18,445	18,347	18,280
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0	0	0	0	0
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-380

-380	0	0	0	0
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22,359	21,751	18,445	18,347	18,280
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-615	-3,549	-66	-66	0
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7	243	-31	-1	-95
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21,751	18,445	18,347	18,280	18,185
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