

# **HUMBERSIDE POLICE AUTHORITY**

## **MEDIUM TERM FINANCIAL STRATEGY 2008/2009 TO 2012/2013**

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### **Foreword**

Much of the last financial year has been spent in rebuilding the foundations of asset management plans which were variously suspended and discarded following the proposed then failed police force mergers.

The Force and Authority have a long term future. Improvements have been achieved in in-year financial management and in medium term financial planning with regular reports being submitted to the Finance Committee. Developments such as the Resource Performance Assessment Framework (RPAF) together with the increased resourcing of the Finance Unit are now bearing fruit. Financial reporting is more accurate and timely and the decisions of local budget holders, who control the majority of in year financial resources, are being scrutinised at a detailed level. These developments have been acknowledged formally by the District Auditor and HMIC.

In the last quarter of 2007, the Chief Constable has taken important decisions in Resource Management Chief Officer Groups (RMCOGs) which reinforce the role of this key forum within RPAF and the decisions have been endorsed by the Finance Committee. The financial management of projects within the business change programme has demonstrably improved and the Development Fund has been either allocated or consolidated into the Performance Improvement Reserve. At its December 2007 meeting, the Police Authority approved a new, comprehensive corporate governance framework which included new Financial Regulations and Standing Orders based on extant best practice in the public sector. These are all key steps in improving financial management and are clear signals of the positive direction of travel which the District Auditor in particular has acknowledged within both the Police Use of Resources (PURE) assessment last year and in his Annual Audit Letter for 2006/07. The announcement of the three year Grant Settlement following the publication of the Comprehensive Spending Review 2007 which covers the financial years 2008/09 to 2010/11 provides an opportunity to consolidate and build on the improvements in financial management that have been implemented and that are planned.

In summary we can all have more confidence in the financial results reported to the Finance Committee and budget planning going forward. This, together with the continuing shared enterprise between the Chief Constable and Members expressed through the Chief's Vision to 2010 and Policing Plan are strong foundations on which the Police Authority can set its budget for 2008/9 within the context of this updated Medium Term Financial Strategy (MTFS).

The aim of this MTFS is then to identify the gaps between the services and quality that the Police Authority and Force want to provide to communities and the actual and predicted resources available. The MTFS goes on to identify and risk assess options for bridging those gaps. It is vitally important that resource management is clearly linked to operational delivery and that resources reflect agreed priorities.

The MTFS seeks to be business driven and to provide a robust framework to model key balances and resource requirements over the five year period of the Plan. It also continues to provide a basis for consultations and the development of joint plans with local strategic partners, with other forces and police authorities within the Yorkshire Region, and other stakeholders outside the Police Service. It is a living document and is subject to regular update and review.

**Phil Goatley**  
**Assistant Chief Officer**  
**(Support)**

**John Bates**  
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**and Resources**

## Medium Term Financial Strategy 2008/09 – 2012/13

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## **1. Purpose of the Medium Term Financial Strategy**

- 1.1 This detailed and comprehensive Medium Term Financial Strategy (MTFS) for the Police Authority and the Force covers the period 2008/09 to 2012/13. The Strategy has been reviewed and revised particularly in light of the picture of Government funding announced following publication of the Comprehensive Spending Review 2007 (CSR07), feedback from recent HMIC inspections and the District Auditor's external audit reports. Significant networking by both the Assistant Chief Officer (Support) and Director of Performance and Resources amongst peers Regionally and Nationally also underpins the MTFS and its development. It will need to be further developed over the next year in concert with other asset management plans and key strategies to support the Chief Constable's Vision to 2010. The MTFS will seek to ensure that the financial implications of updated strategies including Human Resources, IT/IS and the development of the estate are taken into account in spending plans.
- 1.2 Although this MTFS covers a period of 5 years, it has been reviewed monthly by the Assistant Chief Officer (Support) and Director of Performance and Resources and quarterly by the Force Strategic Development Team. The MTFS and medium term economic outlook is a standing item on the Finance Committee. The MTFS has also been considered by the Performance Committee as a precursor to its formal re-approval by the Police Authority on 12 February 2008. These arrangements reflect the dynamic nature of policing and the need for the Force and the Authority to be able to respond in terms of the ability to resource additional demands upon the service.
- 1.3 The MTFS is a key part of the toolkit within the Resource Performance Assessment Framework (RPAF), which is designed to link operational planning with financial and resource planning and to provide a framework for scrutiny that is intended to ensure that resources are directed toward policy priorities. Changes have also been made to the business change process, specifically in the way the Force and the Authority considers, quality assures and prioritises new business cases with links to the enhanced corporate planning process. The MTFS describes the financial direction of the Force and the Authority. As such, it captures known and estimated external funding, financial pressures and development needs as well as seeking to encompass risks with financial consequences over a 5 year period. In the short term, it is an indication of the likely direction of financial planning over the next year.
- 1.4 The MTFS provides options over the medium term for delivering a sustainable revenue budget and capital programme principally but not exclusively funded through prudential borrowing and sets out how resources can be provided to deliver the priorities in the 3 Year Strategic Plan, Annual Policing Plan and in the Chief Constable's Vision.
- 1.5 The MTFS will also provide a basis for the development of specific proposals with partners and stakeholders and for consultation. A dedicated Resources Workshop is held in January each year prior to the precept setting exercise and approval by the Police Authority of the annual revenue budget and capital programme.

- 1.6 The MTFFS is a shared enterprise between the Force and the Authority and will continue to provide the context for setting annual budgets. The benefits of using the MTFFS in this way are now plain. In the current financial climate, whilst a significant number of other forces and police authorities have to implement major savings and budget reduction programmes in order to balance their budgets for 2008/09, we are not. The MTFFS has been at the heart of managing financial turbulence and uncertainty, some of which is inherent in the delivery of a policing service. It provides the opportunity to adopt a planned approach which serves to minimise the detrimental impact on performance and service delivery of major financial and operational policy changes.
- 1.7 The certainty within the MTFFS offered by the 3 year Funding Settlement covering the period of the Comprehensive Spending Review allows us to develop a more structured and gradual alignment of base budget spending with permanent income through Savings (including Business and Workforce Modernisation), VFM and Efficiency Plans together with the planned and prudent use of reserves and underspends to bridge the gap to the future. All of these areas are explored in more depth later in this Strategy. This approach was explicitly considered and designed more than three years ago when grant settlements were significantly more generous than they are now and for the foreseeable future and when there was greater discretion for Police Authorities in setting precepts.

## **2. Benefits of the Strategy**

2.1 The MTFFS assists the Authority and Force in:

- Responding to the Chief Constable's resource requirements to deliver the Vision to 2010.
- Meeting strategic priorities in the 3 Year Strategic Plan and Annual Policing Plan.
- Improving financial planning and the financial management of the Force's and Authority's resources, both revenue and capital (a key aspect of the Audit Commission's Police Use of Resources (PURE) assessment).
- Maximising the use of resources available to the Chief Constable and Authority, both internal and external, over the medium term.
- Ensuring that, working together, the Chief Constable and Authority provide value for money and continue to meet or exceed efficiency and productivity targets.
- Allowing the development of longer term budgets and strategic thinking.
- Aligning financial resources to the Authority's and Chief Constable's agreed spending priorities.
- Reviewing the Authority's policies on the use of reserves, ensuring that this continues to strike a balance between the need to deliver current performance and to pump prime significant development. Going forward the latter needs to be very substantially on an "invest to save" basis and/or to mitigate significant risks to the Authority and Force. Reserves

will also continue to provide a means to deal with unexpected events and emergencies.

- Responding to external pressures, including changes to the police funding formula.
- Developing a sustainable revenue budget and a capital programme over the medium term.

### **3. Principles of the Strategy**

3.1 The key principles underlying the MTFS 2008/09 to 2012/13 are:

- (i) Police resources will be directed to achieving the Authority's Policing Plans and the Chief's Vision to 2010 priorities.
- (ii) Overall Force and Authority expenditure should be contained within original estimates each year.
- (iii) In line with the commitment given in last year's MTFS, the Assistant Chief Officer (Support) and Director of Performance and Resources have considered the scope to reduce the General Reserve from 5% to 3% of the net revenue budget, with the 2% difference transferring into the Performance Improvement Reserve. Both have concluded that, in light of the recently announced provisional Grant Settlement information under CSR07, the general direction of pay awards and continuing improvements in the quality of financial management, general reserves can now be maintained at a minimum of 3% of the net revenue budget to cover any major unforeseen expenditure. The Chief Constable and Authority will aim to balance the revenue budget over the period of the MTFS without compromising this position on general reserves.
- (iv) Earmarked reserves will be maintained for specific purposes which are consistent with best practice and used in line with the principles set out in the MTFS. Balances will be reviewed at least annually.
- (v) The Chief Constable and Authority will continue to improve the approach to efficiency and value for money with an increased emphasis on cashable gains and "cash releasing" efficiencies and savings. The new requirement to deliver efficiency savings over the next 3 years equivalent to 9.3% (compounded) of "gross revenue expenditure net of costs" during the life of CSR07 is hard-written into settlements for the next three financial years via the recently published Home Office Efficiency and Productivity Strategy. It is also apparent that this is necessary to remove the reliance on reserves in order to balance annual budgets over the medium term and during this time to make funding available for new developments and sustaining performance. The savings will be specifically captured in a "Savings Plan" which has been under development. The Authority will also seek to continue to develop its value for money action plan to ensure that it is in a position to demonstrate economy, efficiency and effectiveness in the provision of services.

- (vi) The Authority will ensure that it complies with all of the requirements of the Efficiency and Productivity Strategy for the Police Service, specifically that the Authority shall remain financially viable and continue to deliver the best possible service with the resources available. The Authority will also ensure that, in line with the approaches of the Home Office, APA and ACPO, it has a culture that places sustainable resource management as a core responsibility and makes efficiency and productivity improvements a key requirement.
- (vii) The Authority recognises the impact of increases in precept levels in areas of low income and low wealth (as measured by property values) and will seek to balance the need for increases in precept within the likely capping level suggested by Government against the delivery of service priorities and the need for continuing financial health.
- (viii) The Chief Constable and Authority will use prudential borrowing and other means of financing to support the capital programme as part of the annual Treasury Management Strategy.
- (ix) The Force and Authority will continue to contribute to reviews of police funding, both in their own right and as a members of professional associations such as the Association of Police Authorities (APA) and Association of Chief Police Officers (ACPO).
- (x) The Assistant Chief Officer (Support) and Director of Performance and Resources will be responsible for preparing a rolling programme of 5 year budget forecasts.
- (xi) Opportunities for securing external funding to support the Chief Constable's and Authority's priorities will be sought. The implications of the time expiry or withdrawal of funding will also continue to be reviewed through the Finance Committee so that options can be considered on the future of the funded schemes and financial risks to the Force and Authority can be assessed and mitigated.
- (xii) The Chief Constable and Authority will develop a strategy for income generation and sponsorship in 2008/09 in line with the proposed updated ACPO/APA guidelines when proposals have been agreed.

#### **4. Reviewing the Strategy**

4.1 The development of the MTFs for 2008/09 to 2012/13 has involved consideration of the following issues:

- The financial environment in which the Force and Authority operates;
- the current financial position;

- future budget pressures which the Force and Authority are likely to face over the period of the Strategy;
- the developing landscape for collaboration to address Level 2 risks and gaps in the provision for Protective Services;
- the Capital Programme;
- the Reserves Policy;
- the Police Funding Formula and projections of levels of General Grant together with Government announcements on Council Tax capping;
- changes in the arrangement for funding local partnership activities; and
- the Government's continued and increased enthusiasm for greater efficiency and productivity in policing.

## **5. Financial Environment**

- 5.1 The pattern of police funding has changed from high precept increases nationally at the start of the decade to the cap of 5% announced in the first multi-year settlement for 2006/07 and 2007/08. Under the settlement announced following the publication of CSR07, the Government has referred again to the potential benchmark for capping of 5% but has made it clear that it expects to see average precept increases of "substantially less" than this level in 2008/09 to 2010/11. The proportion of funding from General Grant has reduced and the proportion met from precept and Home Office central funding, including specific grants with the attendant loss of local discretion in spending, has increased significantly. Significant changes in the balance of funding between ring-fenced and General Grant were presaged in the run up to CSR07 but much of this did not materialise. The funding formula continues to be reviewed and the current Policing Minister has expressed a wish to see less damping of the pure formula based results, resulting in more differentiated settlements. However, overall financial constraints have meant that the continued application of floors and ceilings in recent settlements will continue throughout the CSR07 period. There has been some variation in settlements around the average increase of 2.8%, from the floor of 2.5% up to more than 4%, but more radical change has not yet been implemented. Details of the Grant Settlement are included at paragraph 10.1.
- 5.2 The Police Authority has planned on the basis of the provisional settlement resulting in an annual grant increase of 2.6% over the course of the CSR07 period, just above the level of the grant floor. The Authority is now in a position of losing grant as for the first time it is contributing towards the cost of the floor. The provisional Settlement details were confirmed on 24 January 2008 and contained only minor changes which have been reflected in this report. The Settlement was subject to Parliamentary debate on 4 February 2008. It is only very slightly above the current level of Consumer Price Index (CPI) inflation (2.1%) and is significantly below the expected level of cost

pressure for the Service over the same period. The lower than expected pay settlement for police officers, combined with this grant settlement that is at the higher end of the expected range, does ease some of this pressure in the short term, however this is offset by the higher than expected pay settlement offered to police staff. It is also important to recognise that although the three year Grant Settlement offers a greater degree of certainty with regard to funding, the same is not true of either pay increases or price inflation. Further details of the settlement for Humberside Police are set out in paragraph 10.2.

- 5.3 In retrospect much of the pre-CSR07 information coming from the Home Office was intended to dampen expectations and this tactic succeeded. Although the overall picture is better than expected, there are still some significant unknowns around counter terrorism funding in its entirety and other ring-fenced funding streams in years two and three of the CSR. The Government has also taken a robust approach to delivering lower than inflation pay increases for the Service. At the time of writing there is no credible intelligence on the likely level of future pay awards; however the Government has signalled its intention to set, through the Police Negotiating Board machinery, proposals to determine future pay awards for three years, matching the CSR periods. Since this “offer” has been made to the police service first, the impact on the MTFS may be known by the Autumn of 2008.
- 5.4 The grant and pay/price inflation assumptions within the MTFS will be kept under review and changed through consultation between the Assistant Chief Officer (Support) and Director of Performance and Resources based on emerging intelligence. As has been the case in the last year, these assumptions will be tested in particular against those adopted by Regional colleagues to ensure that there continues to be consistency of thinking across the Yorkshire and the Humber Region. Quarterly reports on the economic outlook for policing will remain as a standing item to the Finance Committee to ensure that Members continue to be sighted on the most up to date information available.
- 5.5 In a departure from previous years the most significant uncertainties in the medium term financial outlook are below the national level. In particular the financial consequences of developing Level 2 Protective Services across the Yorkshire and the Humber Region are emerging but are as yet unclear.
- 5.6 The Police Authority agreed as part of the 2007/08 MTFS to set aside specific permanent budgetary provision of £750k to meet the cost of regional developments. Current projections show that funding of £455k may be required in 2008/09, rising to £755k in 2009/10 and £728k in 2010/11. However, given that the outlook on Regional working is still uncertain and costings remain fluid, the £750k provision in 2008/09 has been retained. Work on this will continue with the Joint Regional Project Team up to and beyond when the Police Authority sets the 2008/09 budget on 12 February 2008.

## **6. The Current Financial Position**

- 6.1 The Force and Authority remain in a strong position to meet the challenges which CSR07 present, as well as the need to modernise the workforce, introduce new technology and update proposals for the Force estate, particularly in respect of custody improvements. Achieving the ACPO minimum threshold standards for Protective Services will present further demands on resources. In the past this strong position has allowed for high priority growth, as identified by the Chief Constable and Authority, to consistently be provided for and that state of play continues into 2008/09.
- 6.2 With the clear view that grant increases above the rate of inflation and unfettered discretion which police authorities enjoyed in setting precept levels could not continue, it has also been planned to prudently add to the level of reserves in recent years and in particular to make a conscious decision to free up funds previously earmarked for capital spending, thereby increasing flexibility. The covenant entered into by the Police Authority and Force with the public about the use of precept funding for specific purposes has to date been maintained. The use of reserves is explicitly discussed later in this document, including the justification for holding reserves into the future.
- 6.3 The latest projections following initial consideration of period 10 monitoring information show underspends on devolved budgets of £174k with commitments of £21k and protected budget underspends of £3.003m before taking account of commitments of £2.091m. This is reflected in the PIR adjustments in Appendix 1A.

## **7. Medium Term Budget Pressures**

- 7.1 An assessment has been made which suggests that pay and price increases of £4.89m and commitments of £4.99m will need to be met in 2008/09. This includes the full year effect of 2007/08 growth. In 2007/08 the Police Authority approved the inclusion of explicit future provision for non-pay inflation. This is reviewed annually as part of the preparatory work completed within the Finance Unit prior to detailed budget setting. Specific work has been completed to validate the assumptions on which the quantum of this funding was fixed in 2007/08 and to update this for the latest information on spending patterns and the results of 2007/08 revenue budget monitoring as reported in the standing item to the Finance Committee. The results of this work, together with a review of the pay base for both police officers and staff, have effectively helped to validate the base budget as well as underpinning future funding within the MTFS.
- 7.2 This year explicit decisions have been taken to exclude from the inflation calculation those budgets which are driven by choices made locally, such as furniture and office equipment. Of the generally accepted inflation indices the All Items Retail Price Index (excluding mortgages) most accurately reflects the overall level of inflation on non pay budgets in the Force. This would suggest permanent additional provision of £702k is needed given that RPIX is currently at 3.2%. However, given the overall picture in the MTFS as set out in Appendix 1 all budget growth proposals have been subject to over-riding test of affordability. As a result, provision for non pay inflation within the

current MTFS has been reduced to £500k (+2.3%). This is in any event still ahead of the Consumer Price Index which is used by Government as its primary inflation index. Previously budget holders have been allowed discretion in where they apply this funding and have in general used this to offset any need for budget reductions. This is no longer deemed to be acceptable. It is essential that in future this inflation funding is allocated to specific budget lines as determined in the Finance Unit. This will aid further improvements in budget monitoring and budget control. Any movements of the funding will be controlled through the in year budget virement process.

7.3 The MTFS also includes some key assumptions on pay inflation beyond 2008/09. The abandonment of the Edmund Davies formulae as a mechanism for determining police pay against the backdrop of the Chancellor's Public Sector Pay Policy brings with it the prospect of annual pay awards of less than 3% and, on the evidence of the 2007/08 settlement, perhaps substantially less than this. There is however greater uncertainty about future pay inflation than previously. The Government's public sector pay target remains at 2% and on the evidence this was the single most important determinant of the 2.5% (effectively 1.9% for the 2007/08 pay round) police pay settlement achieved at the time of writing. Notwithstanding the subsequent decision to award police staff a pay increase of 2.5% from 1 September, there appears to be a clear resolve to take a stand against pressure from this service for a review of this Home Secretary's decision on police pay. New pay negotiating machinery recommended by Sir Clive Booth in his review and the financial impact of any three year pay deals which may be struck cannot be assessed as yet. In light of this future pay inflation has been set at 2.5% for police officers and 2.25% for police staff.

7.4 In addition, prioritised revenue proposals identified by the Chief Constable during the revision of this MTFS are as follows:

- The need to invest in regional working, principally on Strategic Roads Policing and Serious and Organised Crime, to address the weaknesses identified by the HMIC report 'Closing the Gap' and now manifesting in the ACPO minimum threshold standard for Protective Services. The Chief Constable is clear that he does not want Humberside Police to be found wanting locally when the Force is assessed in 2009 by HMIC on Protective Services. Business cases such as those on hi-tech crime, internet sex offenders, money laundering and business continuity approved for consideration by the Police Authority in 2008/09 address the most high risk areas.
- Continuation of significant developments on neighbourhood policing and citizen focus funded initially in 2007/08 are proposed to be consolidated through creation of a Community Safety Unit as recommended by HMIC.
- Future focus on the quality of leadership in the Force through the leadership project.

- Consolidation of the resources dedicated to business change under the One Team Programme.

### **Protective Services Review**

- 7.5 Dennis O'Connor's "Closing the Gap" report on Protective Services was a key factor in the proposals for force amalgamations within the Yorkshire and the Humber Region. The four police forces and authorities have continued to work constructively. A Joint Police Authorities' Committee (JPAC) has been formed and a Joint Regional Project Team, located at Wetherby, has been created. The four Chief Constables and the Chief Executives meet on regular occasions with activity being reported to JPAC. Minutes of JPAC meetings are reported to each Police Authority to ensure that the wider membership is kept informed of Regional developments and factors affecting the Humberside Force. Project Initiation Documents (PIDs) have been agreed in respect of projects to address Serious and Organised Crime and Strategic Roads Policing. JPAC has received regular briefings on Counter Terrorism. A significant event for Police Authority Members across the Yorkshire and the Humber Region was held on 17 January 2008 to map out the journey travelled so far and gain commitment to proposals for taking the agenda forward.
- 7.6 This aside, costed plans for how the additional capability on Serious and Organised Crime and Roads Policing will be delivered are still in development, as are those for other investments necessary to address the new risks that we face. Costed proposals on Strategic Roads Policing and Serious and Organised Crime will be considered by the four Regional Chief Constables (RCCG) and JPAC in the first half of 2008. Work is continuing at a regional level to map out programme costs for 2008/09. A first presentation of these was given to JPAC on 20 December 2007. At the time of writing, costs are not yet firm enough in total or on individual force contributions to assess if additional financial provision will be necessary within the MTFs and further work is underway to assess with the Joint Regional Project Team in particular the financial commitment necessary for 2008/09 in advance of the Police Authority budget setting meeting on 12 February 2008 and similar meetings arranged for the other three authorities within this region.
- 7.7 Counter Terrorism capability has progressed with Government funding to identify the national assets and staffing infrastructures required. The specific impact of a Regional Counter Terrorism Hub being established in West Yorkshire in terms of a loss of experienced detective staff in the Force has been minimal so far.

### **Neighbourhood Policing**

- 7.8 In recent years, the Authority and Force have invested significantly in neighbourhood policing via the NPT Building Programme and, in 2007/08, by providing funding for PCSOs to bridge a funding gap estimated to be £11.3m over the life of last year's MTFs. This estimation followed a reduction in the national target for PCSOs funded through the Neighbourhood Policing Fund

from 24,000 to 16,000 with an accompanying loss of funding to the Police Service of £70m. This Police Authority provided funding to maintain the provided funded strength of PCSOs in Humberside Police at the original total of 332 (excluding PCSOs funded by partners) promised to local communities.

7.9 The Police Authority received a significant update on the Neighbourhood Policing project at its meeting on 18 December 2007. Highlights from this were:

- The National Policing Improvement Agency (NPIA) inspection took place in October 2007 and lasted three days with structured interviews and focus groups. The inspection team had no significant areas of concern and their recommendations strongly supported ACC Leaver's intention that the project should continue beyond March 2008, in order to ensure that neighbourhood policing in Humberside is further consolidated and underpins the delivery of service across all communities.
- The consultation process has been completed for the Neighbourhood Profiles and the documents are now being completed by divisions. These are the core documents on which local NPTs base their work with communities.
- The need for good quality community intelligence within NPTs is fully acknowledged and the key deliverables required in accordance with the HMIC and NIM (National Intelligence Model) criteria have been identified. Most of the work required to become NIM compliant will be incorporated into the existing divisional action plans with the remainder of the work to be actioned via the Project.
- Other areas that are seen as a priority are a review of the Briefing and Tasking System (BATS) and the rolling out of a problem solving database to NPTs, with an interim in house solution being followed up by a permanent solution selected from one of two potential systems.

7.10 The Authority on 18 December 2007 and the Finance Committee on 12 December 2007 also received a full update on the recruitment of PCSOs. Feedback from local communities on the impact that the deployment of PCSOs has had throughout the Force has been extremely positive. Strong support for PCSOs was also a feature of four budget conferences conducted in conjunction with the East Riding of Yorkshire Council. By the key date of 31 March 2008 the recruitment target of 332 PCSOs in the establishment will be very close to being achieved. However, as previously discussed, attrition of recruited PCSOs has been higher than expected, principally as a result of PCSOs making successful applications to become police officers and through resignations. The financial impact of this has resulted in £1.283m being returned from the Neighbourhood Policing project to the Performance Improvement Reserve in November 2007 as detailed in Appendix 1A and as reported to the December Finance Committee.

## Workforce Modernisation

- 7.11 The Force had implemented an initial Workforce Modernisation project encompassing conversion of posts, in the Command Centres and custody suites and the use of PCSOs. This links with a broader programme to create a more flexible and diverse workforce with increased capability and capacity, which will continue to improve service delivery through higher quality, citizen focussed policing.
- 7.12 Beyond this initial phase the Force has embarked upon a major change project led by the Deputy Chief Constable around business and workforce modernisation, the express outcomes for which are to improve service and performance whilst delivering savings in the base budget. As Members are aware from recent presentations this work is closely linked with the National Workforce Modernisation Programme which is a key element of the new efficiency and productivity strategy for the police service.
- 7.13 In 2007/08 the Police Authority underpinned this project by earmarking £4m of pump priming investment over two years from the Performance Improvement Reserve. Allocations to date have focused on custody and investment in additional investigative capacity. The Deputy Chief Constable set out for Members the importance of further significant “invest-to-save” funding for the Business and Workforce Modernisation Project at the January 2008 Resources Workshop. **In the context of the MTFS this is the single most significant contributor to any Savings Plan designed to match base budget spending with permanent income over the medium term.** The indicative costings and projected savings from the presentation to the Resources Workshop are shown in paragraph 7.14 below.
- 7.14 The investment required and projected savings are as follows:-

Memorandum Information	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m
Investment Requirement	-	-	0.947	1.363	1.004	-
Projected Budget Savings	-	0.971	2.292	3.634	4.999	4.999

- 7.15 Allocations from the Performance Improvement Reserve have to be approved by the Police Authority. In order to approve the allocations, the Authority will require the Chief Constable to submit business cases which support the costs and savings estimates which will be used to amend the MTFS and detailed budgets. The business cases will need to provide milestones to enable progress towards projected savings to be monitored and will also need to incorporate information to ensure that the impact of detailed proposals on performance can be assessed and reviewed. The Police Authority will review its representation on the Business Workforce Modernisation Project Board and will require the implications of the modernisation programme to be fully integrated into Force workforce planning.

## Service Delivery

7.16 The Force business change and protected budget review processes have identified a number of pressures and service delivery requirements which are examined.

## 8. Capital and Prudential Borrowing

### Impact of Capital Programme

8.1 The following table outlines the estimated costs of the current programme over the next five financial years.

CAPITAL SCHEME	2007/08 Original £	2007/08 Current £	2008/09 £	2009/10 £	2010/11 £	2011/12 £	2012/13 £
Estates Strategy	667,440	379,300	5,459,870	14,400,000	7,900,000	550,000	-
Communications Equipment	986,000	1,067,770	541,840	1,626,000	1,285,000	1,020,000	895,000
Computer Equipment	1,190,000	1,201,280	1,483,000	1,600,000	2,100,000	1,700,000	1,600,000
NPT Programme	3,638,080	3,169,940	1,474,460	-	-	-	-
Vehicles and Equipment	1,562,320	2,091,910	2,553,410	1,763,180	1,707,630	1,886,000	1,689,110
Air Support	-	590,310	-	-	-	-	-
<b>TOTAL CAPITAL PROGRAMME</b>	<b>8,043,840</b>	<b>8,500,510</b>	<b>11,512,580</b>	<b>19,389,180</b>	<b>12,992,630</b>	<b>5,156,000</b>	<b>4,184,110</b>

8.2 A major component of the estimated capital programme will continue to be the Estate Strategy Programme which, following the failure of forced mergers and the launching of the Chief Constable's Vision to 2010, is currently being finalised. In particular estate development, in line with the paper presented to the 18 December 2007 Police Authority meeting and the briefing to the Finance Thematic Panel on 22 January 2008, will focus on provision of custody facilities. In 2008/09 the capital programme presented to the Police Authority for approval will include financial provision for site acquisition and professional fees associated with a planned Bridewell and divisional headquarters for D Division. An indicative £2.9m is built into the above table for this scheme, switching funding previously allocated for expansion of the Priors Road custody facility. At this stage the other costs associated with the Bridewell have been included in the Capital Programme above and the MTFS includes provision for anticipated Capital financing costs (see paragraph 8.11 and 8.12). As discussed with Members at the above meetings, further

rationalisation and enhancement of divisional headquarters and the corporate estate is also being planned.

- 8.3 Affordability is a key factor and if the savings from Business and Workforce Modernisation do not materialise or are not generated at the pace envisaged this could have a direct impact on the speed with which capital spending plans can be delivered.
- 8.4 Two things will undoubtedly feature differently in the refreshed Estate Strategy which will be put to Members for approval:
- The experience of working on the NPT Building Programme in strategic partnership with a consortium of private companies led by Quibell Construction has been an unqualified success. The sense of shared enterprise which has been created in the team has produced demonstrably stronger corporate governance underpinned by a completely open book relationship, clear and in-built incentives for cost efficiencies, build timescale and risk reductions and a joint learning environment where the quality of buildings produced has been consistently high and improving as the programme has progressed. On the basis of evidence that has been obtained from an external review, strategic partnership provides value for money and is best practice and something which should be part of the future.
  - The original Estate Strategy envisaged that the buildings occupied by the Force would be predominantly owned outright with rental and lease based options being seen as less attractive. However the lessons from the recent past are that the future life of the Force may be uncertain should circumstances change and the delivery of operational policing services requires the estate infrastructure to be flexible. This, together with the fact that the principle source of capital financing going forward will be through prudential borrowing, suggests that a range of potential acquisition routes for buildings should be explored more actively on a case by case basis. Future developments are very likely to include more innovative funding mechanisms such as joint ventures where, for example, the development potential of buildings assets are significant, as is the case with Queens Gardens Police Station. Lease and rental options will also be considered alongside outright purchase. Joint ventures pursued as development routes have the potential to realise future revenue streams which can be used to reduce or offset the costs of other funding mechanisms including prudential borrowing.
- 8.5 The current capital programme also takes account of proposals from the Corporate Business Change process and the need to routinely replace assets which have come to the end of their useful working life. As yet, no specific capital costs are included for Protective Services but this position will be monitored through JPAC and if provision is required this will be reported to the Finance Committee and in the regular updates for Members on MTFS issues.

- 8.6 The proposal for information and communications technology capital expenditure will support investment in the updated IT/IS strategy as well as providing for the ongoing 'refresh' of the existing computer and communications technology and supporting equipment. Significant developments on mobile data and the information factory as presented to Members, upgrading the Force network and provision of more robust disaster recovery and resilience arrangements in light of the floods experienced in June 2007 will need to be funded. Planning for software upgrades that are part of the Computer Equipment budget includes the further implementation of Business Objects, the Windows Vista operating system and Microsoft Outlook 2007.
- 8.7 The proposed vehicle and equipment budget provides for additional vehicles for new PCSOs, large scale replacement of internal hire pool vehicles, and maintaining the capability of the fleet to meet the requirements for PSU carriers, Major Incident Teams and roads policing. PSU capability work is underway to assess the impact of the Government's requirement for the Force to have 6 rather than 3 PSUs fully equipped to deal with a chemical, biological, radiological or nuclear (CBRN) incident. New investment for vehicles will be viewed in the context of the current vehicle optimisation review. The equipment budget includes specific items of specialist equipment including that fitted to marked police vehicles.

#### **Impact of Prudential Borrowing on the Budget Position**

- 8.8 As well as the use of capital receipts, capital grants and other resources which could be available in 2008/09 and future years the Authority will need to consider applying reserves and prudential borrowing to implement this significant capital programme. The feasibility and value for money of leasing options are also under investigation for the procurement of vehicles, ICT and other major equipment.
- 8.9 If the budget revisions and slippage to be carried forward to 2008/09 as reported by budget holders are included, the estimated capital budget requirement is shown at 8.1 above.
- 8.10 CSR07 capital funding is known for the first three years of the MTFs and beyond this it has been assumed that the level of central government capital grants for 2011/12 to 2012/13 will be £4.328m, the same level of settlement as received in 2009/10.
- 8.11 Changes in assumptions on the use of reserves and subsequent borrowing have a revenue impact by way of interest earned on investments and interest payments on the borrowing. In addition to the interest implications, undertaking prudential borrowing will also impact on the amount that has to be set aside to meet the associated liabilities, the Minimum Revenue Provision (MRP). This is the amount charged to revenue under the Accounting Code of Practice to provide for repayment of external loans. For 2008/09 onwards, Capital Finance regulations have changed and revisions have been brought in to the calculation of the MRP. The effect of these is partly dependent on the

mix of calculation methods from the four options available. Our initial assessment shows that the additional financial provision required, above that which is in the base budget, is £0.935m. This has been built into the current MTFs based on the existing capital programme, however the changes may have a much more significant effect in future and includes for illustrative purpose £1.988m for the financing cost of the D Division Bridewell based on current projections of the likely costs as detailed at the Finance Committee Thematic Panel on 22<sup>nd</sup> January 2008. This will be the subject of ongoing review.

- 8.12 The estimated revenue implications of borrowing the amounts referred to above to fund the capital programme are as follows:

	<b>Interest cost of borrowing £000</b>	<b>MRP on additional borrowing £000</b>	<b>Total Revenue impact £000</b>
2008/09	812	-188	<b>624</b>
2009/10	21	276	<b>297</b>
2010/11	-357	269	<b>-88</b>
2011/12	-175	52	<b>-123</b>
2012/13	15	210	<b>225</b>

#### D Division Bridewell and Headquarters

	<b>Interest cost of borrowing £000</b>	<b>MRP on additional borrowing £000</b>	<b>Total Revenue impact £000</b>
2008/09	30	0	<b>30</b>
2009/10	396	11	<b>407</b>
2010/11	613	288	<b>901</b>
2011/12	232	392	<b>624</b>
2012/13	15	11	<b>26</b>

- 8.13 The most cost effective method of financing the proposed capital programme will need to be considered as part of the budget report and the annual Treasury Management Strategy. These will have to take into account borrowing decisions on the prudential indicators for 2007/08 and those for 2008/09 that have to be approved before the start of the new financial year.

## **9. Reserves, Provisions and Contingency Fund**

### **Reserves Policy**

- 9.1 Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. In establishing reserves, the Authority must also

comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).

- 9.2 The Force and Authority reviewed the reserves policy and the holding of contingencies as part of the process of preparing the 2007/08 budget and its medium term financial plans and this process is repeated as part of the annual budget setting process. It is important that the use and retention of the Police Authority's reserves is visible and that consideration of their use is placed at the forefront of the decision making process. Revenue reserves are cash backed balances, held on the balance sheet until they are spent or released for other purposes. **As such, they can only be spent once, and should not be part of the base budget.**
- 9.3 The Authority's balance sheet reserves are held for three main purposes:
- a) A contingency to cushion the impact of unexpected events or emergencies for example, a change in protection arrangements in the police funding formula.
  - b) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
  - c) A means of building up funds to meet known or predicted liabilities or to smooth expenditure requirements – known as earmarked reserves (the Risk Management Reserve is a good example).
- 9.4 In 2007/08 a significant re-designation of reserves was completed and approved by the Police Authority. This simplified the holding of reserves for the benefit of all stakeholders. The General Reserve and Performance Improvement Reserve now meets the purposes under a) and b) above.
- 9.5 This change was further consolidated in November 2007, as reported to the Finance Committee on 11 December 2007, in that the Development Fund was removed and the funds within it transferred to the Performance Improvement Reserve. This is a positive step. It should be noted however that the Development Fund had a multi year effect as business cases such as funding for call handling and PCSOs have an effect over several years. The impact of this is shown in the adjustments to the financial projections detailed in Appendix 1. The Development Fund was used to gate-keep the allocation of business change programme funding following Chief Officer and Police Authority approval of business cases. This not least prevented funding allocated for a specific purpose being used for another purpose within the same development project. However significant enhancements to both the business case process and to in year revenue and capital budget monitoring through RPAF make the need for the Development Fund much less. Its removal further simplifies the Authority's holding of reserves and more importantly put the focus for the proper use of approved business case funding with those local managers and project boards charged with implementing key developments. Members of the Police Authority and

Secretariat Staff sit on many of the most significant project boards and can therefore play an active part in this process.

- 9.6 The Risk Management Reserve (RMR) has been retained for specified issues and, as reported to the December 2007 Finance Committee, a significant change here has been the inclusion of risk associated with the termination of partnership funding streams and the earmarking of £295k within the RMR to mitigate this risk.
- 9.7 In order to maximise the resources available to the Authority and therefore the flexibility provided by the current financial situation, prudential borrowing will continue to be utilised as the primary route to avoiding the use of reserves or direct revenue funding.
- 9.8 There is no statutory guidance on the right level of reserves. Chartered Institute of Public Finance and Accountancy guidance confirms that authorities, on the advice of their Treasurers, should make their own judgements on such matters, taking into account relevant local circumstances and an assessment of risk. Initial guidance in respect of Comprehensive Performance Assessment for local authorities suggested a figure of 5% of net revenue budget was appropriate to achieve an excellent score. This has subsequently been removed and Police Authorities are generally working on figures between 2% and 5%. Networking around the Police Service has showed that at least one Police Authority that achieved a top rating under the Audit Commission's PURE framework holds a General Reserve equivalent to 3% of its net revenue budget.
- 9.9 The Authority's policy on reserves as reflected in the MTFS principles is as follows:
- The Force and Authority will hold a General Reserve of 3% (a reduction from the 5% held in 2007/08) of its net revenue budget in any financial year to cover any major unforeseen expenditure.
  - The Authority will maintain earmarked reserves to utilise for specific purposes which are consistent with achieving its priorities, sustainability of development and safeguarding it as a going concern. The use of earmarked reserves will be in line with the principles set out in the MTFS and reviewed annually.
- 9.10 The Authority must retain adequate reserves so that unexpected demand-led pressures on its budgets and known areas where financial implications are uncertain, such as is currently the case with regional collaborative working, can be met without adverse impact on the achievement of the Chief Constable's and Authority's key priorities. The policy for reserves and balances should be based on a thorough understanding of its needs and risks. Part of this process is to give clearer explanation of the existing and proposed use of reserves and this is addressed in the paragraphs below.

- 9.11 **A key aim over the medium term must be to ensure that the Authority's base level of spending is capable of being contained within the likely level of available resources in terms of grant funding and reasonable assumptions of increases in Council Tax without relying on reserves.**

### **Provisions**

- 9.12 A provision is an amount set aside from revenue funds to provide for a liability which is likely to be incurred but the exact amount and date on which it will arise is uncertain. The Authority retains a number of provisions as detailed below.

### **Insurance Provision**

- 9.13 A provision is held to cover the amount of the insurance provision stoploss limits. This will be reviewed as the revenue implications of the June 2007 floods become clearer.

### **Compensatory Grant Provision**

- 9.14 This provision is maintained to allow the Force and Authority to meet obligations under Police Regulations to reimburse income tax paid on rent allowances by that minority of officers still in receipt of this. The provision is reviewed annually in April each year after payments in arrears have been made.

### **Commuted Police Overtime Provision**

- 9.15 This provision is maintained to allow the Force and Authority to meet liabilities for payment of commuted overtime which arises when an officer has either been unable to take time of in lieu for unpaid overtime or retires with unpaid overtime.

### **Contingencies**

- 9.16 The Authority also retains a number of contingency items as described below.

### **Contingency Funds**

- 9.17 Devolved budgets are cash limited and the Contingency Fund is maintained to meet the annual pay and price inflationary costs incurred by the Force. Each year, as part of the Annual Accounts closedown procedure, the Contingency Fund is cleared to zero with any surplus funding now being transferred to the Performance Improvement Reserve. The Chief Constable also has access to two contingency sums within the base budget in the form of his Performance Fund and an Estate Strategy Fund.

## Budgeted Reserves Position for 2008/09 and future years

9.18 The reserves held at 31 March 2007 were as follows:

Reserve	Balance at 31 March 2007 £m
Performance Improvement Reserve	33.171
General Reserve	8.090
Risk Management Reserve	1.031
<b>TOTAL</b>	<b>42.292</b>

9.19 The table below which shows the Authority's holding of reserves as at 31 March 2007 and the anticipated future usage over the life of the MTFS:

	2007/08 £'m	2008/09 £'m	2009/10 £'m	2010/11 £'m	2011/12 £'m	2012/13 £'m
<b>General Reserve</b>	8.090	5.044	5.200	5.364	5.533	5.697
(Withdrawals)/Additional Contributions	(3.046)	0.156	0.164	0.169	0.164	0.171
	<b>5.044</b>	<b>5.200</b>	<b>5.364</b>	<b>5.533</b>	<b>5.697</b>	<b>5.868</b>
<b>Performance Improvement Reserve</b>	33.171	30.449	22.258	19.867	18.166	16.642
General Reserve Adjustment	3.046	(0.156)	(0.164)	(0.169)	(0.165)	(0.171)
Transfers to and (from) the Revenue Budget	1.653	(4.075)	(2.207)	(1.512)	(1.359)	(0.377)
Agreed Use of Reserves	(7.421)	(0.108)	(0.020)	(0.020)	-	-
Workforce Modernisation	-	(2.557)	-	-	-	-
Partnership Reserve Transfer	-	(1.000)	-	-	-	-
Risk Management Reserve Transfer	-	(0.295)	-	-	-	-
	<b>30.449</b>	<b>22.258</b>	<b>19.867</b>	<b>18.166</b>	<b>16.642</b>	<b>16.094</b>
<b>Risk Management Reserve</b>	1.031	1.031	1.326	1.326	1.326	1.326
Additional contribution	-	0.295	-	-	-	-
	<b>1.031</b>	<b>1.326</b>	<b>1.326</b>	<b>1.326</b>	<b>1.326</b>	<b>1.326</b>
<b>Partnership Reserve</b>	-	<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>1.000</b>
<b>Total</b>	<b>36.524</b>	<b>29,784</b>	<b>27,557</b>	<b>26,025</b>	<b>24,665</b>	<b>24,288</b>

- 9.20 From the above it can be seen that after taking account of the existing anticipated calls on the Performance Improvement Reserve and utilising prudential borrowing to maximise the revenue resources available, the balance available for new initiatives, additional capital financing costs and other spending pressures over the 5 years of the MTFS is £16.094m.
- 9.21 As indicated in para 7.14 the latest assessment of the level of investment in addition to the £4m previously approved for Business and Workforce Modernisation is £3.314m.
- 9.22 This updated MTFS suggests that the General Reserve should be reduced to 3% of the Net Revenue Budget for the period covered by CSR07. This is based on an increasing confidence in the financial management processes and a tightening of financial controls within the new Corporate Governance Framework. If the assumptions in the current MTFS about grant, pay awards and other factors prove to be accurate then there may be further scope for reducing the General Reserve from 3% to 2%. It should be noted however that the Home Office has changed its stance on providing support for exceptional incidents and it would appear that they now expect Authorities to have the capacity to cover cost of up to 1% of net revenue expenditure for reserves before they will provide assistance. The level of reserves will continue to be actively considered as the year progresses. Critical factors which will also feature in this consideration are that there are further improvements in budget monitoring through RPAF and confidence in the ability to demonstrably close the gap between base budget spending and permanent income via implementation of Savings and VFM plans and specifically the risk assessment of plans directly connected with the Business and Workforce Modernisation Project. This risk assessment process will be ongoing to ensure that the MTFS is continually updated to reflect the approved level of investment following consideration of business cases and the inclusion of savings in the base budget that can confidently be included having been assessed as reasonable both in terms of scale and timing. In the event that the savings associated with Business and Workforce Modernisation do not come to fruition, then the Police Authority will require the Chief Constable to come forward with alternative proposals to enable the base budget to be balanced.

## **10. Funding**

- 10.1 The provisional Grant Settlement announced by the Home Secretary on 6 December 2007 included details of General Grant for three financial years: 2008/09, 2009/10 and 2010/11. This settlement reflected a national increase of 2.9% per annum in total government revenue funding for the Police Service in the first two years and 2.7% in 2010/11. This increase includes an average 2.7% per annum increase in General Grant, with a funding floor set at 2.5% although the Home Secretary's statement provides a clear indication that this will taper after 2010/11 to enable fuller implementation of the needs-based funding formula as has already been introduced in all other areas of Local Government. Some certainty over funding levels is also ensured by the retention of so-called "Rule 2" grants, and greater flexibility is provided by

Initial Police Learning and Development Programme (IPLDP) funding moving from a specific grant to become a “Rule 2” grant.

- 10.2 The grant settlement for the Police Authority over the period of the MTFS in terms of General Grant (Police Grant, National Non-Domestic Rates (NNDR) and Revenue Support Grant (RSG)) is a 2.6% year-on-year increase. This is effectively at best a “flat real” settlement at current inflation levels but, unlike previous settlements, also slightly above the level of the grant floor. This means that instead of receiving a higher level of grant as a result of the floor the Authority’s grant is increased by a smaller amount to subsidise those Forces that are benefiting from the protection of the floor. The contributions to the floor are £0.747m in 2008/09 rising to £1.12m in 2010/2011. The totals for 2011/12 and 2012/13 as shown in this table have been estimated as they are outside the information provided in the settlement which only covers the CSR7 period to 2010/11.

	<b>2008/9 £'m</b>	<b>2009/10 £'m</b>	<b>2010/11 £'m</b>	<b>2011/12 £'m</b>	<b>2012/13 £'m</b>
Police Grant	66.105	68.022	69.934	71.473	73.045
NNDR	51.794	52.933	54.256	55.612	57.002
RSG	7.210	7.421	7.514	7.702	7.894
<b>TOTAL</b>	<b>125.109</b>	<b>128.376</b>	<b>131.704</b>	<b>134.787</b>	<b>137.941</b>

- 10.3 The wider settlement for local government introduced a significant rationalisation of funding streams directed at regeneration projects and areas of high deprivation which an introduction of a Single Area Based Grant linked to Local Area Agreements (LAAs) and administered by LSPs. The impact of this change on the police service cannot be quantified at this time but earmarking £1m from the Performance Improvement Reserve specifically to support police related partnership activity will provide resources to cover any funding issues that may arise in the run up to formal approval of LAAs and Area Based Grant allocations. It will also give the Police Authority the capacity to influence decision making within the respective LSPs.
- 10.4 The funding assumptions also take account of provision for reduction of the employer pension contribution rate, payable by police authorities into the national police pension scheme, from 24.6% of pensionable pay to 24.2% for the three years covered by the settlement. This is expected to save police authorities £15 million per year nationally and has saved the Authority an estimated £305k.

## **11. Indicative Budget Forecasts 2008/09 to 2012/13**

- 11.1 The indicative budget forecasts for 2008/09 to 2012/13 are shown in the Medium Term Financial Plan at Appendix 1.

## 12. Funding Gap and Financial Strategy

12.1 Budget forecasts set out in Appendix A show a potential funding gap of £4.075m in 2008/09 and a total gap for the next three financial years (CSR07 period) of £7.794m, before the use of reserves. The estimated reliance on reserves throughout the current MTFS is £9.530m **and it must also be noted that this is before the revenue implications of additional costs in addressing gaps in Protective Services, funding for significant new investment in the Force estate beyond the D Division Bridewell and headquarters or the cost pressures from the business change programme in 2009/10 to 2012/13 have been included in the MTFS.** However, these figures, which are clearly unsustainable without corrective action, are also before account has been taken of the potential savings that are envisaged as a result of the implementation of Business and Workforce Modernisation proposals requiring the release of monies from the PIR. In order to put the importance of Business and Workforce Modernisation into context, the following table shows memorandum information for illustrative purposes of the impact on current forecasts of delivering the projected savings. This shows a very different underlying financial position the possibility in theory of bringing the base budget into balance by 2009/10 with significant resources being generated for the investment in the remaining years of the MTFS.

Memorandum Information	Permanent Base Budget	Funding	Use of Reserves	BWFM Projected Savings	Net use of/ (contributions to reserves/ growth) after BWFM savings
	£'m	£'m	£'m	£'m	£'m
2008/09	177.415	173.340	4.075	0.971	3.104
2009/10	180.710	178.503	2.207	2.292	(0.085)
2010/11	185.608	184.096	1.512	3.634	(2.122)
2011/12	190.910	189.551	1.359	4.999	(3.640)
2012/13	195.570	195.193	0.377	4.999	(4.622)

12.2 As has been discussed earlier, without positive action the revenue budget position will require more difficult choices to be made than in previous years due to the above spending pressures, tight funding settlements under CSR07 (both main grants and pressures on continuation funding via specific grants) and the almost certain continued adherence to a precept capping regime, particularly in the next two financial years in the run up to a General Election and the Government's apparent resolve to take a strong stand over maintaining its control over public spending. Options open to the Authority and Force to close the projected gap are as follows:

- Additional savings and efficiencies (including Business and Workforce Modernisation).
- Precept increases.
- Reassessment of priorities.
- Further use of reserves.
- External funding / increases in income.

- Refinancing of the Capital Programme.

12.3 As indicated above, Business and Workforce Modernisation changes will be at the vanguard of these options. Members will need to ensure that arrangements are in place to see that the rate of return on the required investment in terms of savings is delivered and that the MTFS is adjusted to hard wire the costs and savings into the strategy. Costs will be met from the PIR but the savings will be recurring and will close the gap between the level of spending and realistic levels of funding available. It is clear that failure to deliver savings at the level envisaged will result in the delay in implementing approved business cases, postponement of capital projects and a possible moratorium on new growth bids unless the Chief Constable can come forward with proposals for alternative measures to bring the base budget into balance through additional savings and efficiencies.

### **Additional Savings and Efficiencies**

12.4 Opportunities for additional efficiencies are constantly being sought in order to continuously improve value for money of the policing service provided in Humberside.

12.5 Permanent cash releasing efficiencies and savings delivered in one year will assist in reducing the funding gap for future years and will continue to be captured in the Savings Plan and Value for Money Action Plan. This Savings Plan sits separately to the efficiency planning programme which is already identifying significant cashable savings and recycling these within the base budget. In 2007/08 the latter has identified and recycled £3.8m of cashable resources around the base budget in addition to £7.56m identified but not claimed in 2006/07.

12.6 In generating the Savings Plan, devolved and protected budget holders have been asked to identify how they would drive out of the budgets for which they are responsible a 1% recurrent cash saving from 1 April 2008. This will act as a further impetus to identify where the base budget can be utilised to fund better performance. Areas for early focus outside of the BWFM project within the Savings Plan which are already under scrutiny corporately through RPAF are vehicle fleet optimisation, provision of uniform, spending on furniture and equipment, improved income generation and securing better access to sources of partnership funding and sponsorship.

### **Council Tax Precept**

12.7 On precept increases, there is no reason to expect an increase in or removal of capping limits in the foreseeable future. Like its predecessor in terms of major reform of local government finance, the Layfield Review, the recent review of local government finance carried out by Sir Michael Lyons has largely not been implemented by the Government and is likely to be consigned to history. In 2007/08, Government Ministers sought to make it clear that they would take action against authorities which they deemed had set budgets which resulted in "excessive" precept increases. However, no

substantive action was taken against any authority, some of whom very significantly exceeded the 5% capping limit.

- 12.8 For 2008/09 the methodology to be applied to Authorities to determine whether or not they have breached the cap has, as is usual, not been announced and is not expected to be known until after budgets have been set. However, the Government is demonstrating a new appetite for taking hard political decisions (such as that on the 2007/08 police pay settlement) and politically calling to account local authorities which breach the cap is an easy action to take, particularly in light of a better settlement than many public bodies were expecting under CSR07. It would be sensible to take the Government at its word in requiring that council tax increases are set “substantially below” the 5% cap. The planning assumption in the MTFS is currently for a 4.5% increase each year. This is considered to be a balanced and prudent assumption as it appears to minimise the risk of capping while generating additional income and protection of the underlying resource base. Members are aware that capping would lead to the Authority having to meet the very substantial costs of re-billing that would be incurred by the Unitary Authorities in the Force area.
- 12.9 The Resources Workshop set out for Members’ information the implications on income and levels of reserves of a range of precept increases for Members’ information. For illustrative purposes a 1% increase in Council Tax precept would generate £0.424m in extra revenue in 2008/09.

### **Use of Reserves**

- 12.10 The Reserves Strategy has been the subject of detailed review as part of the revision of the MTFS and 2007/08 budget setting process. Significant changes have been made in the classification and continued holding of reserves as alluded to above. The use of reserves to support the budget is not sustainable in the longer term, and this reliance should be reduced as the benefits of efficiency initiatives put in place by the Force start to be realised. In particular, business cases for workforce modernisation set against the Performance Improvement Reserve will be required to demonstrate how base budget changes will be affected in order to make permanent charges which the use of this temporary funding will pump prime; given current developments in respect of BWFM it is recommended that further funds are earmarked for this purpose. As detailed above, it is suggested that the release of future funding should be conditional upon the presentation of detailed business cases for elements of the overall Business and Workforce Modernisation Project. These must include specific assumptions on the timing of investment and the release of savings. This will enable the MTFS to be formally amended by bringing the memorandum information into the Strategy. This will in turn result in corresponding changes being made to base budgets and the allocation of budgets to budget holders who will then be responsible for ensuring that spending is contained within approved estimates. This will be reviewed through RPAF and detailed budget monitoring. Significant variation will be investigated and action plans will be required to correct any identified overspending. The additional capital

financing costs for the programme described above and indicative figures for the D Division Bridewell are included. Members also supported suggestions at the Resources Workshop to identify resources that could be used to counteract any adverse implications of changes in local partnership funding following the introduction of the Single Area Based Grant, where the arrangements for allocation are unlikely to be determined before the decision has to be made on the precept for 2008/09. It is suggested that £1m from the PIR should be earmarked to address any potential impact on the Force.

### **Reassessment of Priorities**

- 12.11 The Resources Workshop on 16 January 2008 considered business cases proposed for new growth within the MTFs. These have been subject to a much more comprehensive and rigorous authoring and quality assurance process prior to being considered at Resource Management Chief Officer Group (RMCOG) meetings and by Police Authority Members than has previously been the case.
- 12.12 As Members were advised on 16 January 2008, RMCOGs now consider business change mandates as well as full business cases, and these must have a sponsor on the ACPO team before they can be presented. Other than in exceptional circumstances, for example particularly technical proposals, all business cases are written by the Business Change Manager in order to ensure consistency and to quality assure the content. Once written, business cases are scored against a matrix of nine areas: citizen focus; performance; neighbourhood policing; partnership working; protective services; legal compliance; operational imperative; business benefits and efficiency; and risk management.
- 12.13 The first five criteria relate directly to achievement of strategic goals, and are double weighted to reflect the significance of this. In addition, owing to the potential significance of some risks, the risk management scoring area is triple weighted. The scoring is undertaken by a panel of stakeholders from across the Force, chaired by the Head of Corporate Development Branch. Business cases are then ranked according to their score and this prioritisation informs decision making in RMCOG meetings, where the business cases are reviewed within the context of the available resources.
- 12.14 In future it is clear that, for at least the period covered by CSR07, development funding for new projects and initiatives will increasingly have to be released from within the base budget, via partnership working and by more income generation.
- 12.15 It is also clear that the implementation of an ambitious capital programme within an acceptable timescale, particularly with development of the estate, will centre on finding innovative ways to deliver new builds in partnership and beyond this on achieving a use of the current estate which better underpins the delivery of services to the communities of the Humberside Police Force area. Failure to deliver the savings associated with Business and Workforce Modernisation will seriously impede the activity of the Police Authority to

support new projects and the development and pace at which commitments in respect of capital schemes can be entered into.

### **External Funding**

12.16 The Authority and Force have been successful in securing and delivering outcomes from external funding in previous years. Specific and general funding will continue to be sought in line with the principles set out in this strategy. As noted above, increased effort will be put into securing greater partnership funding, within which there is a clear role for the Police Authority, which is now better placed within the framework of LSPs and CDRPs to influence decisions. The financial monitoring of partnership funding together with the identification and mitigation of associated financial risk has also been improved within the current financial year and this will need to continue. Uncertainties remain about the potential impact on the Force and local partners of the consolidation of a range of grants into the Single Area Based Grant. Risks associated with this uncertainty will be mitigated by the use of the earmarked reserve referred to above.

### **Income Generation**

12.17 Income Generation is still the subject of review nationally with joint work progressing between the ACPO Finance and Resources Business Area and Police Authority Treasurers. The Force and the Authority will seek to further develop a strategy for income generation as the 2008/09 financial year progresses in line with the review. Proposals will include a refresh of our current arrangements for generating more income from chargeable activities and securing more sponsorship.

## **13. Risk Assessment**

13.1 The MTFs contains the most up to date information at the time of drafting but the Force and Authority financial position is dynamic. Latterly this has been particularly the case in the treatment of claims for legal costs. The Authority faces a number of financial uncertainties and in the first quarter of 2008 an unprecedented number of inquests and tribunals are expected to come to a conclusion. The outcomes from these could affect the financial position of the Authority over the medium term. This is acknowledged and, where deemed to be of a high risk (on incidence and impact grounds) these are cash backed within the Risk Management Reserve.

### **General Balances**

13.2 There is a risk that the General Reserve is not sufficient. This is mitigated by:

- The policy governing the level of General Reserve held by the Authority is to maintain this at 3% of net revenue spending. If it is possible to reduce the level of General Reserve down to 2% of net revenue spending this will be implemented.

- Strengthening of financial controls has resulted in a consistent trend of the revenue outturn being delivered within budget in recent years. The challenge is to ensure that the maximum financial resources made available to drive operational and business performance are utilized in year. The Resource Performance Assessment Framework (RPAF) with its integration into the performance management arrangements of the Force is designed to do this.

### **Pay Increases**

- 13.3 The risk is that pay increases may exceed the levels provided for within the MTFs since the make up and operation of the new pay review body is as yet unknown. This is mitigated by the fact that estimates of 2.5% for police officer pay awards and 2.25% for police staff pay awards have been included in the MTFs. This will be further reviewed once the effects on the MTFs of the next round of police and police staff pay negotiations are known. Awards in excess of this estimate can be met in year from the General Reserve and earmarking of cash releasing service changes within the Savings Plan.

### **Price Increases**

- 13.4 The risk is that price increases may exceed the levels provided for within the MTFs. Every 0.1% increase in prices will add £200k to the 2008/09 base budget. This is mitigated by:

- The non pay elements of the MTFs have been increased annually by 2.3%. Over the life of the current MTFs a total of £2.5m additional funding will be made available for non pay budgets and this plan has been validated as part of 2008/09 budget setting; and
- the extensive devolution of controllable budgets acts as an incentive to achieve savings at a local level. Going forward, in line with the Corporate Governance Framework approved by the Authority on 18 December 2007, planned under spends and any over spends are contained within devolved budgets to promote proactive local budget management and allow for some flexibility of operation. This is underpinned by strong corporate governance arrangements through maintenance of a local MTFs by each devolved budget holder and a corporate approval process for transfer of under spends across financial years.

### **Capital Financing**

- 13.5 The risk is that capital financing charges will be greater than forecast. This is mitigated by:

- The MTFs provides for the best estimate of the cost of borrowing;

- additional borrowing will be required to be made in 2008/09 onwards and every effort will be made to ensure that borrowing decisions are made at the most advantageous terms through regular monitoring of market rates; and
- although the level of interest is subject to change, any change in the variable rate will have minimal effect initially as all of our current debt is at fixed rates.

### **Financial Planning**

13.6 The risk is that a major liability or commitment is currently known but has not been taken into account in the financial planning of the Force and Authority. This is mitigated by:

- The MTFS includes growth items to be assessed for inclusion in the Authority's budget, identified by the Chief Constable by reference to, amongst other sources, the 3 Year Strategic Plan, Annual Policing Plan and Chief Constable's Vision. This is now hard-wired into the quality assurance arrangements within the Force business change process;
- regular liaison by senior officers of the Force and the Authority and the existence of the Chief Officer Group, Strategic Development Team and the Finance Committee help to strengthen and coordinate the financial planning of the Authority and Chief Constable; and
- RPAF and the arrangements in place to reinforce the importance of Chief Officers, Divisional Commanders and Branch Heads ensuring that they are aware of and are carrying out their duties to discharge their obligations in terms of budget monitoring and control. This is vital to the overall internal control environment previously signed off in the Annual Statement on Internal Control (SIC) which will now be replaced by a wider Annual Governance Statement. An officer group comprising of the Chief Executive, Director of Performance and Resources and Assistant Chief Executive from the Police Authority and the Deputy Chief Constable and Assistant Chief Officer (Support) from the Force has been created to oversee the production of the annual statement and the implementation of the new Corporate Governance Framework.

### **National Funding**

13.7 The risk inherent in being below the floor for formula grant. This risk is now mitigated, as for the next 3 years the Authority is just above the floor. The Policing Minister has expressed a wish to explore how the various damping mechanisms on the operation of the funding formulae can be progressively removed. In the CSR07 announcements, the Home Office have confirmed that the floor system will be in place for the next three financial years and the amounts of main grants for MTFS purposes can be treated as known. Forecasts for years beyond 2008/09 are estimates based on latest intelligence. Adjustments to grant floors will begin with other principal local

authorities within the CSR07 period. However the financial impact of these on the MTFs (which, given the Authority's position in CSR07, would be beneficial) will be taken account of only once there is clear evidence that this will be applied to Police Authorities and the timescale for this is clearer than at the time of writing. Any proposals will be monitored through the APA/ACPO and associated groups such as the Police Authority Treasurers (PATs) and ACPO Finance and Resource Business Area.

### **Capital Programme Implications**

13.8 The risk is that the capital programme may be understated, funding will not be available as planned, or that over spending may occur. This is mitigated by:

- The review of Estate Strategy is nearing completion and it includes a series of major proposed developments based on external professional advice ;
- a review of IS/IT has been undertaken and is centred around developing an information factory and mobile data solutions for the Force;
- explicit work on capital funding sources and affordability underpins capital programme planning. Clear decisions are made about the level of prudential borrowing and internal capital resources to be made available in fixing the Reserves Strategy of the Force and Authority;
- monthly capital monitoring reports are considered by the Force with quarterly capital monitoring reports being scrutinized by the Authority's Finance Committee and thematic panels regularly considering capital developments. An information session on the estate was provided for the Finance Panel on 22 January 2008;
- the Prudential Borrowing regime gives added flexibility in terms of financing the capital programme but requires professional judgments to be made on affordability and appropriate control measures as detailed in prudential indicators set annually to be adhered to; and
- the Estate Strategy Fund has been earmarked explicitly to support the revenue consequences of the capital programme, including the costs of borrowing.

### **Risk Management**

13.9 There is a danger that all risks have not been identified in the MTFs and that major financial consequences may result. This is mitigated by:

- Internal risk management arrangements through various internal Force fora including the Force Audit Board;
- comprehensive self and external insurance arrangements in place. The robustness of these have been demonstrated in 2007/08 through the flooding where the logistical impact has been significant but the financial consequences not;
- the maintenance of an Insurance Provision; and
- the adequacy of the general balances and the overall reserves policy.

There is a key risk in terms of the Force being able to deliver on Business and Workforce Modernisation which is designed to make savings in a planned approach and where possible to seek to maintain or increase capacity and sustain performance, getting the right systems and processes in place with the optimum workforce areas. The risk of not being able to deliver on savings is mitigated by the inclusion of indicative costs and savings as memorandum items within this updated MTFS so that there is a balance between the actual forecast position which shows a continuing reliance on reserves, specifically the Performance Improvement Reserve and the very different scenario with the assumption that the potential savings envisaged materialise. This risk can be further mitigated by enhancing the oversight and scrutiny of the Business and Workforce Modernisation Project and detailed implementation plans by both the Police Authority and senior management within the Force.

## **14. Conclusions**

- 14.1 The Force is seeking to strengthen neighbourhood policing, improve citizen focus and to meet a number of other pressing operational and business priorities. This work is set against a background of an inexorable rise in public expectations placed on public services, significantly tighter funding settlements through CSR07 with the possibility of significant changes to ongoing formula grants beyond this, ongoing restrictions on precept levels and higher costs in areas such as energy, scientific support to operational policing and external legal advice and support. The four Yorkshire and the Humber Region Police Authorities together with their Chief Constables are continuing to develop plans after looking at options to address the gaps in respect of protective services following micro analysis and detailed risk assessments.
- 14.2 The Authority and Force are in a relatively strong financial position and have substantially met the explicit commitments given to local communities about Police Officer and PCSO numbers and built infrastructure to support neighbourhood policing. This MTFS allows the Force and Authority to keep its promises to continuously improve the services it provides and refers to significant planning and projects underway to do this in a more efficient and productive way. Despite the financial constraints which challenge the Authority the financial foundations are in place to support ambitious programmes of local capital development of the estate and regional working on protective services. The former will enhance the provision of critical services to local communities as well as in line with the Chief Constables Vision to 2010 providing "Quality Places for Quality People". The latter will provide for significant uplifts in the provision of regional services centred on combating serious and organised criminals, crime on our roads and terrorists which are largely unseen but much needed by local communities.

This has been possible above all else because of the strong sense of shared enterprise by the Force and Authority. Significant contributory factors are also:

- The setting of annual budgets firmly within the context of a medium term financial forecast; and

- the quality of intelligence gathering including the well established regional and national networks which the Assistant Chief Officer (Support) and Director of Performance and Resources actively participate in and shared judgments flowing from this work which are fundamental to the MTFS.
- 14.3 The MTFS sets out how the strong corporate governance and explicit judgment regimes around the Force's and Authority's medium term financial plan will allow for balanced development. The new challenges are to achieve the same sense of shared enterprise across the Force and Authority to deliver the necessary savings and productivity improvements which will be necessary to sustain performance and development whilst realigning future years' base budgets over the medium term to perhaps significantly lower levels of real terms income.
- 14.4 During the period of the MTFS to 2012/13, the Authority's reserves will reduce as they are used to support spending on priorities and service improvements and the Authority will engage in prudential borrowing to enhance spending capability for capital purposes. Reliance on reserves in the longer term will need to be reduced as the benefits of workforce modernisation in particular are realised. The Business and Workforce Modernisation Project is absolutely vital to addressing the need for base budget savings to enable the Authority to live within its means. This report demonstrates the position with and without success in achieving intended savings. There will need to be more emphasis on cash releasing efficiencies and delivery of Savings and VFM Plans which will feed directly into the MTFS. The Authority and Force must be resolute and alert to any failure to secure the benefits and budget savings associated with Business and Workforce Modernisation and be ready to implement contingency plans to bring the budget into balance.
- 14.5 Precept increases will need to be considered as part of the measures to close the funding gaps identified in Section 12. The Authority always retains discretion to levy precept increases. In the present circumstances it is not envisaged that the Authority would seek to levy increases in excess of the likely capping level signalled by Central Government.
- 14.6 The shared professional judgment of the Assistant Chief Officer (Support) and Director of Performance and Resources is that, given the Authority's financial position, including the level of available reserves, it is not necessary to or worth the risk of challenging the Government over what is meant by "substantially less than 5%" in relation to the precept increase for 2008/09. Based on intelligence received from other Police Authorities and local government in general, an increase of 4.50% in the precept levied by the Police Authority would, in our judgement, not be expected to attract capping from Government.
- 14.7 Conversely, a lower precept increase will require the Authority to use more reserves at a faster pace than is considered prudent, jeopardising the opportunity to take the corrective action necessary to bring spending into balance. An additional consequence of this would be that the resource base

would be adversely affected, further restricting access to reserves and seriously impeding the Force and the Authority's ability to contain the level of base budget spending within realistic forecasts of external funding, hastening the need for forced and possibly arbitrary cuts in service provision.

- 14.8 An increase of 4.50% is therefore considered to be appropriate as it appears to provide a reasonable balance between generating additional revenue in 2008/09 and retaining the underlying resource base, while providing for the planned use of reserves to facilitate changes in service provision in a way that will enable the Authority to move away from the current situation where it is reliant on reserves in order to balance its in-year revenue budgets.