

# Report to the Police & Crime Commissioner

17 February 2014



## **Cleveland Police Long Term Financial Plan (LTFP) 2014/15 to 2017/18**

**Status: For approval**

### **Purpose of the Report**

This report sets out the Force's revenue and capital spending plans for the period 2014/15 to 2017/18

It recommends that the Police & Crime Commissioner (PCC) approves the revenue and capital budget proposal for 2014/15 and the Long Term Financial Plan (LTFP) for 2015/16 – 2017/18 in line with the legal requirement to set a budget prior to the 1<sup>st</sup> March each year for the following financial year.

The PCC is asked to note that the spending proposals are within the indicative funding limits allocated to the Chief Constable.

This report should be read in conjunction with the following reports prepared by the PCC's Chief Financial Officer:

- Budget 2014/15 and Long Term Financial Plan 2015/16 to 2017/18. Capital Plans 2014/15 to 2017/18
- Robustness of Estimates and Adequacy of Financial Reserves

### **Recommendation**

The Police & Crime Commissioner (PCC) is requested to approve the revenue and capital budget proposal for 2014/15 and the Long Term Financial Plan (LTFP) for 2015/16 – 2017/18.

### **Introduction**

The financial plans set out in this report are built around the Force response to CSR 2010 and CSR 2013 and, despite the depth of the funding cuts, provide the Force with operational and financial stability for the two years 2014/15 and 2015/16. This period of stability will enable plans to be developed and enacted to deal with the severe funding challenges of 2016/17 and 2017/18.

The building blocks of this financial plan are:

- Available funding
- Workforce pay and pensions
- Equipment and infrastructure

The summary position is set out in the table below with further detail at Appendix A.

<b>Summary Long Term Financial Plan</b>				
	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	£000s	£000s	£000s	£000s
<b>Funding Allocation from PCC</b>	<b>(121,405)</b>	<b>(118,380)</b>	<b>(115,500)</b>	<b>(114,000)</b>
Total Pay Budgets	82,769	81,935	85,172	87,841
Total Non Pay Budgets	38,636	36,445	36,458	37,559
<b>Total Planned Expenditure</b>	<b>121,405</b>	<b>118,380</b>	<b>121,630</b>	<b>125,400</b>
<b>(Surplus)/Deficit</b>	<b>0</b>	<b>0</b>	<b>6,130</b>	<b>11,400</b>
<b>Funded FTE</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	FTEs	FTEs	FTEs	FTEs
Total Police Officers	1,378	1,349	1,349	1,349
Total PCSOs	145	132	132	132
Total Police Staff	184	166	166	166
<b>Total FTE</b>	<b>1,707</b>	<b>1,647</b>	<b>1,647</b>	<b>1,647</b>

\* This comprises the core Orbis+ 1,333FTE officers plus 16 FTE funded by other agencies

The years 2016/17 and 2017/18 show a significant over commitment. However, the financially stable platform for the next two years provides time and space to develop and implement solutions including:

- Delivering significant estates savings via the Agile Programme
- Working with our key strategic partners to reduce costs
- Exploring collaboration opportunities to reduce costs and deliver more with less resource.

### **Response to CSR10 and CSR13**

The impact of CSRs 10 and 13 on funding available to policing in Cleveland is well documented. Cuts in grant amount to £26m (25%) in real terms since 2010/11.

In response to CSR10 measures to reduce costs whilst maintaining both quantitative and qualitative performance initiated by the Force, PCC and precursor Police Authority include:

- A programme of workforce modernisation and technology improvements through the strategic partnership with Steria
- The development of a sustainable policing model built around a maximum number of 1,400 FTE warranted officers via the Orbis Programme
- Taking the opportunities presented by a reducing workforce and available technology to make staff more productive and reduce organisational overheads especially in infrastructure via the Agile Programme
- Developing our leaders to give them the skills, flexibility and confidence to enable them to deliver policing in an age austerity via the Transformational Leadership Programme

CSR13 increased the severity of cuts facing policing in Cleveland and required additional responses to meet the financial challenge. These include

- Revisiting the Orbis policing model and reducing workforce numbers further by continuing A19 retirements of police officers and introducing a programme of voluntary redundancies/early retirements with the possibility of compulsory redundancies in 2014/15. The ruling of the Employment Tribunal in February 2014 poses a significant risk to this strategy and is discussed further in the Risk assessment attached at appendix 3.
- Working with our key strategic partners to reduce costs
- Exploring collaboration opportunities to reduce costs and deliver more with less resource.

The existing and enhanced initiatives have been brought under the umbrella change portfolio of Orbis+. The financial plans set out in this report are built around the Force response to CSR 2010 and CSR 2013.

### Available Funding

All funding for Force activity is allocated to the Chief Constable by the PCC. The indicative funding limits notified for inclusion in the plan are set out in the table below.

	Allocation		Reduction	
		£m	£m	%
2014/15		121.4		
2015/16		118.4	(3.0)	(2.5)
2016/17		115.5	(2.9)	(2.4)
2017/18		114.0	(1.5)	(1.3)
			<b>(7.4)</b>	<b>(6.2)</b>

The plan also assumes that additional funding will be allocated from earmarked reserves by the PCC to cover the costs of:

- Medical retirements
- Redundancy/early retirement costs incurred in 2014/15
- Any pay protection agreed in respect of the job evaluation scheme

### Workforce Pay & Pensions

The budget posts for 2014/15 together with the Orbis+ target numbers are set out in the table below.

<b>Workforce Summary</b>		
	2014/15	Target
	FTE	FTE
Police Officers-Orbis	1,362	1,333
Police Officers-Other	16	16
PCSOs	145	132
Police Staff-Orbis	169	151
Police Staff-Other	15	15
<b>Total</b>	<b>1,707</b>	<b>1,647</b>

Budgets have been reduced in line with leavers' forecasts, therefore, no overall vacancy percentages have been applied.

Budgets have been increased by £1.6m per annum in respect of increased employers national insurance contributions from 2016/17 onwards

### Police Officers

The Orbis functional model was built on 1,391 FTE police officers and previous financial plans were constructed around this number. As actual officer numbers have been higher than this, the plan included a glidepath based on the A19 attrition rate together with estimates for other leavers until the 1,391 target was reached. Consequently, there has been no recruitment since March 2010.

Following CSR13, the target number of Police Officers was revised downwards to 1,333 FTE and the Orbis model will be reworked to this number. In addition to the Orbis model, the Force also employs 16 FTE officers seconded to other agencies whose roles would be deleted if their dedicated funding streams stopped. Accordingly, the Force needs to employ a total of 1,349 FTE officers to fulfil its obligations

Based on current assumptions actual officer numbers reach 1,349 FTE in March 2015 and a programme of recruitment has been factored in to sustain this number as set out in the table below.

<b>Police Officers in LTFP</b>				
	2014/15	2015/16	2016/17	2017/18
	FTE	FTE	FTE	FTE
Actual in Post				
April	1,392	1,356	1,327	1,338
Leavers	(48)	(53)	(59)	(74)
Recruits	12	24	70	56
March	1,356	1,327	1,338	1,320
Officers Funded in plan	1,378	1,349	1,349	1,349

The rank mix is based on the Orbis rank mix. For financial planning purposes all reductions to 1,333 FTE have been costed at PC level so as not to overstate planned savings. The actual rank mix will be determined by operational need.

Budgets have also been provided for:

- Normal, bank holiday and major incident overtime £1,400k
- Acting up payments £100k
- Contributions in respect of 'medical' pensions £1,900k

In addition the PCC has established earmarked reserves to cover the cost of:

- Medical retirements.
- Recruitment Specials Constables

#### Police Community Support Officers (PCSOs)

Following CSR13, the target number of Police Community Support Officers was revised downwards to 132 FTE. These have been allocated across Local Policing Areas pro rata to demand.

At 1<sup>st</sup> April it is estimated that there will be 152 FTE PCSOs in post. The financial plan is predicated on reaching the target number of 132 FTE by April 2015. A voluntary redundancy programme is currently underway, however, estimates of leavers indicate that the target will not be reached through natural wastage and it is forecast that PCSOs will be 8 FTE over establishment at that date. The position will be reviewed in-year and a decision taken on whether the use of compulsory redundancies is necessary to achieve financial stability.

#### Police Staff

Following CSR13, the target number of Police Staff in the Orbis model was revised downwards to 151 FTE. In addition to the Orbis model, the Force also employs 15 FTE funded by external agencies whose roles would be deleted if their dedicated funding streams stopped. Accordingly, the Force needs to employ a total of 166 FTE staff to fulfil its obligations.

At 1<sup>st</sup> April it is estimated that there will be 200 FTE staff in post. The financial plan is predicated on reaching the target number of 166 FTE by April 2015. A voluntary redundancy programme is currently underway, however, estimates of leavers indicate that the target will not be reached through natural wastage and it is forecast that staff will be 15 FTE over establishment at that date. The position will be reviewed in-year and a decision taken on whether the use of compulsory redundancies is necessary to achieve financial stability.

Staff and PCSO pay budgets have been reduced for the estimated impact of the Local Government Pension Scheme which changes to a 'career average scheme' from 1<sup>st</sup> April 2014. This also impacts favourably on the contractual inflation uplift for Steria. The total saving is estimated as at least £250k.

#### Staff Retirement/Redundancy Costs

As reported above, based on current assumptions the Force will be approximately 8 FTE PCSOs and 15 FTE Police Staff over establishment in April 2015.

The ER/VR scheme will be kept open throughout the year and the overall position will be reviewed mid-year at which time a decision will be taken on whether to manage the financial pressure and rely on natural wastage to deliver the target or to move to compulsory redundancies.

Based on experience in 2013/14 the average cost of an ER/VR was £22k giving a potential total cost of £500k should all 23 FTE require funding. However, the range of individual payments varies greatly so this estimate is indicative rather than accurate.

The PCC has established an earmarked reserve to cover the potential cost of the police staff/PCSO reduction programme.

## Equipment and Infrastructure

### Revenue

An overall inflation uplift of 2% has been provided for allocation to specific budget heads in accordance with need e.g. business rates; contractual uplifts etc.

All non pay budgets have been reviewed and adjusted in respect of savings or unavoidable pressures.

2015/16 includes £1.8m in respect of cost reductions arising from Steria related services. This represents approximately 10% of the annual contract value.

### Capital

Operational assets are a vital platform for the delivery of effective policing services. The proposals put forward in the capital plan are those necessary to refresh and enhance the asset base and are set out in Appendix B and summarised in the table below.

<b>Capital Summary</b>				
	2014/15	2015/16	2016/17	2017/18
	£000s	£000s	£000s	£000s
Facilities	75	80	210	0
Equipment	4	9	0	0
ICT	650	1,625	1,200	350
Fleet	800	1,100	1,274	1,206
Provision	200	0	0	0
<b>Total</b>	<b>1,729</b>	<b>2,814</b>	<b>2,684</b>	<b>1,556</b>

The proposals are informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes and mandatory requirements.

The capital plans for the years 2015/16 onwards are indicative only at this stage as both the facilities and ICT programme will be predicated on the emerging Agile and Headquarters business cases and changes to the Fleet Programme as a consequence

of the Orbis functional model and reducing officer numbers. Cognisance of these will be taken when refreshing the revenue and capital plans in the course of the year.

Those revenue consequences of the capital proposals falling to the Chief Constable are factored into the revenue plan.

**Risk Assessment**

A risk assessment of the financial proposals has been undertaken and is set out Appendix C.

Jacqui Cheer QPM  
Chief Constable

**Summary Long Term Financial Plan 2014/15-2017/18**

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	£000s	£000s	£000s	£000s
<b>Funding Allocation from PCC</b>	<b>(121,405)</b>	<b>(118,380)</b>	<b>(115,500)</b>	<b>(114,000)</b>
<b>Police Force Planned Expenditure</b>				
<b>Pay Budgets</b>				
Police Pay	70,558	70,290	73,292	75,585
Police Overtime	1,354	1,624	1,354	1,444
Police Community Support Officer Pay	4,416	4,084	4,263	4,362
Staff Pay	6,441	5,937	6,263	6,450
<b>Total Pay</b>	<b>82,769</b>	<b>81,935</b>	<b>85,172</b>	<b>87,841</b>
<b>Non-Pay Budgets</b>				
Major contracts	22,426	20,895	21,339	21,868
Other pay and training	276	285	285	285
Injury and medical police pensions	2,360	1,955	1,990	2,050
Premises	3,811	3,855	3,520	3,590
Supplies and services	5,645	5,470	5,270	5,602
Transport	1,762	1,815	1,845	1,900
External support	2,356	2,170	2,209	2,264
	<b>38,636</b>	<b>36,445</b>	<b>36,458</b>	<b>37,559</b>
<b>Total Planned Expenditure</b>	<b>121,405</b>	<b>118,380</b>	<b>121,630</b>	<b>125,400</b>
<b>(Surplus)/Deficit</b>	<b>0</b>	<b>0</b>	<b>6,130</b>	<b>11,400</b>

<b>Funded FTEs</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2016/17</b>
	FTEs	FTEs	FTEs	FTEs
Police Officers-Orbis+	1,362	1,333	1,333	1,333
Police Officers-Other	16	16	16	16
PCSOs	145	132	132	132
Police Staff-Orbis+	169	151	151	151
Police Staff - Other	15	15	15	15
<b>Total Funded FTEs</b>	<b>1,707</b>	<b>1,647</b>	<b>1,647</b>	<b>1,647</b>



**Capital Plan 2014/15-2017/18**

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	£000s	£000s	£000s	£000s
<b>Facilities</b>				
Rewiring of Stockton HQ	-	80	80	-
Fixed wire testing	70	-	50	-
Procurement of equipment recording equipment	5	-	-	-
Stockton HQ-mechanical plant replacement	-	-	80	-
<b>Total Facilities Schemes</b>	<b>75</b>	<b>80</b>	<b>210</b>	<b>0</b>
<b>Equipment</b>				
Body armour replacement-end of programme	4	9	-	-
<b>Total Equipment Schemes</b>	<b>4</b>	<b>9</b>	<b>0</b>	<b>0</b>
<b>ICT</b>				
Agile:				
Command vehicle software	100	-	-	-
Command vehicle shell	45	-	-	-
ICT Refresh:				
Airwave handset refresh	-	250	250	250
Telephony year 2	-	240	-	-
Storage provision	-	100	150	100
Application upgrades	20	50	50	-
Oracle database upgrade to 11g	-	100	-	-
ICCS Replacement	-	-	700	-
Server Infrastructure refresh	-	410	-	-
Backup infrastructure refresh	-	100	-	-
Local Area Network refresh (Non HQ)	-	350	-	-
Upgrade all SQL Server 2005 Databases	80	-	-	-
Collar ID	-	-	50	-
Expansion of VM & backup infrastructure	80	-	-	-
Airwave coverage testing kit	20	-	-	-
IDS/IPS (Intrusion prevention/detection) s/w	100	-	-	-
Xcryptor security software upgrade	50	-	-	-
Migration to PSN	80	-	-	-
Projectors and display screens (spares and refresh)	15	-	-	-
Government Protective Marking Scheme software	60	-	-	-
Niche to CPS interface	-	25	-	-
<b>Total ICT Schemes</b>	<b>650</b>	<b>1,625</b>	<b>1,200</b>	<b>350</b>
<b>Fleet</b>				
Fleet replacement	650	950	1,125	1,062
Vehicle write off fund	100	100	100	100
Black box replacement programme	50	50	49	44
	<b>800</b>	<b>1,100</b>	<b>1,274</b>	<b>1,206</b>
Provision for business cases	200	-	-	-
<b>TOTAL CAPITAL SCHEMES</b>	<b>1,729</b>	<b>2,814</b>	<b>2,684</b>	<b>1,556</b>

**Long Term Financial Plan (LTFP) 2014/15 to 2017/18 – Assessment of Risks**

<b>Risk</b>	<b>Detail</b>	<b>Mitigation</b>
In Year funding cut.	The Government impose an in year funding cut that the PCC passes on to the Force.	The PCC may absorb an in-year cut in total or part through the use of reserves or income surpluses. There is sufficient flexibility in the plan to absorb an in-year funding cut depending on the magnitude and the time of year the issue becomes known.
Future year's funding cuts assumed in the LTFP are too low.	The LTFP assumes 5.0%, 2.5% and 2.5% respectively over the years 2015/16 to 2017/18. If reductions are in excess of those forecast the PCC may not be able to provide the levels of funding assumed.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Employment Tribunal ruling that A19 retirements are unlawful due to age discrimination.	A balanced LTFP in 2014/15 and 2015/16 is predicated on 36 and 43 Police Officer retirements amounting to c£4m saving in a full year.	Forces have 42 days to appeal the ruling. Further reductions in PCSO and police staff numbers will be required. Reverse civilianisation.
Pay awards are higher than those assumed in the LTFP.	The LTFP assumes that pay will rise by 1% in September 2014 and 2015, and 2% from September 2016 and 2017 in line with Government proposals. A movement of 1% to 1.5% would have an impact on pay and contracts of approximately £500k.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
The cost of early retirements and voluntary/compulsory redundancies in 2014/15 is in excess of the	An earmarked reserve is being set up to cover the cost of the police staff/PCSO reduction programme. However, the range	The PCC may absorb any additional costs in total or part through the use of reserves or income surpluses.

<b>Risk</b>	<b>Detail</b>	<b>Mitigation</b>
earmarked reserve.	of individual payments varies greatly so this estimate is indicative rather than accurate.	There is sufficient flexibility in the plan to absorb some additional costs depending on the magnitude and the time of year the issue becomes known.
A higher than forecast level of costly major incidents.	The number and cost of major incidents in any one year is unpredictable. 2013/14 has seen an exceptionally high level of major incidents but costs have been contained within budget.	There is sufficient flexibility in the plan to absorb some additional costs depending on the magnitude and the time of year the issue becomes known. The PCC may absorb any additional costs in total or part through the use of reserves or income surpluses.
National mandation.	In recent years there has been national mandation of systems e.g. Pentip, resulting in unplanned costs to the Force.	There is sufficient flexibility in the plan to absorb some additional costs depending on the magnitude and the time of year the issue becomes known. The PCC may absorb any additional costs in total or part through the use of reserves or income surpluses.
Budget management under Orbis.	A more centralised collegiate approach to budget management is being trialled under the new Orbis regime. This may lead to a lack of clarity between cause and effect in budget management.	Experience during the period of transition in 2013/14 indicates this is unlikely. Finance Business Partners will monitor across all budget heads and support budget managers to ensure that emerging trends are identified and dealt with appropriately.