



Report of the Chief Finance Officer for the Chief Constable to the Police and Crime Commissioner for Cleveland Police

20th February 2019

Cleveland Police Long Term Financial Plan (LTFP) 2019/20 to 2022/23

Status: For Approval

Purpose of the Report

The purpose of the Long Term Financial Plan (LTFP) is to demonstrate the Force's operational plan is affordable, financial stability can be maintained, and funding is targeted to those activities that best make our communities safer and stronger.

Accordingly, this report sets out the revenue and capital spending plans that underpin delivery of the Force's Towards 2020 strategy, the Transforming Cleveland Police Plan and the key objectives set out within the Police and Crime Plan.

It should be read in conjunction with the following reports prepared by the Police & Crime Commissioner's (PCC) Chief Financial Officer:

- Long Term Financial Plan 2019/20 to 2022/23 and Capital Plans 2019/20 to 2022/23
- Robustness of Estimates and Adequacy of Financial Reserves
- Capital Strategy

Recommendation

The Police & Crime Commissioner for Cleveland is requested to approve the revenue and capital budget proposal for 2019/20 and the Long Term Financial Plan (LTFP) for 2020/21 – 2022/23.

Force Financial Strategy

A stable financial position is a key enabler for the Force to help our communities become safer and stronger. The Long Term Financial Plan (LTFP) demonstrates our operational plan is affordable and supports longer term planning for sustainable service delivery.

Our financial strategy is to maintain financial stability and protect service provision through identifying sufficient savings to secure a four year balanced position in order to:

- Provide a high degree of certainty to operational commanders about the resources at their disposal in the short to medium term

Following the grant settlement in December 2018, although the financial pressures have eased, the Force will continue to review expenditure plans for future years so that funding can be redirected to areas of greatest need to ensure that the outcomes from available funding are optimised.

Cleveland Police Strategic Vision

The Force has a clear strategic direction that is set out in a number of key strategic documents; Towards 2020, Transforming Cleveland Police and the Police and Crime Plan. This clearly sets out the future shape of the organisation as being the development of cost effective:

- Local Policing
- Enabling Services
- Collaboration

These plans are underpinned by this Long Term Financial Plan.

A key priority for the Force has been the development of a sustainable service model that can effectively respond to threat, harm and risk and bring about safer and stronger communities.

This reshaping has been aligned to our Strategic Threat & Risk Assessment (STRA) and demand profile (including alternative approaches to dealing with or reducing demand) which directs focus into those areas of policing that require emphasis.

A number of significant work streams have been delivered or are a work in progress. These include:

- Implementation of the Local Policing reviews
- Implementation of the Strategic Intent proposals
- Implementation of the major and volume crime functions
- A collaborated major investigation function with North Yorkshire
- Extension of the collaborated police dogs service to include North Yorkshire
- Further development of North East Regional Special Operations Unit
- Implementation of the Deep Dive Rapid Improvement Plans
- The rationalisation of Management Structures
- Implementation of Workforce Modernisation
- Targeted reductions in non-pay expenditure
- Development of a 3 Force Legal Service
- Ongoing restructure of the policing model to a geographical policing model to better address demand and provide resilience.
- Return of our contracted out services from Sopra Steria
- Implementation of the Wellbeing agenda and a reduction in sickness levels
- Implementation of the Digital Strategy

These reforms have been necessary to deliver the grant cuts already suffered from CSRs 2010 and 2013 and have enabled the Force to review its future savings requirements. Robust financial management will have to continue to allow the Force time and space to re-evaluate new and changing demand and ensure that scarce resources are used to their best endeavours. These continue to include development of further collaborative opportunities through Evolve, North East Transformation, Innovation and Collaboration Programme (NETIC) and with Cleveland Fire Brigade.

REVENUE

Summary Position 2019/20 – 2022/23

The summary position is set out in the table below.

Income & Expenditure	2019/20	2020/21	2021/22	2022/23
	£000's	£000's	£000's	£000's
Funding Allocation from PCC	(128,215)	(129,085)	(128,920)	(131,735)
Police Pay & Allowances	69,130	70,190	71,340	73,080
PCSO / Staff Pay & Allowances	18,605	18,850	18,273	18,746
Pay & Allowances Total	87,735	89,040	89,613	91,826
Non Pay Expenditure	40,480	40,045	39,307	39,909
Total Planned Expenditure	128,215	129,085	128,920	131,735
Planned Surplus / (Deficit)	0	0	0	0

Funded Establishment	2018/19	2019/20	2020/21	2021/22	2022/23
Core Funded Police Officers	1,181	1,183	1,183	1,225	1225
Historic Investigation Unit	49	50	50	0	0
OPCC Neighbourhood Funded Police Officers	6	6	6	6	6
Total Police Officer Establishment	1,236	1,239	1,239	1,231	1,231
Core Funded PCSO's	132	116	116	116	116
OPCC Neighbourhood Funded PCSO's	15	15	15	15	15
Total PCSO Establishment	147	131	131	131	131
Core Funded Police Staff	256	366	366	366	366
Historic Investigation Unit	31	31	31	0	0
OPCC Neighbourhood Funded Police Staff	22	26	26	26	26
Total Police Staff Establishment	309	423	423	392	392
Total Establishment	1,692	1,793	1,793	1,754	1,754

Following CSR 2015 and the 'protection' of police service funding, the Force has worked with the PCC to agree a level of funding that will sustain our operating model over the lifetime of the plan.

Consequently, the Force is projecting a break-even position for each year of the plan. However, the financial plan is dependent upon continued robust financial management ensuring that all new initiatives and mandated changes can be absorbed within the given funding.

A more detailed analysis is set out at Appendix A

Allocated Funding

The national and local funding positions are set out in the PCC's Chief Financial Officer's report 'The 2019/20 Precept Proposal'.

The headlines within the settlement provided the OPCC with further flexibility to increase Precept above the 1.99% cap. PCC's can now increase the level of Band D Police Precept by up to £24 per year in 2019-20. Nationally the Police Service could receive a further £970m which includes increases in grant to cover pension costs, counter terrorism, serious and organised crime as well as the flexibility to increase the precept.

It should be noted that the police settlement has not been adjusted to take in to account a new funding allocation formula. This has been delayed until the next CSR due in 2020. We did not include either a positive or negative financial impact on our future funding assumptions in regards to the funding formula and as such this delay has not impacted on our overall financial position.

The impact of the above has resulted in a better than expected Government Grant allocation, and coupled with the flexibility to increase precept income, has resulted in an increase in funding to the PCC in 2019/20 when compared with the forecasted February 2018 position.

The PCC is expected to receive £3.1m more grant income in 2019/20 than in 2018/19. However, the Home Office have increased the amount payable in regards to police pension contributions by £3.3m.

Taking these factors into consideration the increase in grant income will therefore only allow the Force to continue to fund the current level of service delivery.

With the flexibility offered to the PCC's to further increase the precept by £12 a year this will provide the OPCC with a further income stream. This increase will allow the Force and the OPCC to firstly maintain current services and then provide some scope to invest in Community Policing.

Pay Budgets

The paybill is the largest single element of the overall cost base at 68% of the budget¹. It should be recognised that there is no right or wrong workforce size or mix. Through its programme of review over the last four years, the Force has continued to reshape the workforce to deliver an effective blend of skill sets and experience to meet an ever-changing demand profile.

Pay budgets have been set on the Force's operating model as it currently stands. It should be noted that further changes to the workforce over the next 12 months with further collaborative opportunities will be explored so the overall numbers could flex based on future developments and demand profiles.

Points to note are:

- Pay awards have been assumed at 2% per annum.
- Provision has also been made for the Apprenticeship levy which commenced in 2017/18. This will cost the Force approximately £300-350k per annum.
- It is assumed that recruitment plans will maintain the workforce numbers at the planned levels.

Police Officers

Funding in this plan provides for 1,233 FTE officers in the first two years of the plan. This is consistent with the numbers currently planned for in the Force's operating model and funded secondments. The PCC holds funding for an additional 6 FTE roles that have been agreed to enhance neighbourhood policing. This funding will be drawn down immediately as all 6 officers are already in post. This brings the overall establishment for police officers to 1,239 FTE.

Post 2020/21 it has been assumed for financial analysis only that the Historic Investigations grant will cease reducing our overall police officer establishment to 1231 FTE a reduction of 8 officers.

Provision of £640k per annum has been made for 8 medical retirements in each year of the plan. Medical retirements have been occurring at approximately 8-10 per annum so this may prove to be insufficient. However, each retirement incurs a one-off payment of twice the average pensionable salary of the individual (approximately £80k) to the pension fund. Consequently, providing for more retirements would have a significant impact on any savings that would have to be made.

Police Community Support Officers (PCSOs)

Funding has been provided for 116 FTE PCSOs over the lifetime of the plan. This is consistent with the numbers currently planned for in the Force's operating model.

¹ Note: In 2010/11 the force entered a strategic partnership with Steria UK and 470 police staff posts were TUPE transferred, consequently the paybill represents a smaller proportion of overall expenditure than in other Forces.

The PCC holds funding for an additional 15 FTE roles that have been agreed to enhance neighbourhood policing. This funding will be drawn down immediately as all 15 PCSO's are already in post. It brings the establishment for PCSOs to 131 FTE.

Police Staff

Funding has been provided for:

- 366 FTE Core Police Staff roles for the life of the plan
- 31 FTE HIU Police Staff roles for the first two years of the plan

The PCC holds funding for an additional 26 FTE roles that have been agreed to enhance neighbourhood policing. This funding will be called down immediately as all of the roles will be filled by the start of the financial year. This brings the establishment for staff in 2019/20 to 423 FTE.

Pension Schemes

Police Officer Scheme

It should be noted that the pensions discount rate used to calculate the employer's contributions for public sector pensions has changed from 3.0% to 2.4%. This has increased the level of spend by £3.3m per annum. The Home Office have provided a police pension grant of £1.3m a shortfall of £2.0m. This will be absorbed within the overall funding from the OPCC.

Police Staff (including PCSOs) Pension Scheme

The triennial revaluation of the Local Government Pension Scheme (LGPS) which took place in March 2017 has forecast a shortfall of £1.3m. This will be made good by an increase in the employers' contribution rate of 1% per annum, rising from 14.6% in 2018/19 to 15.6% by 2019/20.

The impact of this in 2019/20 is £235k. This includes the impact of the revised rates on the Sopra Steria charge.

Non Pay Budgets

An overall inflation uplift of 2.0% has been provided each year. This will be allocated to specific budget heads in accordance with need e.g. business rates; contractual uplifts; Utilities, National ICT charges & Injury pensions etc and have been costed at £1,036k in 2019/20.

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

The revenue consequences of the capital schemes are also factored into the budget.

Significant Pressures within the LTFP

Although the PCC has provided a stable financial platform, the impact of unavoidable cost pressures means that all expenditure will have to be scrutinised and only

approved if it fits within the overall plan. The plan provides for the following significant pressures:

- Contracted Out National Insurance £1,600k from 2016/17
- Apprenticeship Levy £350k from 2017/18
- Provision for medical retirements £640k from 2018/19
- Increase in LGPS employers contributions £115k from 2018/19
- Collaboration: NETIC £72K from 2018/19
- Increase in Police pension employers contributions £3,300k from 2019/20
- Increased cost associated with the Finger Print Bureau £60k from 2019/20
- Additional National initiatives incurred 18/19 – on-going £158K from 2019/20
- Service Improvements eg: Taser Training; Call handling £151K from 2019/20
- Service Pressure on forensic costs £75K from 2019/20
- Improvements to Specials & Volunteers programme £45K from 2019/20
- Revenue costs of Capital Investment : Digital Agenda £45K from 2019/20

Savings Programme

In order to offset the significant pressures above the Force continues to review its Non-pay budgets and has identified the following savings which are incorporated in the LTFP:-

- Custody Contact Savings £45K from 2019/20
- Closure of Ladgate Lane HQ £465k from 2019/20
- Reduction in Change & Contingency £140 from 2019/20
- Reduction in Legal Fees £165 from 2019/20
- Other Non-pay savings £45K from 2019/20

The additional funding provided by the PCC over the next four years and the savings identified within the LTFP has enabled the Force to absorb the increases in its cost base ie: pay inflation, general inflation and the extra pressures listed above and provide a balanced LTFP.

The balanced LTFP has also been possible due to the major re-working of the Force's operating model throughout 2016-2018 which has already been discussed earlier in the report.

Future Plans

With the flexibility offered to the PCC's to increase the precept by £12 a year in addition to the £12 increase per annum already in the 2018/19 funding assumption this will provide the OPCC with a further income stream in 2019/20 onwards.

However, this flexibility offered to the OPCC’s has several caveats attached to it. These include areas such as identifiable procurement savings, the recruitment of detectives and digital reforms as detailed in the ministerial statement dated 24th January 2019 and will have to be managed and reported on throughout the financial year.

Due to this increased income the OPCC has requested plans on how the Force can use this money to reduce the threat, harm and risk to the residents of Cleveland.

The Force’s transformational strategy has modelled both the minimal and optimal establishment required for service delivery. The funding assumptions within this plan only deliver that of the minimal establishment. The financial gap between the minimal and optimal models of delivery is approximately £5m per annum. Over the life of the plan the Chief Constable in conjunction with the OPCC will work up costed plans with the aim of working towards the optimal model.

Risks in the Plan

The major risk attached to this plan is the continuation of the Historic Investigations that are currently partly funded through a special grant from the Home Office. This grant has to be resubmitted on an annual basis and is not guaranteed.

Failure to secure the funding would result in a funding shortfall of approximately £2m. Should the funding cease the Force would at its earliest opportunity need to review its establishment and non-pay expenditure. To reflect this risk the associated Police and Staff establishments have been reduced from years 2020/21 onwards.

Other risks are detailed at Appendix C.

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.

CAPITAL PLAN 2019/20 - 2022/23				
	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Facilities Schemes	1935	25	25	50
Equipment Replacement	347	171	82	25
ICT Schemes	3930	3162	2060	2000
Other Schemes	100	0	0	0
Fleet Replacement	633	496	757	662
TOTAL CAPITAL SCHEMES	6945	3854	2924	2737

The proposals are informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes and mandatory requirements. The revenue consequences of the capital proposals are factored into the revenue budgets.

Facilities Schemes

The strategic goal for police estate is to create an effective and efficient estate that reduces cost and environmental impact and facilitates flexible working. The Estates Blueprint sets out a clear plan to drive better performance from our estate, accelerate savings, facilitate collaborative working and deliver capital receipts.

The main focus of the facilities programme for 2019/20 is the potential purchase of additional office accommodation.

Equipment Replacement

A significant effort has been put into ensuring the completeness of both revenue and capital rolling equipment replacement programmes to:

- Ensure that funding is available when necessary
- Avoid spikes in expenditure by smoothing the replacement profile
- Inform the procurement plan to ensure timely ordering & receipt of equipment
- To inform prioritisation and decision making

ICT Schemes

The ICT programme comprises refresh, upgrade and development schemes. The plan incorporates all known ICT requirements including the purchase of a new ERP system, workforce agility, the digital first programme and the National Identity Access Management (NAIM) scheme.

Fleet Replacement

The Cleveland Fleet is made up of approximately 330 vehicles. The capital replacement plan is set out in the table below.

Fleet Replacement				
	2019/20	2020/21	2021/22	2022/23
Number of Vehicle's to be Replaced	19	17	40	28

The strategic goal for the fleet is to deliver an effective and efficient fleet that matches vehicle provision to operational demands, minimises cost and environmental impact and facilitates flexible working.

Implications

Finance

There are no financial implications other than those mentioned above.

Diversity & Equality

There are no diversity or equality issues arising from this report.

Human Rights Act

There are no Human Rights Act implications arising from this report.

Sustainability

This report is part of the process to establish sustainable annual and long term financial plans to underpin sustainable service delivery and maintain prudent financial management.

Risk

A risk assessment of the financial proposals is set out under Appendix C.

Conclusion

Although many items will change over the next four years, the assumptions in this LTFP, collectively provide for a stable financial position for the Force and, therefore, provides assurance that the strategic plans and our core priorities of prevention, protection and intervention are both affordable and achievable.

Lee Freeman
Interim Chief Constable
20th February 2019

APPENDIX A

	Budget 2019/20 £000's	Budget 2020/21 £000's	Budget 2021/22 £000's	Budget 2022/23 £000's
Police Pay & Allowances	69,130	70,190	71,340	73,080
Staff Pay & Allowances	14,550	14,670	13,993	14,381
PCSO Pay & Allowances	4,055	4,180	4,280	4,365
Pay & Allowances Total	87,735	89,040	89,613	91,826
Non Pay Expenditure				
Steria Charges	18,490	17,500	16,500	16,850
Premises	3,501	3,577	3,655	3,733
Custody	2,491	2,541	2,591	2,641
Police Pensions	3,017	3,117	3,217	3,317
Transport	1,471	1,481	1,491	1,501
External Support	1,975	2,179	2,179	2,179
Insurance	1,099	1,042	1,040	1,040
Change & Contingency	355	522	522	522
Communications	894	894	894	894
National IT Charges	975	975	975	975
Computing	831	831	831	831
Forensics	892	892	892	892
Professional Fees	778	778	778	778
External Training Seminars etc	753	768	785	798
Other Equipment & Furniture	843	833	842	843
Other	456	456	456	456
National Police Air Service	352	352	352	352
Maintenance Agreements	462	462	462	462
Uniform	326	326	326	326
Surgeons & Medical Costs	286	286	286	286
Office Equipment & Expenses	199	199	199	199
Redundancy Costs	25	25	25	25
Agency Staff Costs	10	10	10	10
Non Pay Expenditure Total	40,480	40,045	39,307	39,909
Grand Total	128,215	129,085	128,920	131,735

Appendix B

CAPITAL PLAN 2019/20 - 2022/23	2019/20	2020/21	2021/22	2022/23
Facilities Schemes	£000	£000	£000	£000
Emergency lighting & Fire alarms	20	0	0	50
Car park refurbishments	10	0	0	0
Proposed new building for office accomodation	1750	0	0	0
LDC window replacement scheme	25	25	25	0
Billingham Police station Rewire	50	0	0	0
Force Rewire Programme (C/Fwd)	80	0	0	0
	1935	25	25	50
Equipment Replacement				
NERSOU TSU	25	25	25	25
ANPR	225	25	0	0
Legal Evolve capital	0	50	0	0
TASER	57	71	57	0
Investigative Analytical Software (C/Fwd)	40	0	0	0
	347	171	82	25
ICT Schemes				
Power BI Professional Desktop Client/Report Server	31	0	0	0
ERP discovery, procurement & mobilisation	750	750	0	0
Workforce agility phase 1	0	0	0	0
Workforce agility phase 2	500	0	0	0
Workforce agility phase 3	500	0	0	0
Digital evidence management (DEMS)	400	0	0	0
Digital evidence transfer (DETS)	50	0	0	0
Digital First	100	0	0	0
Digital interview recording (DIR)	0	0	0	0
Single on-line home	50	0	0	0
National identity access management (NAIM)	100	0	0	0
National law enforcement database programme (NLEDP)	50	0	0	0
Windows 10, Office 365 and Cloud services	0	700	0	0
Command and control	0	200	0	0
PNN replacement	0	30	0	0
DFU infrastructure review	0	500	0	0
Data warehouse	0	0	0	0
Body worn video	0	200	0	0
Archive and retention	0	0	0	0
Home Office biometrics	0	150	0	0
ESMCP	0	0	2000	0
Digital strategy	0	0	0	2000
Resource for ERP, Oracle, Microsoft, DEMS, DETS & Storm	708	632	60	0
Digital Interview Recording Equipment (C/Fwd)	500	0	0	0
ESMCP (C/Fwd)	63	0	0	0
ACESO Replacement (C/Fwd)	103	0	0	0
Windows Server Upgrade (C/Fwd)	25	0	0	0
	3930	3162	2060	2000
Other Schemes				
Replacement DCS system	100	0	0	0
Fleet Replacement				
Fleet replacement Programme	597	496	757	662
NERSOU vehicles	36	0	0	0
	633	496	757	662
TOTAL CAPITAL SCHEMES	6945	3854	2924	2737

LTFP 2019/20 to 2022/23 – Assessment of Risks

Risk	Detail	Mitigation
Changes to the future funding formulas for Police Forces.	<p>The Policing Minister is committed to reforming the police funding formula and will bring forward proposals for public consultation.</p> <p>The current assumptions do not factor in any adverse impact as a result of a revised formula.</p> <p>Based on what is currently known of the proposals, this is a prudent assumption, however, it does present a potential risk.</p> <p>Current indications are that no changes will be made before the next CSR which is due in 2020.</p>	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Future year's funding is lower than forecast.	The police settlement was for a one year period. This presents a potential risk if funding was to change dramatically as a result of external issues such as Brexit.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Pay awards are higher than those assumed in the LTFP.	<p>The LTFP assumes that pay will rise by 2% from September 2019.</p> <p>A movement of 1% would have an impact on pay and contracts of approximately £1.1m over a full financial year.</p>	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
A higher than forecast level of costly major incidents.	The number and cost of major incidents in any one year is unpredictable.	<p>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.</p> <p>The Joint CNYMIT has</p>

Risk	Detail	Mitigation
		introduced additional resilience into the system. The PCC may absorb any additional costs in total or part through the use of reserves or other income.
The continued acceleration of Police Officer and PCSO leavers above the planned profile outstripping our ability to recruit.	Pay budgets have been set based on assumptions in respect of officers and staff leaving and additional recruits being brought in. Should the number of leavers outstrip our ability to recruit this could result in capacity gaps and generate a material underspending.	Should a capacity gap emerge, service levels will be delivered through targeted overtime and the continued employment of police staff investigators along with a further recruitment of transferee Police Officers.
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 other income.
Police Pension scheme 2015.	Test case on new pension scheme with risk due to Gender/Race inequality. The case is in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015. The Court of Appeal ruled in December 2018 that the Government's changes to pensions with regard to judges and firefighters were discriminatory on the grounds of age. These cases were brought due to	Cleveland has contributed to the NPCC legal defence of this case. Cleveland has at present 93 claims from Police Officers No further detail is available on the impact to the Chief Constable but should there be a financial impact, more radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.

Risk	Detail	Mitigation
	changes to public sector pensions in 2015, which also affected other public sector schemes including the police pension scheme. This ruling could have significant implications however costs and funding implications are as yet unknown.	
Employment Tribunals	An earmarked reserve has been set up to cover the cost of implementation.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Allard V the Chief Constable of Cornwall	A recent court determination in the case of Allard v the Chief Constable of Cornwall in respect of historic on-call payments for specific staff groups has the potential to create a significant financial pressure for forces nationally.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Historic Case Review	Further work will take place in regards to historic case reviews following the establishment of the Cold Case Unit within the CNYMIT.	More radical options will be developed including further reductions in officers, PCSO and staff numbers and the use of further inter-force collaborations.