

22 FEBRUARY 2011

2011-12 REVENUE BUDGET, CAPITAL PROGRAMME AND COUNCIL TAX AND PROVISIONAL BUDGETS FOR 2012-15

PURPOSE OF THE REPORT

1. To enable the Authority to approve its revenue budget, capital programme, set the council tax precept for the year commencing 1 April 2011 and also approve provisional budgets and capital programmes for 2012/13, 2013/14 and 2014/15.

BACKGROUND

2. At the Policing Objectives and Budget Seminar on 10 January 2011, Members considered initial proposals on the revenue budget and capital programme in the light of the Medium Term Financial Strategy for 2011-15 and to ensure alignment of budget proposals with threat and risk, policing objectives and current performance. Finance Committee gave further consideration to the budget proposals at its meeting on 1 February 2011 (Minute 65) and recommended the Authority to approve provisional budgets for 2012-15, in addition to the 2011/12 budget, on 22 February 2011 to ensure alignment with the four year Spending Review period. The Committee also resolved that the Chief Constable continue to scrutinise all budget proposals to ensure that police officer and police staff reductions are minimised. This report has been updated to reflect final budget proposals and includes all the required elements for the Authority to reach its decisions.
3. In reaching decisions which it considers reasonable, the Authority must have regard to all the relevant factors, including the likely impact of particular budget proposals on the Cheshire police service and on the level of council tax to be met by Cheshire council taxpayers. In particular in setting the 2011/12 council tax, the Authority must have regard to the Coalition Government's wish that authorities freeze council tax at the 2010/11 level and be compensated through a specific grant.

SPENDING REVIEW FOR 2011-15 AND FINAL GRANT ANNOUNCEMENTS FOR 2011/12 and 2012/13

4. The Chancellor of the Exchequer delivered the Spending Review for 2011-15 to Parliament on 20 October 2010, which followed an earlier announcement in June of spending reductions, when the Coalition Government set their in year Emergency Budget. In June the Chancellor advised that departmental budgets would be cut, on average, by 25% in real terms over the Spending Review period. The actual Spending Review announcement was slightly less severe overall – the average four year cut was 19%. However, the reductions changed little in the first two years, whilst the last two years (2013-15) were abated. The Authority has been working on its response to the

Government's required reductions since June 2010, which has enabled the formulation of planned budgets, including savings plans, for the period 2011-15.

5. On 13 December 2010, the Minister for Policing and Criminal Justice announced the Provisional Grant Settlement, for 2011/12. The announcement also gave indicative allocations for 2012/13 and headline figures for 2013/14 and 2014/15. The Final and Indicative Settlements, for 2011/12 and 2012/13 respectively, were received on 31 January 2011. No changes were made to the Provisional Settlement.

6. In making the Provisional Announcement in December, the Minister for Policing and Criminal Justice said:

"These reductions will be challenging but the Government is clear that forces can make the necessary savings while protecting the frontline and prioritising the visibility and availability of policing."

The Secretary of State for Communities and Local Government said he had:

"Sought to achieve a fair and sustainable settlement. It will be progressive and fair."

7. The main change this year is that the Coalition Government have simplified the funding system to provide greater local freedom and flexibility over the deployment of resources. Funding previously allocated through specific grant has been significantly reduced, and absorbed within the main Police Grant. These streams include the previous Crime Fighting Fund, Basic Command Unit Fund, Special Priority Payments and Training Grants.
8. The Settlement is front loaded and requires greater reductions in 2011/12 and 2012/13 than in the last two years. All police authorities will experience a cash reduction in their main grant of 5.1% in 2011/12 and 6.7% in 2012/13. Taking into account specific grant funding, the settlement gives an average net funding reduction of 4% in 2011/12 and 5% in 2012/13.
9. The grant reductions for 2013/14 and 2014/15 are less severe at 3.4% in total. However, the figures for later years remain highly provisional. A review of Local Government Finance, which will conclude in July 2011, may have implications for how the wider public sector funding is allocated for police authorities in later years. Reviews of pay and pensions are on-going and were to report initially in February 2011. At the time of finalising this report no announcement has been received and any relevant information will be reported orally at the meeting.
10. Neighbourhood Policing Funding has been retained for 2011-13 to fund approximately two thirds of the cost of PCSOs, and the Government has announced some flexibility on a case by case basis should there be difficulties in obtaining partner funding for the remainder.
11. Specific grant for Counter Terrorism has been preserved but is expected to be at a reduced level. Individual authority provisional allocations have not yet been confirmed. Any change will be reported orally at the meeting.

12. The following three formula changes have been made, but their impact has been damped, so that no authority receives more than the funding reductions referred to in paragraph 8.
- the consolidation of certain specific grants into the main formula
 - the use of more up to date activity costing data
 - the inclusion of drinking bar data at Community Safety Partnership level
13. This latter formula change has a particularly adverse effect on Cheshire but remains unchanged in the final settlement. The Authority has been partly protected through the floor mechanism. If the floor did not exist, the reduction in the Authority's main 2011/12 grant would have been 13.1%, as opposed to 5.1%. This represents a loss of £10m over and above the Spending Review reductions of £36.5m, set out in Table 1 below. The Government aims to remove floors and ceilings over time and the Authority has made strong representations to the contrary in its response to the consultation and in a meeting with Cheshire MPs on 4 February 2011. The MPs requested further information, to be supplied by the Treasurer, on the adverse impact of the formula, so they may request a meeting with Government Ministers.
14. The capital grant has been reduced by 40% in 2011/12, but is less severely hit in later years. This is a slight improvement on the predicted reduction. In addition the Government has indicated that it expects authorities to freeze council tax levels in 2011/12 and has provided a grant equivalent to a 2.5% increase to enable this to happen.

IMPLICATIONS OF THE GRANT SETTLEMENT AND DEVELOPMENT OF THE SAVINGS PLAN

15. Taking into account committed expenditure and inflation, the impact of the grant settlement over the Spending Review period is a gross savings requirement of £35.4m. This represents an increase of £1.9m in the savings which formed the basis of the report to Finance Committee on 20 December 2010 (Minute 50) and subsequent public consultation. The reason for the increase is a reassessment of the police pay budget and some adjustments to pensions estimates. The revised figures are set out in Table 1 below. The majority of the reduction occurs in the first two years.

Table 1 – Budget Reductions 2011-15

	2011/12	2012/13	2013/14	2014/15	Total
Budget Reduction	£11.9m	£12.0m	£5.1 m	£6.4m	£35.4m

16. The grant reductions over the four year period 2011-15 are unprecedented for the Authority in their scale and have required a new approach to management within the Constabulary and governance from the Authority. The Authority anticipated early the prospect of significant reductions in funding. Early in 2009, Members supported a recommendation to undertake a more radical and longer term view of continuing to deliver policing services from a reduced but more effective cost base.
17. Whilst the scale of the reductions is significant it is very much as anticipated and has confirmed the applicability of the plans developed during 2009 and 2010. These plans

comprise a range of activities to reduce the cost base aligned to the two transformational projects, Transforming Policing and Transforming Business Services. The overarching principles developed jointly by the Authority and the Chief Constable in budget planning have been to:-

- protect frontline policing services
- retain resilience in officer numbers
- reduce costs whilst maintaining and improving performance and quality of service.
- treat staff with dignity and support through the change process

18. The following table reflects the current assumptions in building the Medium Term Financial Strategy (MTFS) for 2011-15. While there is an assumption of a pay freeze in 2011/12 and 2012/13, there is a balance of pay inflation relating to the September 2010 pay award and the annual police officer and staff increments. In relation to council tax, the Government is expecting a council tax freeze for 2011/12. From 2012/13, the Authority will be able to determine its own council tax within Government parameters. At this stage, a modest 1% increase has been included but the Authority will need to reassess the position when setting each annual budget based on cost pressures.

Table 2 – MTFS Assumptions 2011-15

Assumptions	2011/12	2012/13	2013/14	2014/15
Pay Inflation	202	615	1,997	3,302
Non Pay Inflation	809	217	177	54
Interest	0.50%	0.50%	1.00%	1.00%
Committed expenditure	£4.8m	£4.3m	£1.6m	£1.6m
Loss of Grants	£0.6m	-	-	-
Police Grant Funding	£69.5m	£64.3m	£68.0m	£66.8m
Council Tax	0.0%	1.0%	1.0%	1.0%

19. Finance Committee on 20 December 2010 (Minute 47) agreed the strategy for the savings plan for 2011-15. In previous years the Home Office required efficiency savings of 3% per annum and for 2010/11, 4%. From 2011/12 the efficiency target is at the Authority's discretion. The scale and challenge of the financial scenario requires the Authority to drive out the necessary savings at a pace to meet funding levels while protecting and improving the service delivery expected by the public. The Savings Plan for 2011-15 is therefore very much focussed on cash savings within the Medium Term Financial Strategy.
20. The transformational projects will form the core of these plans across all four years of the period and can be expected to be supplemented, as in previous years, by a range of smaller initiatives which will materialise over the four year period of the savings plan. The following table gives the breakdown of the planned cash savings over the MTFS. They are explored in more detail in Appendices 2, 4, 5 and 6. Any non cash efficiency savings achieved during the period of the MTFS will be reported to Finance Committee quarterly as part of regular budget monitoring.

Table 3 – Summary of Total Cash Savings required 2011-15

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	Total £m
Transforming Policing	5.0	5.7	1.9	3.6	16.2
Transforming Business Services	0.8	2.2	1.4	0.6	5.0
Budget Reductions/ Middle Office	0.7	2.7	0.9	1.2	5.5
Non Pay Running Costs	5.4	1.4	0.9	1.0	8.7
Total	11.9	12.0	5.1	6.4	35.4

SUMMARY OF FUNDING FOR 2011/12

21. The Authority set a net budget requirement for 2010/11 of £177.483m. The net budget requirement for 2011/12 would represent a decrease of 0.15%. However this masks the transfer of some specific grants into those grants which contribute to the net budget requirement. The net budget requirement represents the amount that is financed by formula grant (police grant, revenue support grant and national non domestic rate income) and by the level of council tax income. The council tax income for 2011/12 in Table 4 assumes a 0% increase but this is a matter for the Authority to determine. A small increase in the taxbase as notified by the Borough Councils has also been factored in together with their forecast surplus and deficits on Collection Funds.

Table 4 - External Financing for 2010/11 and 2011/12

	2010/11 £000	2011/12 £000
External Financing		
• Police Grant	67,033	69,514
• Revenue Support Grant	7,165	12,569
• National Non Domestic Rates	49,341	40,663
• Council Tax Income	54,072	54,456
• Collection Fund (Deficit)/Surplus	(128)	8
	177,483	177,210

22. The Authority is also heavily dependent on specific and special revenue grants from the Government. The budget for 2010/11 included specific and special grants totalling approximately £21m. These grants are taken into account before arriving at the net budget requirement. The majority of the grants are allocated by the Home Office and are in addition to amounts that are paid in respect of police officer secondments. Table 5 shows the level of grants in both 2010/11 and 2011/12. The table does not include the police pensions top-up grant which is used to balance expenditure/income in the Police Pensions Holding Account. The final Counter Terrorism Grant is yet to be announced but indications are that it will be £980,000. As noted above a number of these grants, specifically the Crime Fighting Fund, the Special Formula Grant and the Basic Command Unit Grant, have been included within the main Police Grant.

Table 5 - Specific and Special Revenue Grants in 2010/11 and 2011/12

	2010/11	2011/12
	£'000	£'000
Specific/Special Grants		
• PFI Grant	7,225	7,224
• Neighbourhood Policing Fund/PCSO Grant	4,850	4,850
• Crime Fighting Fund Grant	4,173	-
• Special Formula Grant	2,860	-
• Single Counter Terrorism Grant	1,146	980
• Basic Command Unit Grant	526	-
• Initial Police Learning & Development Programme Grant	231	-
• Local Public Service Agreement Grant	127	38
• Other Home Office Grants	47	60
• Council Tax Freeze Grant	-	1,361
	21,185	14,513

PARTNERSHIP FUNDING

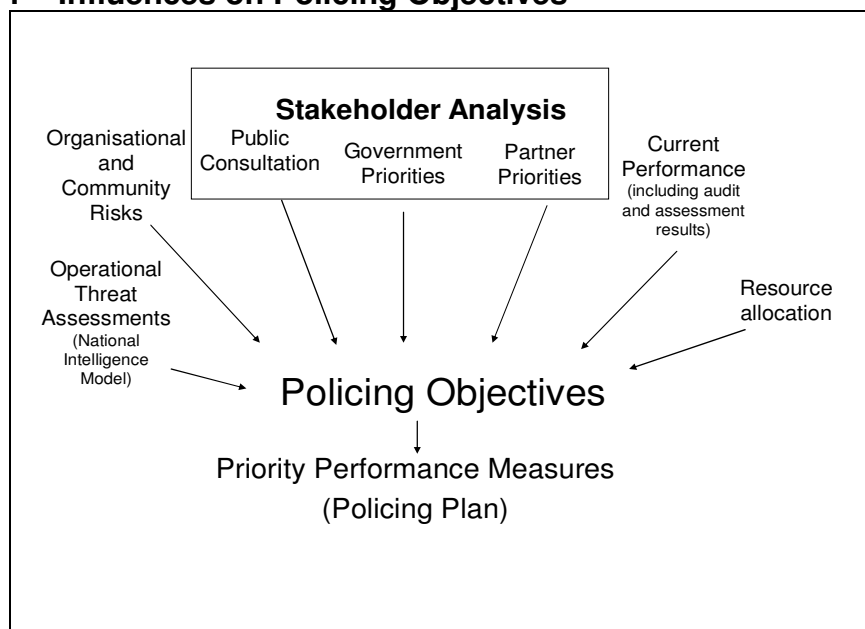
23. Increasingly partnerships are a key delivery tool for policing services and those of other agencies within the criminal justice system and local government. The Constabulary and Authority are members of many different partnerships, both statutory and voluntary, to most of which contributions are made in cash and/or in resources such as staffing and accommodation. Cash and/or resources are also received from some partnerships as explained in the report to Finance Panel on 6 April 2010. The situation is inevitably complex; partnerships receive funding from many sources, both nationally and from individual agencies, and even when a partnership shares the same structure as its neighbours, the source, level, timeframe and conditions of each funding stream is different.
24. During 2010/11 increased attention has been given to the visibility of partnership commitments and the financial exposure of reduced partner involvement. As partners are experiencing similar funding constraints these financial risks are crystallising. The two largest areas of partnership funding are PCSOs and the Road Safety Partnership. The current indications are that most PCSO partners will continue to part fund PCSOs and the Home Office has reviewed the grant conditions to avoid compounding any funding difficulties by removing the matching grant requirement. Finance Committee on 20 December 2010 (Minute 58) resolved that PCSO numbers should be no less than 215 for the coming year, should partner funding be withdrawn, compared to the current number of 237. Any reduction would be achieved by natural wastage and it would not be possible for the Authority to fill any funding gaps, due to its own budget reductions. However as part of the final grant announcement, local authorities received

a cut of 25% in Community Safety funding for PCSOs. Whilst the Authority's objective is to maintain PCSO numbers at no less than 215 in 2011/12, the impact of the cut will need to be confirmed with partners and a further report brought to the Authority, should this objective not be achievable. Partner negotiations are ongoing regarding the Cheshire Road Safety Partnership, although any costs associated with a reduction in activity are likely to be funded by the Partnership and not impact on the Authority's budget.

DEVELOPMENT OF POLICING OBJECTIVES

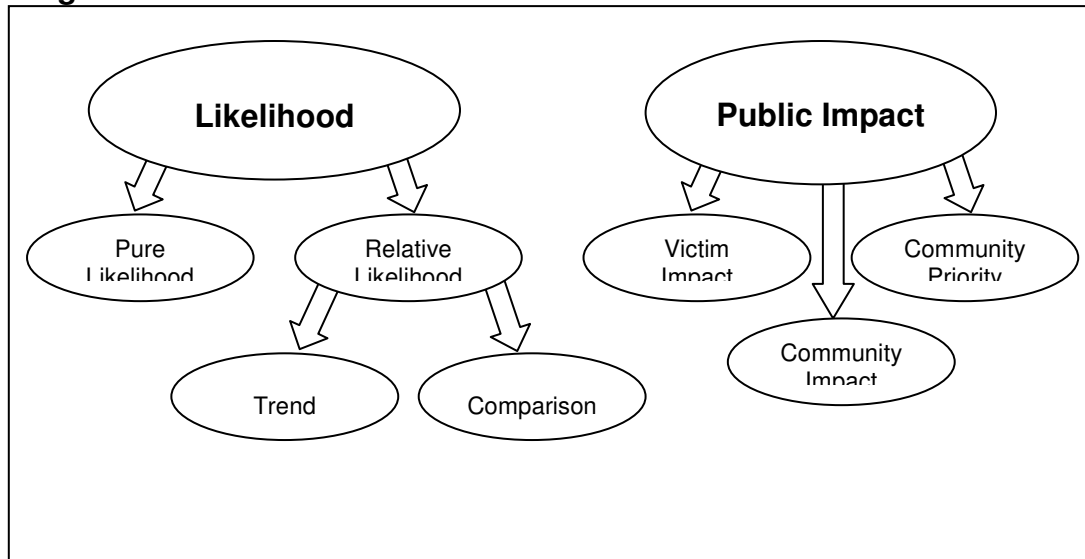
25. It is important in determining the final budget that the Authority ensures that resources are aligned to the policing objectives in the 2011-14 Policing Plan. This alignment was discussed at the Seminar on 10 January 2011. Members were informed as to how the policing priorities are influenced by threat and risk, other influences and stakeholder consultation, as set out in diagrammatic form below:-

Diagram 1 – Influences on Policing Objectives



26. During 2010/11 the Constabulary has undertaken an activity to reconcile resource allocation to the level of risk posed to Cheshire communities by crime and adverse incidents as part of the Strategic Threat and Risk Assessment. This activity remains work in progress and will be refined during 2011/12 and will help to inform the in year allocation of resources during 2011/12. It can also be expected to support the budget setting process for future years.
27. Diagram 2 provides an overview of the factors considered in this activity.

Diagram 2 – Threat and Risk Assessment



28. The high organisational risks have been identified as those posed to the delivery of services resulting from the level of savings required to meet the reduced Coalition Government and partner funding. Mitigation of any reductions is planned through the delivery of the transformational programmes whilst the scale of partner funding reductions is being addressed with the partners at a senior level.
29. The performance focus is under review, reflecting both the reduction in Home Office targets and the introduction of systems thinking. The Constabulary will be re-addressing its need for internal management information together with the provision of public facing outcome measures. At this stage in the development of Transforming Policing it is not possible to assess how resources may be reallocated to best meet these outcomes but the budget priority is to protect frontline services and to reflect intelligence regarding threat and risk, partner and public consultation. The savings proposed are to be met by increased efficiencies in accordance with these priorities.
30. Item 9 on this agenda sets out the outcome of consultation with a wide range of stakeholders on the policing objectives and budget for 2011-15, which has taken place since Autumn 2010. Consultation with business ratepayers took place on 4 February 2011 and the notes of that meeting are set out in Appendix 8.
31. The Authority at the Discussion Day on 24 January 2011 reviewed its position on the Home Secretary's abolition of targets for the police service following discussions with the regional HM Inspector of Constabularies in relation to the 'Valuing the Police' inspection. The Authority concluded that it supported the Coalition Government's aim in this area and, therefore, targets should not be included in the Policing Plan 2011-14. A revised set of draft policing objectives were circulated at Discussion Day, which demonstrated the required direction of travel and Members suggested that these should replace the previous draft objectives. In removing targets, the Authority also requested that the following further amendments be made to the Plan:
 - Background information on the decision to remove targets be included;
 - A clear indication that the Authority would continue to hold the Chief Constable to account for delivery of the plan and success would be achieved when

performance had improved on last year and the performance of the Constabulary, when compared to its peers (most similar forces), was better than average and improving where possible.

32. The Policing Plan Development Group met on 8 February 2011 to consider the final Policing Plan for 2011-14, which is reported elsewhere on this agenda.

POLICY AND EXPENDITURE PROPOSALS FOR 2011/12

33. The process adopted in constructing the 2011/12 budget is described in the paragraphs below and considers each expenditure proposal in detail. Table 6 analyses the budget position for 2011/12, including the revenue impact of the proposed capital programme.
34. Indicative budget proposals for 2012/13, 2013/14 and 2014/15 budget proposals are outlined at Table 8. Detailed proposals have not been included in this report except for the draft capital programme in Table 9. This reflects the further work to be undertaken with the transformational programmes. To ensure progress is made towards the necessary reductions in these later years each Department and Area has been given provisional reduction figures across a range of expenditure categories. These are summarised at Appendices 4-6.

Table 6 - Summary of 2011/12 Budget Proposals

	£000
2010/11 Budget	177,483
Contingency for pay awards and price changes in 2011/12	1,011
Estimated base for 2011/12	178,494
Committed changes	3,098
Resource redirection	5,799
Estimate for 2011/12 (before growth/savings proposals)	187,391
New expenditure proposals	-
Financing of 2011/12 capital programme	1,726
Revenue consequences of capital (based on items in 2011/12 programme and including new proposals)	(19)
Savings and budget reductions	(11,123)
Contribution from Reserves	(765)
TOTAL NET ESTIMATED EXPENDITURE	177,210
FINANCED BY:	
External Financing (Table 4)	177,210
Contributions from reserves (nil assumed at this stage)	0
TOTAL FINANCING	177,210

CONSTRUCTION OF THE 2011/12 DRAFT REVENUE BUDGET

35. The starting point for the construction of the 2011/12 draft budget is the net budget requirement for 2010/11 of £177.483m. To calculate inflation, the budget is re-priced for actual inflation increase up to November 2010 and then an estimate of inflation is added for the period to March 2012. A total provision for the full year effect of the 2010 pay award and price inflation of £1.011m has been added. In accordance with Government plans, a pay freeze has been assumed from September 2011 for those earning over £21,000, however, a commitment has been included the budget for pay awards to those earning less than £21,000. In terms of non pay inflation, the estimate is based on a forecast of the Consumer Price Index adjusted to eliminate the effect of items that are not relevant to the Authority. The forecast for 2011/12 is 2%. Specific increases are applied where known, for example, where increases are specified in contracts, or where the general rate is not considered to be appropriate due to specific economic factors, such as oil price increases.
36. In summary, non pay inflation factors have been applied as follows:

Table 7 – Inflation Estimates (November 2010 to March 2012)

	%
Fuel	4.0
Gas & Electricity	4.0
Premises	1.4
General price inflation	2.0

Committed changes and resource redirection

37. A number of unavoidable expenditure pressures will impact upon the 2011/12 budget. Significant items are the cost of staff increments (£267,000), superannuation increases of 0.5% on police staff pay (£193,000), the increase in national insurance rates (£400,000) and the cost of debt on the proposed 2011/12 capital programme (£226,000). The detail is set out in Appendix 1 and amounts to £4.805m. The amount, excluding the capital items which are shown separately in Appendix 1, is £3.098m.
38. Capital is addressed later in this report but it should be noted that a revenue contribution to capital of £1.5m is included in 2011/12, rising to £3m from 2012/13. This reflects the Capital Strategy for 2011-2016 approved by the Authority in September, having been considered by Finance Panel on 7 September 2010 (Minute 21).
39. Resource redirection represents the absorption of specific grants into the Police Grant as part of the Spending Review settlement. This income was previously shown as part of the net budget but has now been redirected into the external financing total. It amounts to £5.799m.
40. Recognising the financial challenge to the maintenance of existing services, particularly in the next two years due to the frontloading of the grant reductions, the Constabulary is not seeking growth in any of its functions in 2011/12.

41. Based on the draft 2011/12 budget and current assumptions, the indicative revenue budgets for 2012-15 are detailed in Table 8. They indicate the achievement of balanced budgets and the detailed savings plans are at Appendices 4-6. However, as stated previously, the total savings planned for 2013/14 and 2014/15 currently exceed the requirement indicated at Table 8 by £5.5m to enable flexibility in those years. It is recommended that these additional savings plans continue to be pursued and the figures refined in the lead-up to those budget years.

Table 8 – Indicative Revenue Budgets 2012-15

	2012/13	2013/14	2014/15
Previous Year's Budget	177,210	169,539	172,991
Inflation	886	2,174	3,356
Estimated base	178,095	171,713	176,347
Commitments and resource redirections	3,243	6,389	1,576
Estimate before growth/savings	181,338	178,101	177,923
New Expenditure	-	-	-
Financing of Draft Capital Programme	988	-	-
Revenue consequences of capital	107	(8)	-
Savings Plan	(12,895)	(5,103)	(6,385)
TOTAL ESTIMATED EXPENDITURE	169,539	172,991	171,538
Financed by:			
External Financing	(169,539)	(172,991)	(171,538)
Reserves (at this stage)	0	0	0
TOTAL FINANCING	(169,539)	(172,991)	(171,538)

DRAFT CAPITAL PROGRAMME FOR 2011/12

42. As a result of the three quarter review of capital, £6.7m capital expenditure will be required in 2011/12 for prior year schemes. In addition, bids for capital expenditure were received by the Constabulary's Strategy Board on 14 December 2010, where new schemes of £2.2m were proposed for inclusion in the programme.
43. The resulting proposed 2011/12 capital programme and provisional programmes for 2012-15 are set out in the following table with the 2011/12 new schemes detailed in Appendix 3.

Table 9 – Proposed Capital Programmes 2011-15

	2011/12	2012/13	2013/14	2014/15	2011/12 Revenue Savings £000
	£000	£000	£000	£000	
Prior Year Schemes	6,740	1,529	1,388	264	
Proposed New Schemes:					
Property					
Estates Investment Strategy		550	550	600	
Voltage Optimisation	210				(53)
Smart Water Solutions	40				(14)
Partnership and Collaboration Initiatives (starred item)	284				
Information Technology					
Contact Management Solution upgrade	467				
ATLAS PNC 2-way interface	8				
MS Enterprise Licence		400	400	400	
Infrastructure Refresh:		400	400	400	
Server Refresh	30				
Telephony Support	100				
Network Security	50				
Storage Growth	30				
Technology Refresh – e-Forensics	35	50	60	60	
Equipment					
Replacement of Mobile Data Handsets (starred)		485			
Vehicles					
Annual Vehicle Replacement	980	1,000	1,000	1,100	
TOTAL	8,974	4,414	3,798	2,824	(67)

44. The Transforming Business Services investment is included in prior year schemes. The business case will be considered by the Authority on 12 July 2011. It is recommended the figures for Transforming Business Services are not changed in this report but the whole project be “starred” and be subject to further report to the Authority to determine the way forward. In the meantime the a progress report on the Transforming Business Services project elsewhere on this agenda seeks approval to incur expenditure to undertake the Design and Validation phase which is already included in the prior years’ schemes figure in the table above.
45. Revenue consequences for the new schemes are potential savings of £53,000 as a result of the voltage optimisation scheme and savings through Smart Water Solutions of £14,000.

46. The Authority is required to have sufficient capital financing resources to meet its capital expenditure. As such the following table sets out the proposed capital financing for the above.

Table 10 – Capital Financing Proposals

	2011/12	2012/13	2013/14	2014/15
	£000	£000	£000	£000
General capital grants	1,200	1,800	1,600	1,600
Specific capital grants	0	0	0	0
Borrowing	500	0	0	0
Capital receipts	1,672	0	0	0
Capital Systems Reserve	3,884	0	0	0
Contribution from HQ IT Reserve	130	150	150	150
Revenue Contributions	1,500	2,464	2,048	1,074
Other contributions	88	0	0	0
TOTAL	8,974	4,414	3,798	2,824

47. There are three issues of note in respect of the above financing proposals, which are the reduction in general capital grant as announced in the Spending Review, the increased borrowing of £500,000 in 2011/12 and the proposed increase in revenue contributions as built into the Medium Term Financial Strategy.
48. As mentioned previously, in addition to the reduction of general capital grant in 2010/11 by £148k, the announcement in December confirmed the reduction of capital grant in 2011/12 to £1.2m and grant totals of £1.8m in 2012/13 and £1.6m in 2013/14 and 2014/15. The above proposals include the planned use of revenue funding to reduce the level of borrowing as recognised in the Medium Term Financial Strategy. These proposals and associated funding will be scrutinised and adjusted as part of budget setting.
49. Borrowing is proposed only to fund the Transforming Business Services programme and the associated costs of interest and repayment are built into the revenue budget. The actual amount of borrowing has been reduced from £3,500,000 in the budget report to Finance Committee to £500,000 as a result of the recommendation to earmark £3m from general reserves to the capital system reserve. This is set out in the Reserves Strategy in Appendix 7.

SAVINGS PLAN IN 2011/12

50. From autumn onwards, Departments across the Constabulary and the Authority were set the task of identifying reductions in their budgets and reductions of £11.123m have been identified. These proposals have been subject to scrutiny by Chief Officers, the Budget Gold Group, on which the Authority is represented, and by the Treasurer. The proposals were discussed by the Authority in detail at the Policing Objectives and

Budget Seminar on 10 January 2011 and at Finance Committee on 1 February 2011. The savings have been identified to minimise the impact on frontline services and are reliant on the delivery of the transformational projects to ensure there is no negative effect on these services.

Table 11: Savings Proposals for 2011/12

	TOTAL £000
Reduced Officer Recruitment in 10/11	2,580
Reduced Officer Recruitment in 11/12	1,964
Police Staff Reductions	869
Police Officer Overtime	280
Police Staff Overtime	52
Middle Office Review - full year effect	438
IT Services	500
Estates	1,190
Procurement and Contacts	137
Vehicle Recovery	100
Other Non-Pay	3,013
OVERALL TOTAL	11,123

51. The savings summarised in Table 11 above are detailed at Appendix 2.

POLICE OFFICER NUMBERS

52. The budget for 2010/11 supported a workforce of 2,108 police officers. Following the Chancellor's Emergency Budget in June 2010 providing indications of the likely scale of funding reductions, the Authority took pre-emptive action and agreed to reduce recruitment in 2010/11 to 24 officers. Analysis of expected retirements, resignations, transfers and secondments indicated that this would reduce the total establishment to 2,060, a reduction of 65 officers. The projection for the end of March 2011 is that the reduction is expected to be closer to 45 and therefore officer numbers will be approximately 20 over the agreed establishment. The planned reduction in 2011/12 remains at 62 posts. This would retain the planned intake in August 2011 of 24 officers.

53. Table 12 shows anticipated changes in numbers of police officers during the year on this basis. Table 13 details the 20 posts which were planned to be removed in 2010/11; and the balance of posts, based on on-going discussions. The balance has reduced as it is currently proposed to reduce ranks above that of constable, this is subject to consultation and at this stage the mix of ranks and posts cannot be set.

54. The proposals currently under consultation include a significant reduction in posts at Inspector rank and above. Reductions in these ranks would enable a lessening of the scale of reductions as each post is at a higher than average cost. The proposal allows the 20 officer posts which were planned to be removed in 2010/11 to be retained as

well as addressing the comparatively high number of Inspector posts (compared to similar forces).

Table 12: Police Officer numbers in 2011/12

Police Officers	Number
Estimated number at 1 April 2011	2,060
Estimated leavers/retirements in 2010/11	(86)
Estimated recruitment	
• New recruits	24
• Transfers in	0
Estimated number at 31 March 2012	1,998

Table 13: Police Officer Post Reductions 2011/12

Role	Rank	Number	Part Year Saving £000
Firearms	Sgt	6	36
Firearms	PC	6	92
Call Management	PC	8	123
Subject to consultation		42	1,064
		62	1,315

Table 14: Estimated Police Officer Numbers 2011-2015 (worst case)

31 March 2011	2,060
31 March 2012	1,998
31 March 2013	1,942
31 March 2014	1,893
31 March 2015	1,847

55. It is acknowledged that a reduction in police officers also brings a reduction in the associated uniform and equipment costs, amounting to approximately £900 per officer. These savings have been included within the saving plans detailed at Appendix 2, 4, 5 and 6. Analysis of other direct and indirect savings arising from the reduced establishment is ongoing.

POLICE STAFF AND PCSO NUMBERS

56. With regard to Police Community Support Officers, it is intended that numbers will be maintained, except where partner funding is removed. Should more partners withdraw than is expected then the Authority's stated intention to maintain numbers at a minimum of 215 will need to be considered further.

57. Other police staff posts will be reduced through the early stages of the Transforming Business Services programme and some limited reductions in middle office functions in 2011/12. If police staff posts are to be removed without impacting significantly on the efficiency of the organisation then revised systems and processes need to be created, whilst many of these will be developed through Transforming Business Services, more need to be developed in the Transforming Policing programme. These developments will take some time and therefore the larger reductions in police staff posts are planned for 2012/13 and later years. As shown at Appendix 2 a reduction of 27 police staff posts is budgeted for 2011/12, this rises to 175 in 2012/13 (Appendix 4). These savings will be delivered in accordance with the principles agreed and applied where they will have the least impact on service delivery. These reductions follow the significant reductions in 2010/11 which by 31 March 2011 are expected to total 159.

Table 15: Estimated Police Staff Numbers 2011-2015 (worst case)

31 March 2011	1,588
31 March 2012	1,561
31 March 2013	1,386
31 March 2014	1,265
31 March 2015	1,142

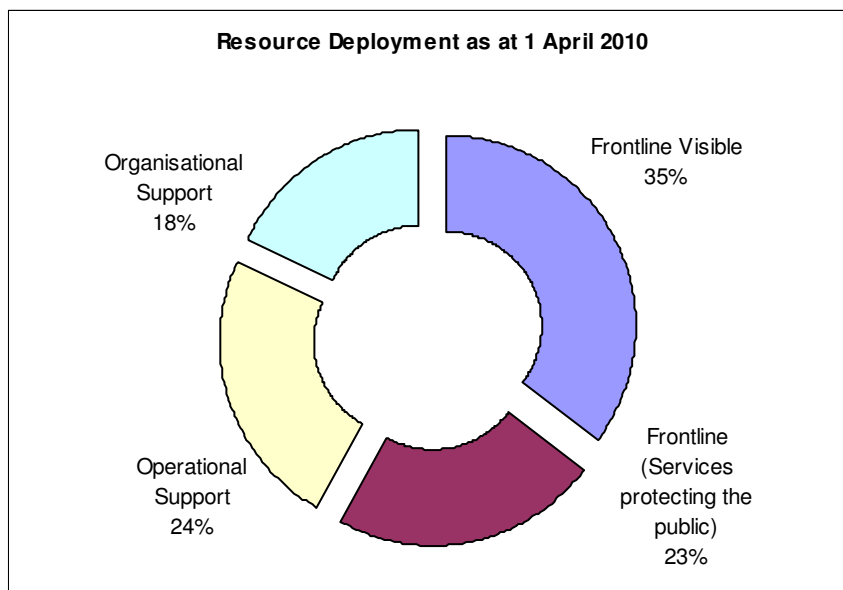
PROTECTING THE FRONTLINE

58. The Authority and Constabulary have committed to protecting frontline services including a recognition of the value the public place on visible policing. To ensure that all decisions regarding the reduction and redirection of resources fully take account of this commitment the workforce has been analysed as at 1 April 2010 as a baseline and an updated analysis will be regularly published showing the movement from this baseline. The baseline is shown below in Table 16 and Diagram 3.
59. The four categories are as follows:
- Frontline (Visible): Officers and staff in this category will have direct interaction with the public as part of public demand for the service or roles where the predominant purpose is to provide a visible reassurance presence within the Community.
 - Frontline (Services protecting the public): Roles directly delivering operational services including responding to, dealing with and investigating crime and incidents and protecting vulnerable people.
 - Operational Support: Roles that support the delivery of operational services – likely to be only one stage removed from the frontline, for example forensics and custody.
 - Organisational Support: Roles that are focused on providing or developing the organisational infrastructure to enable it to deliver services.

Table 16: Posts by Category (as at 1 April 2010)

Category	Officers		Staff		Total	
	No.	%	No.	%	No.	%
Frontline Visible	1,115	53	239	14	1,354	35
Frontline (services protecting the public)	606	29	277	16	883	23
Operational Support	257	12	662	38	919	24
Organisational Support	127	6	569	32	696	18
Total	2,105	100	1,747	100	3,852	100

Diagram 3: Posts by Category (officers and staff)



60. In preparation for the reduced funding from April 2011 the Constabulary has been reviewing its structures, organisation and processes. As the largest resources are applied to frontline functions the initial focus on process improvement has been in these functions, this had resulted in a temporary reduction in some frontline posts in order to realise the savings. Recognising the commitment to these frontline services 35 officers have been transferred from central units into neighbourhood policing. This has been further supported by the commitment to continue to recruit new officers, albeit at a reduced level, thereby ensuring resources are brought into our neighbourhoods. The proportions of officers in each of the categories as at 1 April 2011 is shown in Table 17. Due to the ongoing significant reductions in police staff posts and the need to fully consult before decisions are made it is not possible to provide comparative figures for police staff at this time.

Table 17: Posts by Category (as at 1 April 2011)

Category	Officers	
	No.	%
Frontline Visible	1,080	52
Frontline (services protecting the public)	606	29
Operational Support	256	12
Organisational Support	118	6
Total	2,060	100

COLLABORATION

61. The potential for savings from collaboration across the back office, middle office and frontline services is recognised. A wide range of collaborations are being undertaken, developed or considered and many of these are reflected within the budget proposals. Existing collaborations are included within the estimates for 2011/12 and future years, the possible collaborations under development or consideration are more problematic. The North West Joint Committee (the five police authorities in the North West plus North Wales) recognises the need to deliver savings by collaborating on a range of services and functions and a number of significant projects are being assessed.
62. Prudence requires that caution should be exercised in presuming reduced costs through collaboration where these are not fully under the control of the Authority. Collaborations require one or more partners and until there is firm commitment the savings must be viewed with caution. As there are a number of collaboration opportunities under development it is reasonable to assume that a proportion of these will come to fruition, a limited level of savings has therefore been built into the 2011/12 budget. Recognising the potential of further significant collaboration and the need to protect frontline services a transfer of £765,000 from general reserves is proposed pending confirmation of the collaborative initiatives. Timely realisation of these collaborative initiatives will reduce or obviate the need for this call on reserves.

PUBLIC CONSULTATION 2011-15

63. The Authority supported by the Constabulary has undertaken consultation with the public and business representatives regarding the Policing Plan and the budget proposals.
64. This consultation has included a number of meetings across Cheshire. In these the Treasurer introduced the budget proposals for 2011-15 and outlined the £36.5m savings required over the next four years. The public and the Chambers of Commerce were supportive of the budget proposals for 2011-15 appreciating the difficulties and the commitment to maintain frontline services.

ROBUSTNESS OF ESTIMATES

65. Section 25 of the Local Government Act 2003 places a requirement on the Treasurer to report on the robustness of the estimates used in preparing the budget.
66. The Authority has a policy and expenditure planning process which takes account of the financial scenario. Alongside this, a four year capital programme has been produced taking into account forecast government funding, borrowing limits and council tax. For 2011/12 borrowing levels have also been guided by the prudential indicators for 2011-14.
67. For 2011/12, full consideration of these issues has led to:
 - Policy and expenditure proposals that reflect the Government's reduced revenue funding together with the ongoing revenue impact of new capital projects.

- A proposed capital financing budget based on prior years' and the 2011/12 capital programme.
68. When using estimates in preparing the budget every effort is taken to ensure that they take into account the most up to date data. However, it should be noted that there are a number of areas where the actual impact could vary from the estimates used in setting the budget. The main areas are:
- Pay awards and pension increases
 - Inflation
 - Fluctuation in interest rates
 - Service financial performance (i.e. under or overspending on budgets)
 - Ability to achieve projected savings
 - Operational demands
69. To provide for all potential scenarios that may arise in the year would be prohibitively expensive and result in demands on council taxpayers considerably higher than likely need. For 2011/12 £0.476m has been provided for pay and price increases covering the period outturn 2010/11 to outturn 2011/12.
70. There are many factors that can affect financial performance in year including under or over-achievement of efficiency savings, income and other financial targets. The Authority takes a number of steps to minimise the impact including:
- Seeking wherever possible to explore in full the implications and achievability of policy and expenditure options before the budget is set.
 - Promoting a robust approach to financial management requiring budget holders to monitor expenditure against budget and to take early action in reporting and responding to projected variances.
 - Quarterly reporting to Finance Committee of the projected budgetary outturn and any necessary remedial action.
 - Creation of appropriate contingencies.
71. Members should be aware that while every effort is taken to ensure the budget is balanced, there is always the possibility of over or underspends occurring. This is one of the reasons why the Authority holds reserves against unanticipated cost pressures.

PRUDENTIAL CODE

72. The prudential indicators which are adopted by the Authority and are used to regulate borrowing are included in the draft Treasury Management Strategy for 2011/12 reported elsewhere on this agenda.

RISK ASSESSMENT, RESERVES STRATEGY AND FINANCIAL HEALTH TARGETS

73. This draft budget has been prepared against a backdrop of unprecedented grant reductions and financial constraints with all the associated risks attached. Alongside this major risk there are risks that the Authority has managed for many years such as the demand led pressures which can lead to increased expenditure. A summarised assessment of the potential financial risks is set out in Appendix 8.

74. While the probability of all these financial risks becoming actual financial liabilities is remote and assessing the likely costs is subjective, it is a vital part of the budget process to ensure that sufficient resources are set aside to meet such risks. This is reflected in the Reserves Strategy for 2011/12 as set out in Appendix 7.
75. The Reserves Strategy recommends that, in light of the current financial climate and the potential costs from Transforming Business Services and Transforming Policing, £5m of general reserves is earmarked to finance any potential redundancy / severance payments over the 2011/15 period. Equally as Transforming Business Services progresses the level of earmarked reserve held in the Capital Systems Reserve may require further resources and a transfer of £3.0m is also proposed subject to outturn and approval of the full business case. Beyond these two recommendations it is not recommended that any further reserves are used at this stage given the severity of the current financial scenario, the level of savings required and the potential impact of the 2012 Olympics. General reserves are then projected to stand at £6.5m (3.65% of the budget). However, other financial risks around the budget of £6.4m, particularly the delivery of savings and additional operational demands, could reduce the reserves to as low as £0.1m (0.03%).
76. As well as the monitoring of financial risks during 2011/12 as part of the Authority's scrutiny and governance role, it is good practice to establish financial health targets against which the current financial position of the Authority can be monitored. It is recommended that the following financial health targets be adopted for 2011/12 and these be monitored and reported on during the course of 2011/12.
- That the Authority maintains its level of general reserves, after allowing for potential financial risks, at no lower than 3% of the net budget (£5.3m)
 - That the Authority maintains its revenue spending at or below its net budget and that this be monitored by Finance Committee on a quarterly basis
 - That at least 50% of debtor income is collected within one month of the invoice being sent
 - That the projected capital outturn does not vary from the original capital programme by more than 20%.

COUNCIL TAX ISSUES

77. The Government has made clear that it expects no increases in council tax for 2011/12 and to support this approach has made available additional grant equivalent to a 2.5% increase in council tax. Given the likelihood of capping associated with any increase materially above 2.5% and the value of this grant Members will wish to consider that council tax should be held at 2010/11 levels, as shown in Table 18.

Table 18: Impact of increases in council tax per property band

	2010/11 Council Tax (for Cheshire Police) £	2011/12 (based on Nil% Increase) £	Increase Per Annum £
Band A	96.35	96.35	0.00
Band B	112.41	112.41	0.00
Band C	128.47	128.47	0.00
Band D	144.53	144.53	0.00
Band E	176.65	176.65	0.00
Band F	208.77	208.77	0.00
Band G	240.88	240.88	0.00
Band H	289.06	289.06	0.00

78. The Coalition Government has indicated that its expectations after 2011/12 are for council tax increases to be at the level of increases in recent years. A modest 1% increase has been built into budget estimates for 2012-15 but Members will wish to consider the position in setting the annual budgets year by year.

COUNCIL TAX ON SECOND HOMES

79. In 2006, the Cheshire Local Government Association agreed that the District Councils in Cheshire would reduce their council tax on second homes discount from 50% to 25%. As a result of this agreement Fire and Police receive no additional income directly and their respective shares are allocated to Community Safety Partnerships (CSPs). In 2010/11 the overall impact of implementing this arrangement across Cheshire amounted to £99k in respect of the amount deducted from the Police Authority precept for payment to the Warrington, Cheshire East and Cheshire West & Chester's CSPs. Halton Council does not operate a second homes council tax discount policy.
80. With regard to 2011/12, there are changes to the tax base together with proposed changes to the discount levels which will affect the level of funding. Discussions are still taking place with Warrington, Cheshire East and Cheshire West & Chester Borough Councils regarding the changes and the Authority's contribution. The outcome of these discussions and the Authority's proposed contribution will be reported orally to the Authority on 22 February 2011, to enable it to determine its contribution.

CONCLUSION

81. The Authority is asked to consider a recommendation to set the 2011/12 budget at £177.210m. This would mean a 0.15% increase in the net budget as the grant reduction is masked by the inclusion of specific grants and actually represents a 4.64% decrease. Maintaining council tax at 2010/11 levels would mean £144.53 per annum for a Band D equivalent. Savings of £11.123m are detailed in this report, supplemented by a contribution from reserves of £765,000 to smooth the transition to

a lower cost base to deliver a balanced budget. Whilst there are difficult decisions to be made, the underlying consideration is that frontline services will be protected where possible and the impact of the cuts will be minimised in that area of activity. The reductions will be achieved by taking a transformational approach to activities to eliminate waste, avoid duplication and streamline processes.

82. The transformational projects will be vital in delivering the efficiencies which will be required to maintain or improve services. Detailed budget reductions are being finalised for 2011/12 and those for 2012 to 2015 will be developed as the programmes progress.

RECOMMENDED: That

[Note: the recommendations will be finalised by the Chairman and circulated in advance of the meeting]

- (1) the outcome of the public consultation on the budget proposals and the discussions with representatives of business ratepayers held on 4 February 2011, as outlined in the report, be accepted;
- (2) the level of the Authority's total budget requirement for the financial year commencing 1 April 2011 be decreased by x% to £x, based on a net surplus on collection funds, Government Grant allocation and no council tax increase, leaving the council tax level for 2011/12 for a Band D equivalent property at £x;
- (3) the total estimated number of police officers be agreed as x as at 31 March 2012;
- (4) the provision of £x for pay and price increases in 2011/12 be approved;
- (5) a provision of £x in respect of commitments, as set out in Appendix 1, be approved;
- (6) the capital payments programme totalling £x for 2011/12, as set out in Table 9 and Appendix 3; and the associated revenue savings of £x, together with the method of financing, set out in Table 10 of the report, resulting in £x additional borrowing, be approved;
- (7) the following capital items be starred, the detail of which be approved by the Authority in year prior to implementation:
 - Transforming Business Services
 - Partnership and collaboration initiatives
 - Replacement of Mobile Data handsets
- (8) 2011/12 savings proposals, totalling £x, as set out in Table 11 and Appendix 2, be approved for implementation;
- (9) approval to any policy changes resulting from the savings included in the 2011/12 budget be sought as necessary from the Authority in year;
- (10) the financial health targets for monitoring purposes as set out below be approved:-

(i) *Reserves*

That the Authority maintains its level of general reserves, after allowing for potential financial risks, at no lower than 3% of the net budget and that this be monitored by Finance Committee on a quarterly basis.

(ii) *Revenue Spending*

That the Authority maintains its revenue spending at or below its net budget and that this be monitored by Finance Committee on a quarterly basis.

(iii) *Capital Programme Management*

That the Authority maintains its projected capital outturn at a level that does not vary from the original capital programme by more than 20%. The total Capital Programme includes the new schemes for 2011/12 and those schemes brought forward from previous years. This target is to be monitored by Finance Committee on a quarterly basis.

(iv) *Debt*

That the Authority collects at least 50% of debtor income within one month of the invoice being raised.

(v) *Prudential Indicators*

That the Authority continues to monitor actual prudential indicators on an annual basis against the indicators set in the budget.

- (11) in line with the Reserve Strategy in Appendix 7, £xm is earmarked at this stage for redundancy / severance payments, a further £xm added to the Capital Systems Reserve subject to outturn, and that the balance of general reserves only be used in year to fund the risks identified in the Strategy, should the 2011/12 budget be unable to absorb any such costs;
- (12) In line with the reserves strategy in Appendix 7, £765,000 should be allocated from reserves in 2011/12 to smooth the transition to a lower cost base;
- (13) council tax income of £x from second homes for 2011/12 be set aside and discussions take place with Warrington, Cheshire West & Chester and Cheshire East Borough Councils regarding the Authority's contribution to CSPs, for subsequent determination by the Authority;
- (14) precepts on collection funds be levied for 2011/12 as follows:-

	£
Cheshire East	
Cheshire West & Chester	
Halton	
Warrington	_____
Total Precept	=====

- (15) a provisional revenue budget of £x, including savings of £x and a capital programme of £x be set for 2012/13;
- (16) a provisional revenue budget of £x, including savings of £x and a capital programme of £x be set for 2013/14; and
- (17) a provisional revenue budget of £x, including savings of £x and a capital programme of £x be set for 2014/15.

DAVID WHATTON
CHIEF CONSTABLE

LIZ LUNN
TREASURER

MARK SELLWOOD
CHIEF EXECUTIVE

REVENUE EXPENDITURE COMMITMENTS 2011/12

	£000
<u>Commitments</u>	
1. Additional bank holiday overtime for Police Officers	21
2. Full year effect of re-grading of PCSOs	(95)
3. Police Staff increments	267
4. Increase in employers' superannuation costs	193
5. Increase in employers' National Insurance contributions	400
6. National Police Promotions Framework	13
7. Profiled change to income from Firearms Licensing	(20)
8. Transformational change programme	40
9. Increase in income from the Tactical Training Centre	(70)
10. Contact Management	107
11. Staff pay increase on salaries below £21,000pa	358
12. Mobile Data support cost increase	148
13. Reduction in income due to continuing low interest rates	194
14. Reduction in grants	564
15. ACPO Freedom of Information Referral charge	5
16. Grant to mitigate council tax freeze	(1,361)
17. Contribution to Regional Collaboration Co-ordinator	4
18. Increase in proportion of Cheshire Safer Roads Partnership costs	14
19. Adjustment to Air Support for Downlink	(45)
20. Reduction in Motorway Collaboration charge	15
21. Increased Police National Computer subscription charge	8
22. New Police National Database charges	85
23. Police Pay Increments	2,237
24. Contribution to Sub-national partnership	7
25. Subscription to NPIA development services	9
Total Commitments	3,098
<u>Revenue Consequences of Capital and Capital Financing</u>	
26. Minimum Revenue Provision	200
27. Interest on Debt	26
28. Revenue contribution to capital	1,500
29. Revenue Consequences of Capital: Helicopter	9

	£000
30. Revenue Consequences of Capital: Forensics	(1)
31. Revenue Consequences of Capital: Safe Place	17
32. Increased medical provision for Safe Place	23
31. Revenue consequences of new capital proposals	(67)
Total Revenue Effects of Capital	1,707
OVERALL TOTAL COMMITMENTS AND CAPITAL EFFECTS	4,805

SAVINGS PROPOSALS FOR 2011/12

	£000	Officer Reduction (FTEs)	Staff Reduction (FTEs)
1. Reduced Officer Recruitment in 10/11 – full year effect	2,580		
2. Reduced Officer Recruitment in 11/12 – part year effect	1,315	62	
3. Reduced pension costs due to reduced recruitment	649		
Police Staff Reductions:			
4. Transforming Business Services	790		24
5. Force Operations	79		3
Police Officer Overtime:			
6. Northern Area	37		
7. Eastern Area	45		
8. Western Area	48		
9. Force Operations	145		
10. Human Resources	5		
Police Staff Overtime:			
11. Northern Area	6		
12. Western Area	6		
13. Force Operations	34		
14. Human Resources	2		
15. Fleet Services	2		
16. Shared Business Service Centre	2		
17. Middle Office Review - full year effect	438		
Full year effect of savings made in 2010/11:			
18. Northern Area	22		
19. Eastern Area	12		
20. Western Area	13		
21. Force Operations	1,240		
22. Contractual savings	189		
23. IT Services	500		
24. Estates	1,190		
25. Procurement and Contacts	137		
26. Vehicle Recovery	100		
Other Non-Pay:			
27. Northern Area	50		
28. Eastern Area	59		

29.	Western Area	53		
30.	Force Operations	720		
31.	Corporate Services	205		
32.	Human Resources	237		
33.	Information Management	12		
34.	Finance, Procurement & Fleet	135		
35.	Senior Leadership Team	16		
36.	Police Authority	50		
OVERALL TOTAL		11,123	62	27

* staff reductions are full year effect and cannot be equated to year end establishments

PROPOSED CAPITAL PROGRAMME 2011/12 – NEW SCHEMES

	Scheme Details	Capital £000	Revenue £000
1	<p><u>Voltage Optimisation</u> The current UK average power supply voltages to buildings are 240 volts. In contrast all electrical equipment (including lighting) sold in the EU now has to be able to operate at voltages as low as 208 volts. Even old equipment will be able to operate at voltages substantially lower than those currently being supplied to most buildings. Therefore, there is an opportunity in most buildings to reduce the supply voltage by around 6-13% through the use of a voltage optimisation (reduction device). This will ultimately lead to reducing energy bills by up to 15%. It is proposed to install Voltage Optimisation kits to 11 properties.</p>	210	(53)
2	<p><u>Smart Water Solutions</u> Following a recent water audit it has been identified that improvements in water usage could be achieved leading to reduced water bills. This proposal is to carry out a number of smart water solutions to various sites to reduce current consumption (e.g., adjustments to urinals to reduce flushing, fitting energy efficiency taps to sinks, rainwater harvesting incorporation and water monitoring devices).</p>	40	(14)
3	<p><u>Partnership and collaboration initiatives</u> (starred item)</p>	284	
4	<p><u>Contact Mgt Solution upgrade</u> The Contact Management Solution provides critical 999, public and front line communications. The current system has extended services support and requires an upgrade to avoid it becoming unsupported in June 2012.</p>	467	
5	<p><u>ATLAS PNC 2-way interface</u> This proposal is to upgrade the 'NDI gateway' software, which acts as a bridge between the ATLAS system and PNC. This will allow implementation of the ATLAS PNC 2-way interface. This is in line with the Constabulary's strategy of using ATLAS as the primary IT system for operational policing.</p>	8	
6	<p><u>Infrastructure Refresh</u> Server Refresh This is ongoing server replacement programme for servers that reach at end of life. This has been reduced from £50k to £30k due to the extended life placed on the server fleet.</p>	30	

7	<p>Telephony Support The telephony infrastructure has remained in place without change for the past 14 years. It now needs some key changes to allow the platform to conform to future demands of frontline policing at minimum cost. This investment for current telephony switches as they become unserviceable or for a new interface to the current network.</p> <p>Network Security This is to allow for encryption using the new switch technology purchased in 2010/11. This also forms the ongoing requirement of the PND code of connection.</p> <p>Storage Growth This is for the ongoing growth required to support the increased need for data storage across the main operational policing systems.</p>	100	
8	<p><u>E-forensics</u> This is required for use in e-forensic specialist IT equipment refresh, maintenance and future proofing the Unit's ability to detect and investigate electronic crime and corroborate evidence recovered from the forensic examination of computer based devices.</p>	35	
9	<p><u>Annual Vehicle Replacement</u> The funding will replace end of service life vehicles as required in all areas of the fleet in order to maintain a serviceable and effective support to font line policing.</p>	980	
	TOTAL	2,234	(67)

SAVINGS PROPOSALS 2012/13

Item no		£000	Officer Reduction (FTEs)	Staff reduction (FTEs)
1.	Reduced Officer Recruitment in 11/12 – full year effect	2,086		
2.	Reduced Officer Recruitment in 12/13 – part year effect	998	48	
3.	Reduced pension costs due to reduced recruitment	704		
4.	Transforming Business Services	2,184		66
5.	Realignment of Air Support budget	0		
6.	Cessation of the 30 Plus scheme	300	8	
7.	Removal of Special Priority Payments	1,400		
8.	Staff reductions	3,500		109
9.	Non-pay reductions	1,423		
10.	Reduction in Police Officer overtime	250		
11.	Reduction in Police Staff overtime	50		
	OVERALL TOTAL	12,895	56	175

* staff reductions are full year effect and cannot be equated to year end establishments

SAVINGS PROPOSALS 2013/14

Item no		Officer Reduction (FTEs)	Staff reduction (FTEs)
	£000		
1.	Reduced Officer Recruitment in 12/13 – full year effect	1,547	
2.	Reduced Officer Recruitment in 13/14 – part year effect	1,079	49
3.	Reduced pension costs due to reduced recruitment	650	
4.	Transforming Business Services	1,415	43
5.	Staff reductions	2,500	78
6.	Non-pay reductions	1,000	
7.	Reduction in Police Officer overtime	250	
8.	Reduction in Police Staff overtime	50	
	OVERALL TOTAL	8,491	121
	Actual Saving Required (Table 1)	5,100	
	Additional flexibility if savings underachieved	3,391	

* staff reductions are full year effect and cannot be equated to year end establishments

SAVINGS PROPOSALS 2014/15

Item no		Officer Reduction (FTEs)	Staff reduction (FTEs)
	£000		
9.	Reduced Officer Recruitment in 13/14 – full year effect	1,598	
10.	Reduced Officer Recruitment in 14/15 – part year effect	1,040	46
11.	Reduced pension costs due to reduced recruitment	640	
12.	Transforming Business Services	648	20
13.	Staff reductions	3,300	103
14.	Non-pay reductions	1,000	
15.	Reduction in Police Officer overtime	250	
16.	Reduction in Police Staff overtime	50	
	OVERALL TOTAL	8,526	46
			123*
	Actual Saving Required (Table 1)	6,400	
	Additional flexibility if savings underachieved	2,126	

* staff reductions are full year effect and cannot be equated to year end establishments

RESERVES STRATEGY 2011-15

1. This Appendix reports on the latest balances of the Authority's reserves and seeks approval to the Strategy for those reserves.
2. Section 25 of the Local Government Act 2003 requires the Treasurer to present to the Authority as part of budget setting, a report assessing the adequacy of unallocated reserves in the context of corporate and financial risks facing the Authority. The Authority needs to balance the necessity for reserves against the immediate impact on council taxpayers and arrive at a level it considers adequate and prudent, but not excessive.
3. This Reserves Strategy therefore needs to be considered and agreed by the Authority in setting its 2011/12 budget, capital programme and council tax precept. The Strategy explores the purpose of the general and earmarked revenue and capital reserves held by the Authority and sets out a recommended approach to optimise their use in the 2011-15 Medium Term Financial Strategy.
4. After taking into account the forecast revenue and capital outturn positions at three quarter review the following table shows estimated reserve levels at 31 March 2011.

Estimated General & Earmarked Reserves at 31 March 2011

	Revenue £000	Capital £000
<u>Non-earmarked Reserves</u>		
General Revenue Reserve	14,469	
<u>Earmarked Reserves</u>		
Insurance	200	
Capital Systems Reserve	884	
Capital Receipts		1,334
Unapplied Capital Grants		413
IT Reimbursement Reserve		125
Total	15,553	1,872

5. In the case of general revenue reserves the starting point of assessing adequacy is the evaluation of operational and financial risks facing the Authority and the suggested level of reserves needed to address such risks. In reaching conclusions this report explores the opportunity cost of using reserves in terms of loss of investment interest and the unavailability of those funds in future years.
6. The purpose of general revenue reserves is to provide funding to cover specific and general risks identified in setting the budget and also any unforeseen risks and expenditure which may arise in the year. Reserves also provide flexibility in managing fluctuations between budgets and actual expenditure. Importantly, reserves can help fund one-off expenditure and invest to save measures to realise savings in future years. Finally, cash reserves and other working capital generate interest which is used

in the funding of the budget, although currently this is at a reduced level due to unprecedented low interest rates.

7. General Reserves, before the proposed transfers, are estimated to be £14.5m at 31 March 2011 after allowing for known liabilities and forecast underspend, representing 8.2% of the 2011/12 budget (based on a net budget requirement of £177.21m).
8. The Treasurer, in conjunction with the Constabulary, has carried out an assessment of the adequacy of the level of reserves held by the Authority in light of the principal risks it faces. Both the Authority and Constabulary hold corporate risk registers that identify high level risks, scored in terms of likelihood and impact. Control measures are placed against these risks to minimise the overall score and a financial impact is calculated on the reduced risk. While the maximum total financial impact of these risks would be in the region of £16.6m, which exceeds the reserve held, the overall likelihood of all these risks being incurred in any one year is extremely low and therefore it is not deemed prudent nor offers value for money to hold sufficient reserves to cover all eventualities. The Annex to this Strategy details the financial risks, the overall risk level and the actions taken to reduce the risks.

<u>Financial Impact of Risk 2011-14</u>	<u>Financial Impact</u>	<u>Post Control Measures</u>
	£m	£m
MTFS requires significant savings	10,980	5,987
Potential redundancy costs / severance	5,000	0
Police and Crime Commissioner implications	400	300
Legal Proceedings	200	65
Other	100	55
Total	16,585	6,407

9. In order to test the robustness of reserves, the likelihood of the risk being incurred after control measures has been used to indicate what level of reserve should be held. This has been ranked on a sliding scale based on the impact and probability scores from the risk registers with the highest risk requiring the greatest level of reserves.
10. In light of the current financial climate and the potential costs from Transforming Business Services and Transforming Policing the Treasurer, in conjunction with the Constabulary, proposes that £5.0m of general reserves is earmarked to finance any potential redundancy / severance payments thus mitigating the financial risk. Equally as Transforming Business Services progresses the level of earmarked reserve held in the Capital Systems Reserve may require further resources and a transfer of £3.0m is also proposed, subject to outturn and approval of the full business case.
11. There is no overall formula that can calculate what the level of reserves should be; it is a matter of judgement based on the known risks, budgetary pressures and local factors. However there is an overall view that a figure of around 2% to 4% is reasonable and is proportionate with other authorities. The forecast level of general after the proposed transfers is £6.469m, representing 3.65%.

12. It is further proposed that £765,000 should be allocated from reserves in 2011/12 to smooth the transition to a lower cost base. It is anticipated that further collaboration and partnership developments may obviate the need for this call on reserves but at this time these savings cannot be accorded the degree of certainty which would enable them to be budgeted for. The proposed changes to the general revenue reserve is summarised in the following table:

	£000
Forecast balance at 31 March 2011	14,469
Proposed transfers:	
Redundancy / Severance costs	5,000
Capital Systems Reserve	<u>3,000</u>
	6,469
Use of Reserves in 2011/12	<u>765</u>
Forecast balance at 31 March 2012	<u><u>5,704</u></u>
2011/12 Budget	177,210
Reserves after transfers as a percentage of budget	3.22%

13. At £5.7m the forecast level of reserves is below the figure calculated for residual risks however recognition of the collaboration opportunities would suggest that this is a reasonable balance between the need to recognise risk and the efficient use of resources to maintain public services.

EARMARKED RESERVES

14. Earmarked reserves are set aside to meet known or predicted liabilities and in that sense are not normally available to fund the budget or other measures. A list of earmarked reserves, their purpose and proposed use are set out below:

Insurance Reserve (£0.2m)

15. The purpose of the Insurance Reserve is to fund the Authority's requirement to meet a proportion of the costs arising from claims in respect of fire and consequential loss, public and employers' liability and vehicle losses under the terms of the insurance policies. An insurance provision is established to meet these potential costs with annual contributions being charged to the revenue account. In accordance with proper accounting practices part of the Insurance Provision must be classified as a reserve. At 31 March the reserve element will equate to £0.2m. It is recommended that this reserve is kept earmarked to support any risk management and any potential use of this reserve will be presented to the Finance Committee for approval.

Capital Systems Reserve (£0.9m)

16. This is funding set aside to support the Transforming Business Services programme and the £0.9m is anticipated to be used in full in 2011/12. It is proposed to transfer

from general revenue reserves additional funding of £3m subject to outturn and the approval of the full business case.

Capital Reserves (£1.7m)

17. The Capital Receipts and Capital Grants Reserves represent the unutilised portion of the proceeds of asset sales and capital grants that are to be carried forward to future years. The proposed capital programmes for 2011-14 anticipate utilising this funding in full.

IT Reimbursement Reserve (0.1m)

18. This reserve holds funding which can be used for the replacement of IT equipment as part of the HQ PFI agreement.

CONCLUSION

19. Based on the detailed analysis of the financial impact and probability of corporate risks the level of reserves required to cover the risks in this Strategy is £6.1m. With current forecast reserves being higher than this and recognising the collaboration opportunities, the Treasurer recommends that £5.0m is set aside for redundancy, a further £3.0m added to the Capital Systems Reserve subject to outturn and that £0.765m of the balance of general reserves be used in year to fund the transition towards a lower cost base.

ASSESSMENT OF FINANCIAL RISKS IN 2011/12

Risk	Risk Score (likelihood x impact)	Overall risk	Action to reduce risk	Review
The Authority being unable to deliver the scale of savings required by the MTFS	Impact = 5 x Probability = 5 Total = 25	High	Monitor status of the MTFS Strategy Actions Plans and Priorities	Continual review of assumptions /funding levels
Higher than expected redundancy / retirement costs from Transforming Business Services / Transforming Policing	Impact = 5 x Probability 5 = Total = 25	High	Redeployment policy and vacancy management in place	On-going review
Reduced funding from public sector partners	Impact = 5 x Probability 3 = Total = 15	High /Medium	Comprehensive review of all funding streams	On-going review
Inflation/Interest Rates vary from assumptions	Impact = 5 x Probability 4 = Total = 20	High	Continual review of actual rates and impact. Pay award is fixed for one year	Quarterly reports to Authority
Demand led pressures resulting in additional expenditure	Impact = 4 x Probability 3 = Total = 12	Medium	Develop Governance, Accountability & Performance Framework	Monthly/ Quarterly reports to Constabulary and Authority
Security failures (Assets and Data) – impact on service provision and information access	Impact = 4 x Probability 3 = Total = 12	Medium	Asset Strategy in place / Information Management Audits, Policies etc	On-going reviews
Loss of Business continuity from natural or man made critical events	Impact = 4 x Probability 2 = Total = 10	Medium	Business Continuity Plans in place – testing underway	On-going reviews
Legal Proceedings against the Authority	Impact = 5 x Probability 2 = Total = 10	Medium	Legal advice being taken	Regular reports as and when situation changes
Collaborative services do not deliver expected outcomes impacting on service standards.	Impact = 4 x Probability 2 = Total = 8	Low	Governance arrangements in place, Cheshire taking lead on several projects	On-going reviews



MINUTES OF THE MEETING HELD ON TUESDAY 22 FEBRUARY 2011 IN CONSTABULARY HEADQUARTERS, WINSFORD

Present: M Ollerenshaw, Chairman
A Arnold, Vice-Chairman
D Bateman
M Chapman
M Darby
A Doran
P Findlow
R Hodson
R McNeil
B Maher
H Murray
C Oliver
T Savage
A Walmsley

Police Authority Officers:

M Sellwood, Chief Executive
L Lunn, Treasurer
M Eaton, Member Services Manager

Constabulary Officers:

G Gerrard, Deputy Chief Constable
K Watkins, Director of Corporate Services
R Muirhead, Director of Finance

Apologies: D Cargill, J Ebo and E Lam

2011/12 REVENUE BUDGET, CAPITAL PROGRAMME AND COUNCIL TAX AND PROVISIONAL BUDGETS FOR 2012-15

The Chief Constable, the Treasurer and the Chief Executive submitted a joint report setting out the draft budget for 2011/12. The report outlined how the police service was financed and detailed the final revenue support grant settlement for 2011/12; confirmed the maximum budget permitted by the Government; the Prudential Code; the policy and expenditure proposals for the coming year; pay and price changes; reserves strategy; and staffing levels.

The Chairman made a statement on the difficult financial scenario following the budget cuts by the Coalition Government and pressures facing the Authority in order to minimise the impact of the cuts on frontline policing; the measures taken to identify and achieve the £11m savings in 2011/12; the level of cuts needed to be make the required savings in 2012/13. The Authority had reviewed the demand for services and the budget had been aligned to that demand and the assessment of threat and risks. The Chairman added that the level of Council Tax had been frozen this year, so Cheshire citizens would be paying the same for their policing as last year and that the Authority would try to ensure they continue to receive a good service.

It was reported that whilst the budget regrettably required reductions in police officer and staff posts, action was being taken to minimise the impact on performance and service delivered to the public. The Authority was committed to achieving further service improvements and would be working closely with the Chief Constable to

identify where additional savings could be made in non-frontline services in future years.

The Treasurer outlined the current financial scenario; the key financial risks around the budget; the reduction in grants; the rationale for maintaining the level of reserves; and the likely severe revenue and capital funding constraints from 2012/13 onwards.

The Authority discussed the budget proposals for 2011/12 and the implications on future years budgets; the implications of the Localism Bill and recognised the need to maintain the service and continue to meet public demand and expectations.

RESOLVED: That

- (18) whilst acknowledging the current economic climate, concern be expressed at the level of cuts to the police budget imposed by the Coalition Government over the next four years and the unnecessary front loading of the cuts in the first two years;
- (19) the potential impact of the Coalition Government's budget cuts on the level of policing services delivered to protect the people of Cheshire be viewed with concern and Performance & Service Improvement Panel work closely with the Chief Constable to monitor the impact on performance and service delivery;
- (20) the unavoidable reductions in police officer and staff posts required to achieve the budget reductions be accepted with regret and the appropriate support and advice be offered to staff facing redundancy;
- (21) in approving the budget the overarching principles of minimising the impact on front line services and police officer numbers; reducing costs whilst maintaining services to the people of Cheshire; and treating staff with dignity and respect, be affirmed;
- (22) the Chief Constable and Finance Committee continue to pursue vigorously the achievement of value for money savings, using the HMIC profiles and other benchmarking tools to identify any above average costs and take action to reduce those costs at the earliest opportunity, to ensure the impact on front line services is minimised and the worst case scenario officer and staff reductions, as set out in the budget report, is avoided;
- (23) the Transforming Policing and Transforming Business Services Projects remain focused on reducing costs whilst seeking to maintain and where possible, improve front line services and the newly formed Oversight Group meet regularly with the Constabulary to ensure the savings and business benefits are delivered;
- (24) the outcome of the public consultation on the budget proposals and the discussions with the representatives of business ratepayers held on 4 February 2011, as outlined in the report, be accepted;

- (25) the level of the Authority's net budget requirement for the financial year commencing 1 April 2011 be decreased by 0.15% to £177,210,072, based on a net surplus of £8,000 on collection funds, reduced Government Grant allocation and no council tax increase, leaving the council tax level for 2011/12 for a Band D equivalent property at £144.53;
- (26) the budgeted number of police officers and police staff be agreed as 1998 and 1561 respectively; subject to the outcome of ongoing consultation on the mix of posts to achieve the 2011/12 budget reduction;
- (27) the provision of £1,011,000 for pay and price increases in 2011/12 be approved;
- (28) a provision of £3,166,000 in respect of revenue committed changes, as set out in Appendix 1 to the report, be approved;
- (29) a provision of £5,799,000 for resource redirection of government grants from specific to general grant as set out in Table 6 and paragraph 39 of the report, be approved;
- (30) the capital payments programme totalling £8,974,000 for 2011/12, as set out in Table 9 and Appendix 3 to the report; and the associated revenue consequences of £19,000, together with the method of financing, set out in Table 10 and Appendix 1 to the report, comprising £1,500,000 revenue contribution to capital and £226,000 financing costs, be approved;
- (31) the following capital items be starred, the detail of which be approved by the Authority in year prior to implementation:-
- Transforming Business Services
 - Partnership and collaboration initiatives
 - Replacement of Mobile Data handsets
- (32) 2011/12 savings proposals, totalling £11,123,000, as set out in Table 11 and Appendix 2 to the report, be approved for implementation;
- (33) approval to any policy changes resulting from the savings included in the 2011/12 budget be sought as necessary from the Authority in year;
- (34) the financial health targets for monitoring purposes as set out below, be approved:-
- (i) *Reserves*
- That the Authority maintains its level of general reserves, after allowing for potential financial risks, at no lower than 3% of the net budget and that this be monitored by Finance Committee on a quarterly basis.
- (ii) *Revenue Spending*
- That the Authority maintains its revenue spending at or below its net budget and

that this be monitored by Finance Committee on a quarterly basis.

(iii) *Capital Programme Management*

That the Authority maintains its projected capital outturn at a level that does not vary from the original capital programme by more than 20%, subject to starred items per (14) above. The total Capital Programme includes the new schemes for 2011/12 and those schemes brought forward from previous years. This target is to be monitored by Finance Committee on a quarterly basis.

(iv) *Debt*

That the Authority collects at least 50% of debtor income within one month of the invoice being raised.

(v) *Prudential Indicators*

That the Authority continues to monitor actual prudential indicators on an annual basis against the indicators set in the budget;

(35) in-line with the Reserves Strategy in Appendix 7 to the report:-

- £833,000 be allocated pending confirmation of any in-year collaboration savings to reduce the call on reserves.
- £5m is earmarked at this stage for redundancy/severance payments
- £3m be added to the Capital Systems Reserve subject to outturn

and that the balance of general reserves only be used in year to fund the risks identified in the strategy, should the 2011/12 budget be unable to absorb any such costs;

(36) council tax income of £85,027, from second homes for 2011/12 be set aside and paid to the Community Safety Partnerships of Warrington, Cheshire West & Chester and Cheshire East Borough Councils to fund Police Community Support Officers;

(37) precepts on collection funds be levied for 2011/12 as follows:-

	£
Cheshire East	21,230,906
Cheshire West & Chester	17,564,370
Halton	5,520,932
Warrington	10,139,583
Total Precept	<u>54,455,791</u>

(38) a provisional revenue budget of £169,539,000, including savings of £12,895,000 and a capital payments programme of £4,414,000 be set for 2012/13;

(39) a provisional revenue budget of £172,991,000, including savings of £5,103,000 and a capital payments programme of £3,798,000 be set for 2013/14; and

(23) a provisional revenue budget of £171,538,000, including savings of £6,385,000 and a capital payments programme of £2,824,000 be set for 2014/15.