

COMMITTEE: GRAMPIAN JOINT POLICE BOARD

DATE: 20 JANUARY 2012

TITLE OF REPORT: PROPOSED REVENUE AND CAPITAL BUDGETS
2012-13

1. PURPOSE OF REPORT

1.1 To present to the Board for its consideration, the proposed Revenue and Capital Budgets for 2012-13 and to set requisitions on the Board's Constituent Authorities, in accordance with the Grampian Combined Police Area Amalgamation Scheme.

1.2 To assist members, below is a list of Appendices referred to within this report:

Appendix A: Revenue Budget Monitoring Report 2011-12 (up to 31/12/11)

Appendix B: Summary Capital Funding 2011-15

Appendix C: Summary Proposed Revenue Budget/Reserves 2012-13

Appendix D: Detailed Proposed Revenue Budget 2012-13

Appendix E: Capital Plan 2012-13 and beyond

Appendix F: Local Authority Draft Requisitions 2012-13

Appendix G: Glossary

2. RECOMMENDATION(S)

2.1 The Board is requested to consider and approve the following:

- The proposed Revenue Budget for 2012-13.
- The refund of £1.2m to the Constituent Authorities through a reduced requisition for 2011-12.
- The carry forward of unspent Capital Grant funding for 2011-12 into 2012-13, by the Constituent Authorities.
- The postponement of the Voluntary Redundancy Scheme for 2011-12.
- The continuation of the Cadet Scheme for a further year.
- The updated medium term policy on Reserves and Balances, including a plan to utilise some revenue reserves and the balance of capital receipts.
- The proposed Capital Budget for 2012-13 which includes some provisional sums pending further prioritisation and consideration of the detailed submissions and business cases.

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- The requisitions on the Board's Constituent Authorities, in accordance with the Grampian Combined Police Area Amalgamation Scheme.

3. FINANCIAL IMPLICATIONS

- 3.1 As this is the annual budget report, all the financial implications are set out in the body of the main report.

4. SERVICE & COMMUNITY IMPACT

- 4.1 Given the 'flat cash' settlement for the coming year and the savings already achieved by the Force during the last few years, the budget proposed for 2012-13 will ensure that wherever possible, current performance levels will be maintained or enhanced and front line service delivery will continue to be the priority. With the move to a Single Force expected in just over 12 months, the Board have previously agreed to support the Force in its efforts to maximise operational capacity and continue to enhance or develop facilities ensuring that come the transfer, policing in the North East is as efficient and effective as possible.

5. OTHER IMPLICATIONS

- 5.1 All other implications are set out in the main body of the report.

6. REPORT

FINANCIAL OVERVIEW

- 6.1 Since the Force previously set out the budget strategy for 2011-12, there have been a number of key decisions taken that have impacted upon the spending programme for this financial year and will influence the budgets for 2012-13 and the structure of Policing across Scotland sometime during the financial year 2013-14 and beyond.
- 6.2 On 21 January 2011, the Force presented to the Board budget proposals for the current financial year (2011-12) and some longer term savings options for the period beyond. The Scottish Government had published a one year Spending Review for 2011-12, and intimated that funding for a range of public bodies, including Scottish Police Forces, would reduce both in real and cash terms during the next 4 to 5 years. The actual budget reduction for 2011-12 equated to a cut of nearly 6% in real terms, compared to the previous financial year. With similar cuts expected during 2012-13 and subsequent years, the Force put forward a plan as to how it would continue to maximise its operational capacity, albeit with significant reductions in cash funding.
- 6.3 Since those plans were approved, a number of those cost reduction measures have been implemented. Although Police Officer and Police Staff numbers have been reducing this financial year, as per the approved budget proposals,

the intention has been to manage the process in order to ensure that operational capacity is maintained or enhanced across front line policing. The Force has also generated cashable savings across a range of budget lines, with a view to reducing the underlying costs of the Force. Some of these benefits will accrue over the medium to long term.

- 6.4 The Scottish Government recently published its future spending plans detailed within the Scottish Spending Review 2011 and Draft Budget 2012-13. This included indicative budgets for the period 2012-13 through to 2014-15. Whilst the Scottish Government had previously intimated that Forces would see significant reductions to the core funding provided in 2012-13 and beyond, it has since decided to maintain core Police funding for 2012-13 at similar cash levels to those awarded in 2011-12. Further details of the Spending Review are included within paragraphs 6.27-6.33.
- 6.5 Since the announcement of this year's Spending Review (2011), there has been a meeting of the GJPB Budget Sub-Group, which considered a range of budgetary issues. Consequently, the proposals for 2012-13 which are included in this Report, are based upon those matters considered and discussed by the Group.
- 6.6 The Scottish Government also confirmed that the reform of Policing within Scotland would result in the creation of a single Force (referred to as the Scottish Police Service). A Consultation Paper and Outline Business Case were published to coincide with the Justice Secretary's statement with the intention of seeking views as to how the new Force should be structured and operate.
- 6.7 The single Police Force will bring about fundamental changes to the structure, governance and financing of Police Forces as they currently exist. The new single Force is likely to be created some time during 2013-14, and as such it is important that Grampian Police continues to operate in an efficient and effective manner within the financial constraints of the approved budget during the intervening period. It is unclear at this stage whether or not the Board will only be asked to approve a budget for 2012-13, or will be required to approve a further budget for 2013-14 that is managed locally until such time as the new Scottish Police Service's budget is agreed.
- 6.8 Until further details are published, the Force has put forward specific budget proposals only for 2012-13, albeit it has provided indicative figures for 2013-14 and beyond for capital expenditure given the longer term nature of this spend.

REVENUE BUDGET 2011-12

- 6.9 The budget monitoring statement for the Force, for the period to 31 December 2011, is shown at Appendix A. This outlines the overall budget, actual spend to 31 December 2011, and the projected out-turn for the financial year 2011-12.

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- 6.10 The Force is currently projecting an underspend of just under £2m against a net revenue budget of £113.755m, with savings accruing against most budget lines. If this was to continue to the year end, the balance of reserves would increase from just under £3.9m to nearly £6m.
- 6.11 As a result of the continued growth in budget savings, the Force has sanctioned additional spend against a small number of budget lines with a view to maximising policing capacity over the next few years. However, even with this increased investment and additional spend, there is a possibility that further budget savings will accrue as more Police Staff leave or retire prior to the end of this financial year.

Police Officer Numbers 2011-12

- 6.12 The number of Police Officers leaving the Force this year is likely to exceed the original planning assumption, most likely a combination of pending increases to pensions as well as the uncertainty cause by Police Reform. As a result, the Force has had to commence a recruitment programme to increase Police Officer numbers earlier than expected. Whilst the Force will seek to achieve the baseline figures (set down by the Scottish Government) this financial year, the intention is to be safely above the baseline during 2012-13. Details of this proposal will be set out later in this report, as part of the overall budget proposal for 2012-13.
- 6.13 The total number of Police Officers in Force at the end of December 2011 was 1,525 (1,485 full time equivalents FTE). If the total number of Police Officers is reduced to take account of those on a career break then the total at the end of December was 1,505 (1,468 FTE). This total of 1,468 (FTE) compares with the baseline total of 1,472 (FTE), which has been set by the Scottish Government. If the total number of Police Officers falls below this baseline (1,472 FTE) then the Scottish Government will reduce the supplementary grant funding for the 98 additional Police Officers accordingly. Although the number is slightly down on the agreed baseline, the Force did recruit 18 new Officers in December (included in above figures) and plan a further two intakes of around 20 in both February and March. This should take the Officer number (FTE excluding Career Breaks) comfortably above the 1,472 baseline based on the latest projection of leavers before the end of March 2012.

Voluntary Redundancy Scheme

- 6.14 The Force has been setting aside savings within the Police Staff pay budget throughout the year, as posts became vacant or were deleted. The intention was to run the third Voluntary Redundancy Scheme near the end of 2011-12, reduce staffing levels during 2012-13 and consequently reduce an element of that cost base in readiness for the anticipated funding cuts in 2012-13. Although a further round of Voluntary Redundancies would reduce costs over the medium and long term, it would also have a further impact upon operational capacity given the reductions witnessed in the past 18 months.

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- 6.15 However, with the recent announcement by the Scottish Government in the 2011 Spending Review, that funding next year would be frozen (in cash terms), the Force is now planning on maintaining staffing levels, rather than reduce them further at this time. Whilst it is likely that the Force may run a Voluntary Redundancy Scheme in the future (as part of Police Reform), there is no immediate budget requirement to implement it prior to the end of this financial year.
- 6.16 The total amount of budget savings set aside up to the end of December was £1.2m, although this could increase further as Police Staff leave the Force prior to the end of this financial year. This saving would increase further the Force's balance of reserves.
- 6.17 In consultation with the Joint Board's Budget Sub-Group and the Treasurer, it is suggested that the Board should consider refunding an equivalent amount to the Constituent Authorities through a reduction in the current year's requisition. This adjustment is reflected in the projected out-turn figures detailed within Appendix A. Further to the Board determining the way forward, then corresponding adjustments would be made to the budgets, and the draw down of cash from the Constituent Authorities in the remaining part of this financial year.

Capital Financed from Current Revenue

- 6.18 In recent months the Force has been reviewing the capital spend for this and future years, and considered various options of funding the Capital Plan. The Force has committed to building a new custody facility in Aberdeen. In recent years the Force has built up a balance of capital receipts, and carried forward capital grant in order to part fund this project. Using available receipts and some revenue reserves would eliminate the need for any prudential borrowing and this is considered a prudent and sustainable way to proceed.
- 6.19 A summary of the capital spend and the associated funding is set out in Appendix B. The Force will shortly confirm the balance of spend to be funded from the capital grant this financial year, and it is recommended that Board members approve the carry forward by the Constituent Authorities of the unspent capital grant (£2.075m) in 2011-12, and for the balance to be allocated to the Force in 2012-13. The Treasurer recently suggested a change to the process of requisitioning capital funding from the LA's and is awaiting a response from his counterparts. Agreement to only requisition when spend is incurred is linked to the agreement to refund any unspent allocation in future years.

POLICE REFORM

- 6.20 The Scottish Government set out its proposal for Police Reform in a consultation paper in February 2011. The intention was to engage with stakeholders about the future of policing in Scotland. A second consultation paper was published in September 2011, which provided more detail as to how the Scottish Government intended to establish a single Police Force, and again invited comments in order to help shape the final proposals and related legislation.

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- 6.21 As part of the consultation exercise, the Scottish Government prepared an Outline Business Case (OBC), which provided an estimated balance of savings that could be achieved through the creation of one Force. In the period leading up to the transfer, it is important that consideration is given to the investment and savings required in order to ensure a successful outcome to Police Reform.
- 6.22 The OBC included details of the potential costs of creating a single Police Force, as well as the estimated savings, that would accrue during the period of transition and beyond. It was assumed that the majority of the costs would be incurred during the first five years of the project, and has been estimated to amount to £234m (covering the period 2011-12 to 2015-16). The biggest element of this spend will be redundancy costs, which are estimated to be £87m, with approximately £56m of the total occurring during 2013-14 and 2014-15. The total of £234m also includes provision for £66m of non recoverable VAT costs. The annual recurring cost is approximately £22m, however if the legal structure of the new Scottish Police Service allows for VAT to be recovered, then this would cease to be a cost.
- 6.23 The OBC has assumed that the creation of a single Police Force will result in significant savings being made. Over the initial 5 year period of the project it has been assumed that the total savings would amount to £352m. By 2015-16, the projected annual cashable savings are estimated to amount to £131m with over half of this total coming from the Police Staff pay budgets.
- 6.24 It is unclear at this stage how the budget savings for 2012-13 and 2013-14 will be dealt with, given that the Forces have been allocated cash budgets in line with those provided in 2011-12. The total savings target for 2012-13 and 2013-14 amounts to £28m and £63m respectively. It has been anticipated within the OBC that Forces will continue to reduce Police Staff numbers during this period, although such decisions rest with the Board until such time as the single Police Force is created.
- 6.25 However Boards/Forces have been reducing Police Staff numbers at different rates already, so savings from the original baseline (2010-11 budget) have been made in some cases. Grampian Police, for example have already run two successful Voluntary Redundancy Schemes over the last two financial years and with a recruitment freeze in place until recently, has seen numbers fall from a high of almost 850 in 2010-11, to just under 685 at the end of December 2011. This was in anticipation of the expected significant budget cuts but as mentioned earlier, the cuts are not now as severe as first announced.
- 6.26 Although final details of Police Staff reductions are not likely to be known until later in 2012, it is likely that Grampian will have met a significant proportion of its share already, hence the proposal not to run a further round of Voluntary Redundancies at this stage.

SCOTTISH SPENDING REVIEW 2011 AND DRAFT BUDGET 2012-13

- 6.27 The Scottish Government recently published details of its spending plans for the financial year 2012-13. It also issued details of funding for individual public bodies including the Scottish Police Forces, within the Local Government Finance Settlement 2012-15 (Circular no 11/2011).
- 6.28 Within (Annex G) of the Circular, there is a table that shows the estimates of ring-fenced grant funding for Police. The total is broken down between the three Constituent Authorities. The figures include three components, namely the Core Funding, Injury Benefits, along with Loan Charge Support and are summarised in the table below.

Constituent Authority	Police Grant	Injury Award	Loan Charges	Total
	£'000	£'000	£'000	£'000
Aberdeen City	22,537	100	135	22,772
Aberdeenshire	16,681	74	505	17,260
Moray	7,637	34	131	7,802
Sub total	46,855	208	771	47,834

- 6.29 It is important to note that these amounts are paid directly to the Force by the Scottish Government, and equate to 51% of the gross funding. Whilst the published figures showing against the respective Constituent Authorities are for information purposes only, they do provide a basis for calculating the sums to be requisitioned. The requisitions normally account for 49% of the Gross Funding total.
- 6.30 The funding to be provided to the Force during 2012-13 is set out in the table below and shows the split between that provided by the Scottish Government (£47,834) compared to the Constituent Authorities (£45,958). A breakdown of the revenue funding to be requisitioned from the individual Constituent Authorities is included within Appendix F, however it should be noted that the requisition received from the Constituent Authorities also includes an element of funding for Capital Grant. The Capital Grant allocations are not reflected in the totals shown in the table above or below.
- 6.31 The Force has developed the budget proposals on the basis that the requisitions will amount to those figures set out in the table below.

	Core Funding	Injury Award	Loan Charges	Total
	£'000	£'000	£'000	£'000
Police Grant	46,855	208	771	47,834
Requisitions	45,017	200	741	45,958
Gross Funding	91,872	408	1,512	93,762

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- 6.32 The total funding allocated to the Force this financial year amounted to £93.744m. This compares to the total of £93.762m (table above), that will be received during 2012-13. Overall, there would be a small increase of £18,000 in the total funding between this financial year and the next, due to some rounding up.
- 6.33 It is anticipated that a similar level of funding will be allocated to the Force during 2013-14. Financial plans are being drawn up with regard to more detailed spending proposals for 2013-14 and these will be presented to the Board's Budget Sub-Group in due course.
- 6.34 The Capital Grant allocation passed from the Scottish Government to the Constituent Authorities amounts to £1.701m (a reduction of almost 30%). This will require the use of revenue reserves and capital receipts to supplement the grant over the next 2 years to fund the Capital Plan, in particular the new Custody facilities in Aberdeen. This project has been in the planning stages now for 2-3 years and is now close to starting with land being identified and an offer recently accepted.

PROPOSED REVENUE BUDGET 2012-13

- 6.35 The proposed budget for 2012-13 is set out in summary form at Appendix C and in more detail at Appendix D.
- 6.36 With the recent publication of the funding allocations, the Force has revised some of the budget assumptions for 2012-13. This reflects the budgetary position at the latter part of this financial year, as well as the potential level of funding for next year. The Force will be seeking to maximise its operational capacity and enhance or develop its infrastructure in line with the creation of the Scottish Police Service. It is important that the decisions taken now by the Board/Force support the broad aims of Police Reform, in order that further to the transfer in 2013-14, policing within the North East of Scotland is efficient and effective within the new structure.
- 6.37 Although the Force has been given the same cash budget as last year, this is still in effect a cut of around 1.9-2% in real terms given inflation and other budget commitments (mainly pay related increments for all staff not yet on the maximum of their scale).
- 6.38 As in previous years, the Force will continue to seek to achieve significant cash efficiencies and introduce other initiatives aimed at releasing Police Officer time to core operational duties and absorbing the real term cut in the budget.

Police Officers

- 6.39 The total budget for Police Officer pay costs in 2012-13 amounts to £79m. This accounts for over 66% of the total budgeted revenue expenditure (£119m) to be incurred during the year. One of the key aims of the Force is to maximise Police Officer numbers within budgetary constraints. The Force is proposing to increase the total Police Officer pay budget next financial year and will aim to increase Police Officer numbers beyond the Scottish Government approved baseline of 1,472 FTE.

6.40 Based on the budget awarded, the Force is planning for a net increase of around 35 Police Officers during the coming year. This would take the total number of Police Officers to around 1,520 FTE (excluding Career Breaks). However, this total may be affected by the number of Police Officers leaving or retiring. In recent years, the percentage of Police Officers staying on beyond the date when they are eligible to retire has reduced. This in part has accelerated the reduction in Police Officer numbers, particularly this financial year. It is unclear whether or not this trend will continue into 2012-13 and 2013-14, but the Force's recruitment programme will be amended if there are any significant deviations from the current plan. During 2012-13, the Force is planning on the basis that around 70 Officers will leave the Service, so at this stage we anticipate recruiting around 105 Officers over the coming 12 months.

Police Officer Numbers 2005-2013

	Headcount	FTE	FTE Excluding Career Breaks	
2005-06	1,374	-	-	
2006-07	1,425	-	-	
2007-08	1,510	-	-	
2008-09	1,557	-	-	
2009-10	1,600	-	-	
2010-11	1,565	-	-	
2011-12	1,545	1,505	1,485	(1,472 Baseline)
2012-13	1,580	1,540	1,520	

6.41 It is important that any increase in Police Officer numbers is sustainable in the longer term, especially after the transition to the new Scottish Police Service. Although the Force will be increasing Police Officer numbers during 2012-13, this will be done in a structured way as to ensure that those joining will have access to the appropriate training facilities and can follow an adequately resourced training programme through their initial stages of employment and beyond.

Cadets

6.42 Board members will be aware that the Force has run a very successful Cadet Scheme now for the last 5 years with the majority eventually joining as regulars when they reach 18. This has not only been well received in local communities given the amount of work they do with the voluntary sector, but it has enable the Force to reduce the average age of recruits quite considerably. In addition the Cadets develop a range of skills and experience including many aspects of life in the community as well as a useful insight into life within modern Police Service.

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- 6.43 During 2011, given expected significant budget cuts, the Force agreed to suspend the Scheme with no intake in September 2011 as had been the case in previous years. At present only six Cadets remain in the programme but the Board are being asked to agree to a new intake during 2012 as part of the Government commitment to finding jobs for young people. The plan would be to recruit around 10-12 new Cadets during 2012 and to review the Scheme again later in the year.

Police Staff

- 6.44 With the budgetary constraints and anticipated funding cuts in future years, the Force has up until recently not been filling vacant posts (bar a few in front line support roles) as well as offering a Voluntary Redundancy/Early Retirement Scheme in the last two financial years. Overall Police Staff pay costs have reduced significantly this year, with numbers down to 685 (604 FTE) at the end 7 December 2011 compared to around 850 only 18 months ago.
- 6.45 The Force has allowed some limited recruitment of key support posts in the last few months and staff numbers are expected to rise slightly by the end of the financial year (to around 710). It is proposed that staffing levels are maintained at or around this number into next financial year, especially in the key areas where Police Staff directly support front line policing, e.g. Service Centre, Control Room, Analysts/Researchers, etc.
- 6.46 The proposed budget includes a provision for running a Voluntary Redundancy Scheme during the latter part of 2012-13. As noted earlier in the report, the Scottish Government are seeking efficiency savings through the creation of the single Police Force. Within 2 years of creating the Scottish Police Service, it has been estimated that there will be annual savings of £66m against the Police Staff pay budget. In order for these savings targets to be achieved, consideration needs to be given to the on-going reduction in Police Staff numbers throughout Scotland over the next 3-4 years. Accordingly, it would be prudent to allow for some redundancy/early retirement costs within the 2012-13 budget. Some of the cost is likely to be met from the Force's balance of reserves. The resultant budget savings that would accrue from running another VRS in the latter part of 2012-13, will come about in 2013-14 and subsequent years.

Property

- 6.47 The Force's Estate continues to be reviewed, taking into account operational requirements, potential shared facilities and estimated costs (both revenue and capital). It is anticipated that the 2012-13 budget for rent and rates can be maintained at broadly the same levels as this financial year. Provision has however been made within the budget to continue to refurbish and upgrade a number of operational properties. The intention is to ensure that the properties continue to be fit for purpose and where necessary improvements are made to their efficiency, in order that the running costs can either be maintained at the same level or reduced over the medium term, especially with the continued rises in utility costs.

Transport

- 6.48 In recent years the fleet has been modernised as the Force has invested in new vehicles and equipment. Notwithstanding the resultant operational benefits, the efficiencies of running a modern fleet has meant that fuel and other running costs have been reduced in real terms. It is intended that the Force will continue to invest in its fleet and where possible maintain vehicle numbers at current levels. The number of vehicles being hired is reducing in the current year and it is expected that this will continue into 2012-13, although there will be times when additional 4x4 or other specialist vehicles will be required.

Supplies and Services

- 6.49 A small number of budget lines in 2012-13 have been increased in comparison to the allocations for 2011-12. This will allow for a modest rise to some Divisional devolved budgets, which have been subject to significant inflationary pressures and new expenditure commitments over the past few years at a time when due to budget constraints, the allocations have been frozen.
- 6.50 Additional budget has also been allocated to meeting the potential rise in advertising costs associated with the recruitment of new Police Officers, now that the Force has re-commenced its recruitment programme.
- 6.51 There is also £1.783m allocated for goods and services purchased in conjunction with SPSA. This expenditure is fully grant funded, such that any reduction in spend, would result in a corresponding drop in the income received from the Scottish Government.
- 6.52 The Force will continue to seek to identify further efficiency savings through new and on-going procurement initiatives with other Forces and public bodies, and this will assist in reducing the devolved spend or absorbing some of the inflationary increases across the Force.

Payments to Agencies and Other Bodies

- 6.53 The Force contributes to ACPOS approved national policing projects, through staffing resource (seconded Police Officers and Police Staff), as well as direct financial support. The total cost for the Force in any given financial year, equates to the equivalent GAE percentage of the entire spend on all of the projects. However it is anticipated that the shared costs will rise over the next few years as the Scottish Government reduces or withdraws funding for a number of on-going projects to meet its central budget reduction targets as part of Police Reform.

THE PRUDENTIAL REGIME FOR CAPITAL FINANCE AND THE CAPITAL PLAN 2011-12

- 6.54 The Force's Capital Plan for 2012-13, is presented for consideration (Appendix E). Provisional figures and potential capital projects are also produced for 2013-14 and 2014-15, but they are for information only at this stage.
- 6.55 The Capital Plan is funded from a Capital Grant (held for the Force by the Constituent Authorities), an element of revenue finance, an allocation from the Scottish Government to cover the cost of SPSA capital and any available capital receipts.
- 6.56 The Force has been reviewing the funding options for finalising a number of capital projects prior to the transfer to the single Police Force. With the balance of capital receipts, grant funding and revenue reserves, there would be no requirement for any new prudential borrowing to be undertaken prior to the transfer to the single Police Force. It is the Force's intention to progress the building of the new custody facility in line with the Board's requirements, and to improve other properties within the Force's portfolio where there is an operational requirement to do so as well as some longer term efficiency benefit.
- 6.57 There should be significant levels of capital spend during 2012-13 and 2013-14 with purchase of land and the construction of the new custody facility. The Force has entered into an agreement to purchase the land, however this is subject to granting of planning permission. The potential spend on the entire Capital Plan in 2012-13 would amount to £7.347m.
- 6.58 The profile of Grant Funding would need to be re-profiled to take account of the proposed annual spend during 2012-13 and 2013-14. The Force will utilise all of the capital receipts by 2013-14, and has allocated revenue balances (principally funded from the Force's reserves) to help meet the funding shortfall. The Force would need to carry forward from this financial year, a balance of £2.075m of unspent Capital Grant into 2012-13. The Force is unable to hold unspent Capital Grant and thus the balance needs to be returned to the Constituent Authorities prior to the year end. As in previous financial years, the Constituent Authorities have repaid the amounts carried forward in the subsequent financial year.
- 6.59 A separate report entitled Prudential Indicators and Review of Treasury Management Governance Arrangements, is being presented to the Board for its consideration. This sets out the impact of the Force's proposed Capital Plan on a range of financial indicators, and demonstrates that the Force is complying with the requirements of the Prudential Code.

EFFICIENCY SAVINGS

6.60 The Efficient Government initiative was launched in November 2004 and is a key part of the programme of reform and modernisation for the public sector in Scotland. All Scottish Police Forces were set a target of 2% efficiency savings each year. Cumulatively this amounted to 2%, 4% and 6% for the financial years 2008-09 through to 2010-11. Final outcomes were measured against the 'baseline' year of 2007-08.

Attainment of Target 2010-11

6.61 The Force had a successful record in identifying and delivering efficiencies last financial year. In the last three financial years Grampian Police have identified efficiency savings totalling approximately £13.3 million, which have been re-invested to support service delivery. These gains represent real improvements to the way that Grampian Police operates.

Grampian Police	2008-09	2009-10	2010-11
Target	£1,675,000.00	£3,335,000.00	£5,025,000.00
Actual	£2,461,153.54	£4,389,363.30	£6,489,627.41

Efficiency Targets 2011-12

6.62 The target for efficiencies this financial year, has increased from 2% to 3%. As a result, the Force strengthened its internal processes for identifying, capturing and delivering efficiency savings in the event that there would also be significant reductions in public sector funding.

Grampian Police	2011-12
Target	£2,513,000.00
Achieved	£1,402,764.70*

*Figure correct as of Quarter 2, 2011-12

6.63 Grampian Police has introduced a number of new processes including the use of technology to improve productivity, joint working with partners and improving organisational and management practices. The examples below are just a small number of initiatives introduced recently, which have led to improvements and efficient working practices throughout the Force.

- Training packages designed and developed in-house saving the costs of external suppliers.
- Reviewing processes and structures, allowing the transfer of Police Officers within support areas to frontline policing posts.
- Relocation of a Department to suitable premises, negating the requirement to invest in extra security measures.
- Increase of bedrooms available at Nelson Street, reducing the number of B&B reservations.
- Sale of police buildings, lease terminations and savings in associated utility and running costs.

Efficiency Targets 2012-13

- 6.64 The Efficiency Guidance notes for this financial year have only just been issued to all Forces. Given that these guidance notes only include information pertaining to 2011-12, the Force is not able to confirm specific details or targets for 2012-13.
- 6.65 However, in the absence of such information, the Force will continue to proactively engage and communicate with all Business Areas in order to deliver 3% efficiencies for 2012-13.

POLICY ON RESERVES AND BALANCES

- 6.66 The Board are required to agree to the Force holding a balance of reserves. This may also be referred to as the General Fund (as it appears on the balance sheet within the Force's Annual Statement of Accounts).
- 6.67 Such a balance is there to:
- Ensure that there are resources available to meet significant unplanned operational needs, especially in light of the nature and types of risks faced by the Force.
 - Provide a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
 - Cushion against the impact of unforeseen inflationary increases, which have not been budgeted for, or other unavoidable budget pressures which may arise during the year.
- 6.68 The Force may also use the reserves to meet known or predicted liabilities (i.e. where specific funding may have been received in one year but the spend not yet incurred until the following year). In these instances, the Force would earmark part of the reserve and thereafter utilise that element of the reserve in the year that the liability generated an actual cost. This may include having an overspend, which would reduce the balance of reserves by an equivalent amount.
- 6.69 It is important that over the medium term these reserves are managed, to ensure that they do not drop below a minimum level (which could otherwise compromise operational capabilities), nor do they grow to an excessive level (beyond statutory limits). The statutory limits include any annual increase of reserves up to 4% of core funding, and a maximum cumulative balance of reserves which equates to 8% of core funding.
- 6.70 In previous years the Board has set a lower limit of 1% of total funding, which would equate to a minimum balance on the General Fund of approximately £1.2m. The Board has not set any upper limits other than to adhere to statutory obligations. The statutory limits include a maximum increase in reserves of £3.7m for 2011-12 (similar amount for 2012-13) and a maximum balance of reserves at the year end of £7.4m.

- 6.71 The balance on the General Fund at the start of this financial year was £3.891m. With the projected underspend of around £1.985m this financial year, the total balance of reserves would rise to almost £5.9m at 31 March 2012. Within the proposed budget for 2012-13 there is a shortfall of £1.5m (predominantly to fund part of the Custody Project) which would need to be met from the balance of reserves. Consequently by the end of March 2013, the balance of reserves would have reduced to around £4.4m.
- 6.72 It is only in the past financial year that the Force has deliberately increased the reserves balance specifically to provide for future predicted budget cuts. Initially, the reserves were being increased to provide for the costs of running another Voluntary Redundancy Scheme, however it is now recommended that these reserves are also used during the period 2012-13 and 2013-14 to supplement the funding of the new custody facilities.

Transfer of Reserves

- 6.73 The Scottish Government in consultation with the Convention of Scottish Local Authorities (COSLA) and the Association of Chief Police Officers in Scotland (ACPOS) has been considering the matter of reserves and whether or not these balances will be utilised or transferred out of Forces prior to the creation of the single Police Force. It is unclear at this stage whether or not the proposed legal structure of the single Police Force will allow for reserves to be held. If reserves are not permitted, then the balances currently held by Forces will need to be expended or repaid to Constituent Authorities and/or the Scottish Government. Discussions are on-going, however it is expected that a decision will be taken shortly as to how the matter will be progressed.
- 6.74 The table below sets out the plan for utilising the balance of reserves in the lead up to the transition to one Force. This may be subject to change if there is a decision taken by either the Board or the Scottish Government to return legally uncommitted reserves at the end of this financial year.

	2011-12	2012-13	2013-14
	£'000	£'000	£'000
Opening Balance	3,891	5,876	4,376
Underspend/(Overspend)	1,985	(1,500)	(1,800)
Closing Balance	5,876	4,376	2,576
Legal Commitments	-	-	-
Operational Contingency	(1,200)	(1,200)	(1,200)
Discretionary Balance	4,676	3,176	1,376

- 6.75 In the interim, the Force will continue to manage its finances in line with the Board Standing Orders and adhere to a range of safeguards that mitigate against the Force over-committing itself financially. The following factors will continue to be assessed in order to manage the balance of the General Fund.

6.76 These main factors include:

- The treatment of inflation.
- The control over demand led pressures.
- The level of devolvement within the Force and the responsibilities of individual budget holders.
- The adequacy of provisions within the Police Accounts.

6.77 An assessment of each of these factors is detailed below:

FACTOR	ASSESSMENT
1. Treatment of inflation rate movements.	Projected annual salary/wage increases (increments only for 2012-13) are built into the Revenue Budget. Other known contractual increases are also built into the Revenue Budget.
2. The control over demand led pressures.	These are very closely monitored by individual budget holders as well as the Force Finance Team, and at regular Executive Board and Joint Board meetings during the year.
3. The level of devolvement within the Force and the responsibility of individual budget holders.	Individual/budget holders have a clear understanding of their budget responsibilities and there is regular liaison with the Force Finance Team.
4. Adequacy of provisions and accruals built into year end accounts.	Provisions and accruals are built into the year end accounts to meet known commitments.

6.78 Taking into account all the above factors, and recognising that there may, on occasions, be operational demand led pressures, which cannot be contained within overall budgets, it is recommended that as an updated medium term strategy, the minimum level of the General Fund should remain at 1% of the total funding (which equates to £1.2m). This follows the strategy adopted by the Board in previous years.

7. REPORT AUTHOR DETAILS

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8. BACKGROUND PAPERS

None.

Chief Constable
13 January 2012



pp. Treasurer
13 January 2012