

HAMPSHIRE POLICE AND CRIME PANEL Report

Date Considered:	7th February 2020	Item:	
Title:	Council tax Precept 2020/21, Budget 2020/21 and Medium Term Financial Strategy 2021/22 to 2023/24		
Contact name:	Andy Lowe, PCC Chief Finance Officer Richard Croucher, Force Chief Finance Officer		
Email:	andrew.lowe@hants.gov.uk richard.croucher@hampshire.pnn.police.uk		

1. Recommendations

- 1.1. It is recommended that the Police and Crime Panel (PCP) support the Police and Crime Commissioner's (PCC) proposed precept increase of £10 per annum for Band D properties, which is the equivalent of 83p per month, or 19p per week.
- 1.2. The Panel note that 61% of households across Hampshire and the IOW are in properties in council tax bands A-C (see paragraph 7.11), and would therefore see a precept increase of less than £10 per annum if the above recommendation is supported.
- 1.3. The Panel note that the full precept increase will be utilised in support of local policing.
- 1.4. The Panel endorse the proposals in this report which ensure that for 2020/21 there will be significant investment in policing within Hampshire Constabulary Policing area, including an increase in police officer numbers by 156 above the existing budgeted establishment as part of the first tranche of the Government's commitment to increase police officer numbers nationally by 20,000.
- 1.5. The Panel note that the PCC has undertaken broad consultation over the course of the last year to determine the public support for a precept increase, and that the overall collective outcome of the consultation shows that there is significant support for a precept increase.

2. Executive Summary

- 2.1. The proposed budget has been developed to support the priorities of the current Police and Crime Plan (PCP) to help ensure that Hampshire, the Isle of Wight, Portsmouth and Southampton are amongst the safest places to live, work and visit, so that people are empowered to realise their life opportunities.
- 2.2. The current PCP starts with and has its foundation in our communities. The four priorities of the PCP contribute to the outcome sought, that of keeping people safer. These priorities are:
 - i) Championing Community Needs

- ii) Strengthen Partnerships
- iii) Enabling Operationally Effective Policing
- iv) Reduce Offending

- 2.3. Within the PCP, the PCC has highlighted the need to ensure that sufficient funding is in place to deliver operationally effective and added-value outcomes that support people and cover the whole range of statutory duties and responsibilities of a PCC.
- 2.4. Extra police funding at a national and local level is needed for three reasons:
- to increase the number of police officers and staff providing a visible presence, preventing crime and investigating incidents when they occur
 - to ensure effective routes for the public to be able to contact policing in both emergency and non-emergency situations, and for policing to be able to ensure that contact from the public is directed to the most effective service or partner to support their enquiry
 - to enable the constabulary to invest in the technology, equipment and wellbeing initiatives that make those officers and staff ever more effective and present on the frontline protecting our communities
- 2.5. Hampshire Constabulary is a very low cost force for its size and complexity of demand, receiving £43.5m less than average. It is well established that policing in Hampshire doesn't get a fair share of national funding and the PCC and Chief Constable and have consistently lobbied on this matter.
- 2.6. HMICFRS recognise that the force faces a challenging financial position. Their latest Value for Money profile for Hampshire Constabulary highlights that the force spends £43.5m less than the average force (based on cost per head of population and taking account of the police grant and precept income) due to its underfunding.
- 2.7. The balance of funding has changed in recent years, with council tax now accounting for 40% of overall funding compared to 33% in 2010/11, and government grant accounting for 60% of overall funding compared with 66%.
- 2.8. The combination in recent years of reduced funding, damping, the constraint on council tax increase and the increasing demands placed on the PCC and Chief Constable, mean that the funding situation in Hampshire has been and remains challenging, and over this period the Constabulary has delivered significant savings (£93m).
- 2.9. The funding settlement for 2020/21, which includes specific funding as part of the government's commitment to increase police officer numbers nationally by 20,000 as part of its Uplift programme, combined with the flexibility to increase the council tax precept by £10, provides an

opportunity to make a significant investment in Policing across the Hampshire area in 2020/21.

- 2.10. Local funding through council tax to support local policing continues to be crucial, complementing the welcome national funding to increase police officer numbers.
- 2.11. In setting the precept and budget, the PCC's aim is to ensure that:
- i) working closely with Chief Constable, and taking account of her professional assessment of operational requirements and risks, the Constabulary budget will continue to enable the delivery of modern, operationally effective policing, that includes capacity for innovation.
 - ii) resources are available to the PCC to support 'beyond policing' through commissioning to support victims and the vulnerable, reduce offending and support delivery of the Police and Crime Plan, which also help to reduce demand on frontline policing.
- 2.12. The precept decision for 2020/21 therefore needs to take into account both the immediate and medium term resourcing requirements that enable Hampshire, the Isle of Wight, Southampton and Portsmouth to be safer now and in the future.
- 2.13. This includes taking account of the Government's proposals to nationally increase police officer numbers by 6,000 in 2020/21, as part of an overall commitment to increase police officer numbers by 20,000 over the next few years (further detail on the government's commitment and the impact on Hampshire is set out in the 'Police Officer Uplift Programme' in section 4).
- 2.14. The Police grant settlement was announced on the 22nd January 2020, over a month later than the usual settlement date of around mid December. This has reduced the amount of time for extensive public consultation on the PCC's proposed precept increase of £10, and for the usual level of engagement with the PCP's Finance working group prior to publication of this report.
- 2.15. The settlement announcement confirmed that for 2020/21:
- i) There would be an increase in Hampshire's Police Grant of £13.8m
 - ii) The pension grant would be £2.99m (which is a continuation of grant at the same level as 2019/20)
 - iii) Hampshire has been allocated £4.36m of specific ring-fenced grant to fund and enable an 'uplift' in Hampshire's police officer numbers by 156 in 2020/21; this grant can only be accessed quarterly in arrears based on actual officer recruitment achieved. See section 4 which sets out further detail on the governments Uplift commitment
 - iv) The cap on the maximum increase in precept would be set at £10 per year for a Band D property (and it is important to note

that the Home Secretary and Policing and Fire Minister's assumptions are very much based on PCCs implementing the maximum £10 increase), which would equate to a 4.96% increase. This is in contrast to last year where the maximum precept increase was capped at £24 (an increase of 13.52% in Hampshire) per Band D property

- 2.16. Further detail on the grant settlement is set out in section 6.
- 2.17. This report presents the projected revenue and capital budgets for the four year period 2020/21 to 2023/24 based upon current guidance and assumptions.
- 2.18. The PCC's proposal is for a £10 increase in his council tax precept for 2020/21 (for a Band D property), as set out in section 7. This is consistent with his view set out in the MTFS for 2019/20 that a precept increase in the order of £12 would be required for 2020/21 – the proposed lower precept of £10 is offset by grant funding which is higher than anticipated.
- 2.19. Increasing council tax precept by the maximum permitted amount is the responsible thing to do to because it keeps communities safer at a time when crime is changing and demand on policing continues to increase.
- 2.20. However, it should be noted that 61% of households across Hampshire and the IOW are in Bands A – C, and so will see an increase of less than £10 per annum (see paragraph 7.11).
- 2.21. On the assumption of a £10 precept increase (Band D), this report sets out that the PCC can:
 - i) Set a balanced budget for 2020/21
 - ii) Maintain the Home Office expectation of an established headcount of 2,791 police officers before Uplift
 - iii) Enable the Constabulary to proceed with the recruitment of 156 additional officers above the current budgeted establishment
 - iv) Accommodate the impact of an assumed national pay award over the MTFS period of 2.5% per annum for all officers and staff (see paragraphs 3.13 – 3.18), which is an additional £5.3m each year from September 2020
 - v) Fund the significant costs to deliver the critical pressures and investment which enable the Constabulary to continue to be a modern, operationally effective Police Service (see section 5), including setting aside funding to meet the significant infrastructure investment required both now and in future years to support the incremental police officer uplift programme.
- 2.22. The budget will deliver:
 - i) **More Frontline, Fighting Crime**

More frontline police officers and staff to provide a visible presence, prevent crime and investigate incidents when they occur.

ii) **Right Place, Right Time**

More personnel in the contact centres so that calls to police for emergency and non-emergency reasons can be answered and given an appropriate assessment and deployment, including the deployment of officers immediately when needed.

Investment in new technology to:

- allow personnel to spend more time in the communities they serve
- provide personnel with the information they need to deal with incidents well
- ensure that the police can fight the continued challenge and increased emergence of cyber crime
- improve security to reduce the risk of cyber attack or failures of police IT

iii) **Better Equipped**

Investment in police personnel to give them the equipment, skills and support to ensure that they are ready and able to perform.

2.23. This report also sets out that on the assumption of a £10 precept increase (Band D) for 2020/21, followed by precept increases of 1.99% in each of the following 3 years (2021/22 – 2023/24), it is likely that savings will be required in later years to balance the budget.

2.24. There is significant uncertainty around both government funding (including Uplift funding) and the permissible level of precept increases for 2021/22 and beyond, which have made it difficult to estimate the future years' position with any level of certainty.

2.25. The MTFs therefore includes a number of assumptions that will need to be updated and refined as information becomes available for 2021/22 and beyond.

2.26. In considering whether or not to use his flexibility to increase the precept, the PCC has given due consideration to the views of the public and also to the consequences of setting a precept lower than £10; the PCC has taken account of the feedback received both as part of his last budget consultation and the feedback received during this year at a range of public events, which shows support for an increase in the precept.

2.27. The overall consultation has comprised 3 distinct elements:

- i) An online survey, which saw 4,377 people submit responses as of Wednesday 29 January 2020.

- ii) An engagement consultation card, which was completed by 1,204 members of the public at events attended by the Office of the Police and Crime Commissioner since June 2019. An online version of the consultation engagement card was completed by 471 people.
 - iii) A YouGov survey of 500 demographically weighted respondents across Hampshire and the Isle of Wight.
- 2.28. The outcome from each individual element of the consultation, and the overall collective outcome shows that there is significant support for a precept increase. Further details are provided in section 11
- 2.29. The PCC is clear, having taken advice from the Chief Constable, that to set a precept increase lower than £10 would limit both the ambition of the Constabulary, and not provide the necessary investment required to ensure that the Constabulary remains fit for purpose, operationally effective, and able to invest to meet the challenge of the changing the nature and complexity of crime.
- 2.30. In summary, implementing the £10 increase for 2020/21 in line with the expectations of Government will provide significant investment to sustain and continue to transform Policing in Hampshire, alongside enabling a significant increase in police officer numbers (156 above current establishment) as part of the Government's Uplift commitment
- 2.31. However, without any funding certainly beyond 2020/21, and until a new fairer funding formula is in place which recognises the pressures faced within Hampshire, it remains the case that Hampshire Constabulary is constrained by a lack of appropriate funding, and the funding uncertainty reduces the PCC's and Chief Constable's ability to forward plan with confidence.

3. Medium Term Financial Strategy (MTFS) Summary

- 3.1. As set out in section 7 (Grant Settlement) and section 8 (Council Tax Precept), the PCC has no information on future Police grant for 2021/22 and beyond, no detailed information as to any future level of Police Officer Uplift funding, nor any indication of the permissible level of precept increase.
- 3.2. Given this uncertainty, the MTFS is necessarily prudent on the future funding position beyond 2020/21.
- 3.3. The key funding assumptions which have therefore been used to underpin the MTFS are as follows:
- a precept increase of £10 in 2020/21, followed by precept increases of 1.99% in the following years 2021/22 – 2022/23
 - flat Police grant for the period 2021/22 – 2023/24
 - Uplift Grant for additional police officers of £28,000 per officer (which is less than the full whole time equivalent cost of a constable; the assumption is that for 2020/21 this sum takes into account that recruitment will be phased throughout the year)

- 3.4. Based on these assumptions, the MTFs currently shows that for 2020/21 and 2021/22, the PCC is able to set a balanced budget, but for the years 2022/23 and 2023/24 the budget currently shows a shortfall/budget in excess of forecast income of:

	Forecast Budget Deficit £m
2022/23	4.04
2023/24	16.5

- 3.5. As currently presented, it is therefore possible that further savings will be necessary in future years to balance the budget in 2022/23 and beyond, but this will be firmed up in later iterations of the MTFs as the funding position for later years becomes clearer.
- 3.6. In the event that the MTFs were to remain unbalanced in future years post confirmation of funding for the years 2021/22 onwards, the Chief Constable would need to review planned expenditure and propose mitigating reductions to balance the budget position.

Investment

- 3.7. The MTFs includes significant cost pressures and growth items included in the 2020/21 budget and later years. The budget pressures are predominantly unavoidable or operationally unavoidable costs if the PCC and Constabulary want to continue to deliver the additional capacity and productivity required to meet the demand and expectations of the public.
- 3.8. The budget pressures and growth for 2020/21 total £30.769m as shown in the table below, with the detail set out in detail in section 5. They include the rolling forward of the three-year plans for investment that were set out in the Budget report in the last two years. The table below summarises the budget pressures with further detail given for each of those headings in the following paragraphs:

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
More Frontline	16.950	17.467	15.206	18.484
Right Place Right Time	10.530	8.309	6.723	6.723
Better Equipped	6.592	4.709	3.610	3.594
Capital Financing	1.000	1.000	1.000	1.000
Legislative change	0.055	0.055	0.055	0.055
Sub-total	35.127	31.540	26.594	29.856
Uplift Grant	(4.358)	(8.400)	(12.600)	(12.600)
Net total	30.769	23.140	13.994	17.256

- 3.9. A key factor which impacts the MTFS and delivery of operational Policing is the governments Police Officer Uplift programme, and further details are set out below in section 4 below.

MTFS 2020/21– 2023/24: Other Assumptions

- 3.10. The MTFS for 2020/21 to 2023/24 is shown at Appendix D of this report. It provides a forecast of the financial position over the next four years, including a firm position for the 2020/21 budget.

Police Officer Uplift Programme

- 3.11. As set out in paragraph 4.3, no details of the allocation of the remaining 14,000 police officers nor the attaching funding has been announced, so at this stage a prudent estimate has been made that Hampshire could receive a further uplift in police officer numbers of 300 as its share of the 14,000, split evenly 150 additional officers in 2021/22 and a further 150 in 2022/23.
- 3.12. This presents a risk to the MTFS as funding has to be set aside now from Hampshire's police general grant for 2020/21 to fund the infrastructure requirements in relation to the entire Uplift programme, but in the absence of knowing what Hampshire's future share of the remaining 14,000 officers will be, and what the funding level will be per additional officer.

Inflation and Pay

- 3.13. The budget includes provision for inflation for contract spend and other areas where inflationary increases are unavoidable.
- 3.14. The inflation assumptions applied are shown in Appendix A. In some cases, such as cleaning, inflation factors will be known as they are included within multi-year contracts. In most cases inflation is unknown. A default rate of 2.0% has been used where inflation is unknown, in line with the Bank of England target rate.
- 3.15. The most significant inflation value is the pay award, which has been included at an estimate of 2.5% per annum and for 2020/21 has an estimated cost of £5.3m.
- 3.16. If there is any variation to that pay award assumption of 2.5% then, for example, an extra 1% would equate to an extra £2.12m of cost per annum.
- 3.17. The value of sterling does have the potential to increase inflation for items procured from foreign countries, most notably technology solutions from the USA and building supplies. Therefore, additional budgetary pressure could be caused by exchange rate movement, although the £pound has strengthened in recent months against the dollar.
- 3.18. As inflation and pay awards are included as best estimates, they are of course a risk within the MTFS as the actual position could differ from the assumptions made.

Savings

- 3.19. As set out in the MTFS summary the forecast position is that whilst the budget is balanced in 2020/21 and 2021/22, there are forecast budget deficits in 2022/23 and 2023/24.
- 3.20. In the event that after updating for spending settlements post 200/21 the budget remains in deficit for those years, the Chief Constable would need to review planned expenditure and propose mitigating reductions to the budget.
- 3.21. There is one significant saving which is already built in to the MTFS forecast, in relation to the LGPS pension deficit contribution saving, and further details are set out below.

LGPS Pension Deficit Contribution Saving

- 3.22. There is one significant saving which impacts the budget from 2020/21, which arises as a result of the 2019 LGPS Actuarial Valuation of the Hampshire Pension Fund.
- 3.23. An outcome from the 2019 valuation was that the Fund was deemed to be 100% funded, compared to an 82% funding level at the 2016 valuation date; at the 2016 valuation the Fund was therefore in deficit.
- 3.24. Since 2016, the Constabulary and OPCC have been required to pay a fixed cash sum per annum of £5.5m as a contribution to fund the deficit over a 16 year recovery period.
- 3.25. As the most recent valuation has determined that the Hampshire LGPS is fully funded, the requirement to pay deficit contributions falls away for the next 3 years.
- 3.26. The advice from the CFO to the Hampshire Pension Fund is that as the valuation is a 3 year cycle, and as the valuation includes a whole range of assumptions which will be re-visited at the next valuation (for example the return on investments), the most prudent treatment of this saving is a one of saving over the period of this valuation cycle, as it is possible that at the next valuation in 2022 that the Fund could be in deficit and the requirement for a deficit payment re-emerge.
- 3.27. On that basis, the deficit saving is being utilised across the next 3 years to fund one-off pressures, so that if required it could be re-instated as a recurrent budget in 2023/24. The one-off items to be funded from this saving are included within the growth items set out in section 5.

Capital Programme

- 3.28. The capital programme has been updated, and from a financing perspective provision has been made to support capital expenditure and borrowing to take into account the following key issues:
- the Uplift programme
 - review of the Isle of Wight estate and a review of the Netley campus.

3.29. Further detail is set out in section 8, and the Capital Strategy is attached as appendix F.

Reserves

3.30. Further detail on reserves is set in section 9, and the Reserves Strategy is attached as appendix G.

3.31. The PCC CFO's assessment is that the level of the General Fund reserve is reflective of the overall risk environment in which the PCC operates, and that the level of Transformation Reserve is prudent and necessary to meet the ongoing requirement for one off expenditure to meet the transformation required to ensure that in the years ahead the Constabulary remains a modern operationally effective police force.

3.32. Other earmarked reserves, including the Uplift Reserve, are appropriate and their purpose is set out in detail in the Reserves Strategy.

Risk

3.33. There are a number of risks which could impact on the MTFs, and these are detailed in section 12.

3.34. As set out above the level of reserves held is appropriate and takes account the identified risks.

CFO Section 25 report

3.35. The PCC CFO is required under section 25 of the Local Government Act 2003 to report to the PCC when setting his precept on:

- the robustness of the estimates included in the budget, and
- the adequacy of the financial reserves in the budget.

3.36. The CFO's section 25 report, which provides a positive opinion on both of the above, is attached to this report as appendix H.

4. Police Officer Uplift Programme

4.1. The Government announced in July 2019 their intention to invest in policing to provide funding to support the appointment of an additional 20,000 police officers over the next 3 years.

4.2. The initial uplift in police officer numbers for 2020/21 is 6,000, of which Hampshire Constabulary's share is an additional 156 officers. This is based on Hampshire's proportionate share based on the current police grant allocations.

4.3. The allocation of the remaining 14,000 officers and the funding to support it has not been announced at an individual Constabulary level. It is however anticipated that the 14,000 may be top-sliced to support national and regional specialist law enforcement, leaving a lower quantum to be allocated to local forces.

4.4. For 2020/21, the PCC has been allocated ring-fenced Uplift Grant of £4.36m; this must be used to fund Hampshire's allocation of 156 officers,

and equates to funding per officer of circa £28,000 (which is less than the full whole time equivalent cost of a constable; the assumption is that for 2020/21 this sum takes into account that recruitment will be phased throughout the year). This funding is claimable on a quarterly basis in arrears, and can only be claimed for the additional officers recruited above the agreed establishment baseline.

- 4.5. Funding for infrastructure and non-pay costs (incl. police staff pay costs) associated with the uplift in police officer numbers for both this year and later year allocations of additional officers (e.g. uniform, laptops, phone, additional vehicles, training, additional accommodation, additional police staff etc) must be met from the overall increase in recurrent general police grant received for 2020/21 (so from within the additional general police grant of £13.8m), with clear messaging from government that in later years for any uplift in police officer numbers, additional grant will only cover their pay costs (although the government have not announced what the funding per officer will be).
- 4.6. In the absence of any clear methodology to determine Hampshire's share of the remaining 14,000 uplift beyond 2020/21, a prudent estimate has been made to assess the likely uplift to establishment in 2021/22 and 2022/23. If Hampshire were to receive a share of the 14,000 based on the current allocation method, that would equate to a further uplift in officer numbers of 364 (to give a total Hampshire uplift of 520 from the 20,000).
- 4.7. However given the expectation that the 14,000 may be subject to a top-slice, the likelihood is that the actual additional uplift would be less than the 364 set out above; in the absence of information as to our future allocation, it has been prudently assumed that Hampshire could receive a further 150 officers uplift in 2020/21 and the same again in 2021/22, a total additional increase of 300 over and above the 156 increase for 2020/21 (to give a total uplift of circa 450), and the MTFs is based on this assumption.
- 4.8. The budget for the upcoming year 2020/21 therefore needs to set aside sufficient funds to ensure that the full impact of the infrastructure and associated non pay costs of an additional circa 450 police officers over the 3 year period 2020/21 – 2022/23 can be funded (given that the grant allocation for officer uplift in years 2021/22 and 2022/23 will almost certainly only fund pay costs).
- 4.9. To manage the available funding over the 3 year period, an Uplift reserve has been set up against which the Constabulary will draw down funds to meet the infrastructure and non-pay costs over the 3 year period.
- 1.2. To ensure that funding as required can be relatively easily accessed, in line with the scheme of delegation the drawdown of funds from this reserve is delegated to the PCC's Chief Finance Officer, and will be based on funding requests from the Constabulary's Assistant Chief Constable responsible for the Uplift programme supported by the

Constabulary CFO (except for Estates where the request will come from the PCC's Head of Estates).

5. Investment in Policing

- 5.1. In any given financial year, the PCC's overall budget will be faced with demand/cost led spending pressures and also with a range of growth initiatives; growth items are usually a choice whereas a demand/cost pressure is usually unavoidable.
- 5.2. There are significant cost pressures and growth items included in the 2020/21 budget and later years. The budget pressures are predominantly unavoidable or operationally unavoidable costs if the PCC and Constabulary want to continue to deliver the additional capacity and productivity required to meet the demand and expectations of the public.
- 5.3. The budget pressures and growth for 2020/21 total £30.769m as shown in the table below. They include the rolling forward of the three-year plans for investment that were set out in the Budget report in the last two years. The table below summarises the budget pressures with further detail given for each of those headings in the following paragraphs:

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
More Frontline	16.950	17.467	15.206	18.484
Right Place Right Time	10.530	8.309	6.723	6.723
Better Equipped	6.592	4.709	3.610	3.594
Capital Financing	1.000	1.000	1.000	1.000
Legislative Change	0.055	0.055	0.055	0.055
Sub-total	35.127	31.540	26.594	29.856
Uplift Grant	(4.358)	(8.400)	(12.600)	(12.600)
Net total	30.769	23.140	13.994	17.256

Policing services – More Frontline, Fighting Crime

- 5.4. **Uplift Programme** - The Government has announced an intention to uplift police officers nationally by 20,000 officers over the next 3 years. The first tranche is 6,000 officers in year 1. Hampshire's share is 156 officers in year 1. Hampshire has set an ambitious recruitment plan of an additional 250 officers by then end of 2020/21. It is unclear what allocation of officers and funding will be allocated to Hampshire for future years. The current plan in Hampshire Constabulary is to recruit an extra 94 officers over and above the 156 (250-156 officers) in 2020/21. This would be an early recruitment of the year 2 allocation. It should be noted that there is a significant lead time to recruiting, vetting and training police officers so it is important to start the recruitment as soon as

possible in order to see the performance results that will be expected from the additional officers.

- 5.5. Additional officers will be recruited across the next three years. The initial allocation is 156 officers in year 1 and there is an expectation that some of the 20,000 officers may go to national or regional units in future years. Therefore, for financial planning purposes it is assumed that 450 officers will be recruited over the next 3 years. The profile of additional officer pay costs is:

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Uplift officer pay costs	2.730	7.980	13.125	15.750

As well as the pay costs of the additional officers, there are significant additional costs for infrastructure and support that will need to be incurred. An uplift enabler project has been instigated to manage the additional overheads of the uplift programme. An uplift reserve will be created to hold some of the expected costs required, for example, new laptops, body worn video and phones. The major elements of cost in 2020/21 are additional IT kit and licences (£2.261m) additional training costs (£1.779m) and more vehicles (£1.375m). Other costs are required for areas such as additional recruitment, positive action, vetting, HR staff and uniform.

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Uplift enabler costs	8.419	3.360	3.360	2.500

- 5.6. A further contribution to the Uplift Reserve of £2.510m is planned in 2020/21. The future funding of Uplift is very unclear. It is the intention to recruit new officers as soon as possible to provide additional policing to the public at the earliest opportunity. The recruitment plans aim to meet the 156 officer uplift available to Hampshire. If even more officers can be recruited, then reserves could be used to pay for the unfunded costs in 2020/21 pending receipt of new additional Uplift funds from 2021/22 onwards for further rounds of Uplift.
- 5.7. There is £1m additional funding for estates uplift which is covered in the estates section
- 5.8. **Forensics** - There is a new statutory requirement for Forensic Collision Investigation to meet ISO accreditation standard for prosecutions. North Wales will be the national lead. All other forces will need to sign a section 22a agreement and conform to the specification set in order to achieve the ISO accreditation. The cost of achieving ISO accreditation in Hampshire in 2020/21 is estimated at £0.590m.

- 5.9. **Radio Replacement** - The new national Emergency Services Network continues to be delayed so replacement radios are required for the existing network. Covert radios (£0.216m one-off) and non-covert radios (£0.072m) are required.
- 5.10. **Firearms Trainers** - Two additional firearms trainers are required to meet College of Policing standards on delivering firearms training (£0.048m). The cost is shared with Thames Valley Police.
- 5.11. **Force Development** - This team manage the change programmes within Hampshire Constabulary. The establishment and core budget for this unit was removed during austerity. Personnel have been removed from the frontline to carry out development work. There is an intention to reduce the abstraction of frontline personnel by using external sources to carry out work that can be carried out by non-police personnel. A total of £0.750m is included for 2020/21 and £0.500m pa thereafter to re-establish this as a core budget (in recent years the work has been funded through draws from the Transformation Reserve).
- 5.12. **Offender management** - Six additional offender management personnel are required in order to maintain the recommended ratio of officers to offenders (£0.212m).
- 5.13. **MASH** – This team work in a co-ordinated manner with other agencies to protect vulnerable people and reduce the risk of harm and offences in future. An increase of six staff is required to meet the demand of cases being submitted to MASH (£0.162m). The Offender Management Chief Inspector (£0.076m) is established to continue partnership working.
- 5.14. **Child Abuse** - Internet Child Abuse Team requires an increase of 2 people at a cost of £0.089m.
- 5.15. **GPS tagging** - Is increasingly used to monitor the movements of persons of interest (£0.046m).
- 5.16. **Fraud** - An increase of 1 post to the Financial Development Unit due to the increase in suspicious activity reported by financial institutions (£0.031m).

Policing services – Right Place, Right Time

- 5.17. **Contact Management** - In the summer of 2019, the number of calls being made to the police reached unprecedented levels. Resources were put in place so that all 999 calls were answered and actioned on an emergency basis. However, there were insufficient resources to answer all 101 non-emergency calls. A Gold Group was put in place and a review of the Contact Management function was undertaken to identify options for greater efficiencies and the increase in personnel that would be required if the same level of demand was experienced again. An increase of 18 officers and 35 staff is included within the budget to ensure that all calls can be met in accordance with the service level expectations (£2.248m). The demand will continue to be monitored as it may be possible to reduce capacity if demand is not as high.

- 5.18. **Demand Transformation Triage** - It is proposed to put in place a triage team in the 2020/21 proposed budget (£1.762m) with a total of 36 personnel. This team has been piloted during 2019/20 to check that it can deliver against the objectives and that it is the best use of the resource available. The team provides robust implementation of the THOR (threat, harm, opportunity & risk) model to ensure that the most appropriate incidents are tasked to the most appropriate units for resolution, including the usage of scheduled appointments.
- 5.19. **Digital Public Contact** - Hampshire and Thames Valley Police have invested in a new Contact Management Platform using Microsoft as the software partner. This solution is already live on the Isle of Wight. Performance is being monitored prior to further roll-out due to the critical nature of the command control system. There is an opportunity to further exploit the technology that has been introduced including CMP and Single Online Home. The Hampshire costs for further digital public contact opportunities are £1.250m in 2020/21, plus £0.200m for a CMP app that personnel can carry out more functions on their telephone devices and £0.170m one-off for a benefits realisation team to make sure that the forces change their behaviour to take full advantage of the new technology.
- 5.20. **Intelligence, Tasking and Development** - This function requires an uplift of 10.5 posts to meet the demand for intelligence analytical packages (0.394m)
- 5.21. **ESRI Gazetteer** - A one-off cost of £0.334m for the implantation of the ESRI gazetteer system so that the Constabulary's database have the latest addresses and a system that is regularly updated as new addresses come into use.
- 5.22. **Single Online Home** - The Constabulary continues to roll out the national Single Online Home model. This is a standard website facility that will be common across all forces. £0.163m is required to rollout further online capability for members of the public to be able to interact electronically with the Constabulary.
- 5.23. **Digital Intelligence and Investigation** - Advances require £0.125m for new suites for improving digital capability. A one-off amount of £0.112m is needed to upgrade systems which are not compatible with Windows 10. The High Tech Crime Unit requires an uplift for £0.046m to pay for additional storage of digital evidence. Licences for the ilgafx will cost a one-off £0.006m.
- 5.24. **Software Updates** - The continued implementation of Windows 10 and Office 365 is a one-off cost of £0.272m in 2020/21.
- 5.25. **Virtual platform consolidation** - Will cost £0.134m one-off. This will replace multiple systems with a single system across Hampshire and Thames Valley.

Policing services – Better Equipped

- 5.26. **Vehicle Replacement Programme** - The Force currently has a vehicle replacement programme that costs £2.3m pa. This was reduced from £3m as an austerity measure. The Transport Department continue to find innovative ways to manage within that budget despite significant increases in vehicle prices. The capital grant to support this expenditure has been £1.2m for several years. In 20/21 the capital grant has been reduced to £0.3m, which creates a pressure of £0.9m. As a result, an annual contribution of £2m will be budgeted to ensure that there is sufficient funding on a sustainable basis to pay for the vehicle replacement programme.
- 5.27. **Data Cleanse** - An analysis of data quality carried out alongside the Contact Management Platform programme has identified a number of issues that could be improved by using data from a third party to cleanse the data. A one-off £0.510m is included in the budget to pay for this work.
- 5.28. **Pronto** (working remotely) - Regional partners in Surrey and Sussex already make use of Pronto, an application which is compatible with CMP. This investment will allow officers and staff to carry out more business remotely. An allocation of £0.921m is included to allow Hampshire to jointly implement Pronto with Thames Valley Police. This will allow greater consolidation of business processes and solutions across the South East region.
- 5.29. **Wi-Fi Infrastructure** - The current estate suffers from low quality wi-fi. Student officers will need to make increased usage of online learning creating a new necessity for improved wi-fi. It will also assist current solutions and allow visitors to be able to connect to the internet which has increasing importance as more partners require access to online systems (£0.864m mostly one-off).
- 5.30. **Evidence Transfer** - A one-off amount of £0.725m is included to fund remote mark transmission which will allow a faster transfer of evidence from the frontline to the national database. This will also assist with digitising forensics, for example, it could support digital case files by electronic transfer of fingerprint evidence.
- 5.31. **Digital Intelligence and Investigation Hubs** – This team is introducing i-hubs (£0.501m) where officers and staff can bring digital items for analysis and receive advice on digital devices. For example, understanding whether an item found during a house search could be capturing data in some way and/or transferring the data elsewhere.
- 5.32. **National IT Costs** - An increase of £0.500m is included for the IT budget. This is expected to be needed to cover the additional cost of national systems as a result of the introduction of new systems which will have shared costs and because some costs previously covered centrally will be shared across PCCs. Negotiations are ongoing nationally on the extent of these charges, with outcome expected by mid-February.
- 5.33. **Adobe redaction software** - Is required to be able to automatically redact confidential phrases and words from documents that are required

to be published or shared (£0.214m). A further £0.207m is required to migrate Citrix based applications to the new version.

- 5.34. **Tutor Bonus Payments** - An extra £0.200m is included for bonus payments due to the additional tutors that will be required for the new recruits. Personnel that volunteer to work as tutors receive a bonus payment.
- 5.35. **Digital Development** - A sum of £0.152m is included for a senior officer to lead transformation related to the digital programme. Similarly, £0.152m will be made available for Hampshire's share of a new digital development team that will manage digital opportunities and strategy and £0.100m is including towards costs for digital innovation.
- 5.36. **ICT Network** - A project will undertake a review to establish the optimum ICT network configuration going forwards (£0.135m). The current network and phone system will require updating shortly. This would have been a significant capital investment in the past but new options will be explored to understand the best value for money option going forwards.
- 5.37. **Regional identity management solution** - Will require £0.100m of investment in 20/21. This will allow personnel to be able to access numerous databases with a single sign-on reducing the need for personnel to remember as many userids and passwords.
- 5.38. **Weaponry** – The budget requires an uplift of £0.082m based on the increased number of firearms users.
- 5.39. **Telephony Examination Equipment** - A final amount of £0.054m is required to complete the ACESO replacement of telephone examination equipment.
- 1.3. **Body Warn Video (BWV)** – A Co-ordinator post requires establishing (£0.034m) due to the number of new BWV devices expected and the number of devices now issued and requiring maintenance and replacement.
- 5.40. **Policing Education Qualifications Framework (PEQF)** - The new training programme for police officers implemented by the College of Policing will cost £0.287m in contractual terms.
- 5.41. **Wellbeing, Recruitment & Development** - The People Strategy project team £0.185m (one-off) and core team £0.183m will help to deliver wellbeing, recruitment and development issues.
- 5.42. **Respite Pilot Programme** - A one-off £0.500m is included for a respite pilot to assist with reducing the number of sickness hours lost as a result of trauma and mental health issues. As part of the Wellbeing Strategy aimed at increasing productivity, £0.563m is included for 20/21 and 21/22 to pay for trauma exposure and psychological health services.

Estates

- 5.43. The estate continues to be modernised in order to provide fit for purpose accommodation. The announcement of the Officer Uplift will require a review of the current estate strategy both because of the additional personnel and to take into account any change in operational strategy.

- 5.44. There is an increase to the Capital Financing line of £1m to support potential new borrowing in recognition of the known future estate pressures not currently funded within the existing Estates Change Program, namely:
- investment required to remodel the police estate on the Isle of Wight (IOW),
 - potential changes arising from a review of the current provision on the Netley site.
- 5.45. An in-year contribution to the Estates reserve has already been made to fund the feasibility work and options appraisal for both the IOW and Netley.
- 5.46. Whilst these capital pressures are not currently reflected in the capital programme, as known emerging issues, funding is being set aside now in order to ensure funding provision is available to support the future costs of delivering what is likely to be significant capital investment; in the intervening period before the capital investment is made in support of these emerging estate pressures, the £1m set aside to support future borrowing can be used to support one off capital spend.

Estate Uplift Reserve

- 5.47. There is also a contribution to an estate uplift reserve of £1m per annum to provide funding towards new/remodelled/recommissioned estate to support the estimated increase in police officer numbers (current assumption 450 officers) as a consequence of the governments Uplift programme.
- 5.48. In the short term, it is envisaged this funding will primarily be utilised to support tactical estate changes to support the initial increase in police officer numbers linked to the Uplift programme. In the longer term, if substantial changes are required to the estate to support the overall uplift in officer numbers, this funding will support capital investment through borrowing.
- 5.49. This contribution to reserves is included within the 'More Frontline, Fighting Crime' heading in the summary table.

Legislative Change

- 5.50. There is a small increase of £0.055m for the OPCC to recognise the additional statutory responsibilities that will be added to the OPCC through the requirement to take on additional work in relation to complaints against the Constabulary.

Future Cost Pressures and Growth Items

- 5.51. The MTFs at Appendix D allows within the budget for £2m to fund recurrent revenue pressures and growth per annum (incremental each year from 2021/22, so an additional £6m by 2023/24). This ensures that the MTFs provides an allowance to fund future growth and pressures. As this is an estimate, there is a risk to the MTFs that the actual level of recurrent revenue pressures /growth is greater than £2m per annum.

6. Grant Settlement 2020/21

- 6.1. The Police grant settlement was announced on the 22nd January 2020, over a month later than the usual settlement date of around mid December, which has not allowed much time for extensive public consultation on the PCC's proposed precept increase of £10, nor for the usual level of engagement with the PCP's Finance working group prior to publication of this report. However the engagement undertaken is believed to have been effective and appropriate considering the time constraints.
- 6.2. The settlement announcement confirmed that for 2020/21:
- i) There would be an increase in Hampshire's Police Grant of £13.8m.
 - ii) The pension grant would be £2.99m (which is a continuation of grant at the same level as 2019/20)
 - iii) Hampshire has been allocated £4.36m of specific ring-fenced grant to fund and enable an 'uplift' in Hampshire's police officer numbers by 156; this grant can only be accessed quarterly in arrears based on actual officer recruitment achieved. See section 6 which sets out further detail on the government's Officer Uplift commitment.
 - iv) The cap on the maximum increase in precept would be set at £10 per year for a Band D property (and it is important to note that the Home Secretary and Policing and Fire Minister's assumptions are very much based on PCCs implementing the maximum £10 increase), which would equate to a 4.96% increase. This is in contrast to last year where the maximum precept increase was capped at £24.24 (an increase of 13.52% in Hampshire) per Band D property.
- 6.3. In a joint letter to the PCC and Chief Constable, the Home Secretary, Rt Hon Priti Patel MP, and the Police and Fire Minister, Kit Malthouse MP, set out that:
- "This Government is determined to strengthen our police service and tackle the level of crime, particularly violent crime, across our country. Having already recruited the first of the 20,000 additional officers, this Government is sending a clear message that it is delivering on the people's priorities and keeping our streets safe.*
- The 2020/21 funding settlement, which has been laid in Parliament today, gives the police the investment they need to deliver on that promise. Taking all funding from the Government and PCCs' precept raising power into account, up to an extra £1.1 billion will be available for investment in policing in 2020/21. Force level allocations are included as an annex to this letter."*
- 6.4. The PCC is supportive of the Government's commitment as set out above, and positively welcomes both the increase in Police Grant for 2020/21, and the specific ring fenced grant to support an increase of 156

police officers. However, he is also conscious that the settlement is silent on:

- i) the level of Police Grant in future years beyond 2020/21;
- ii) the level of future grant to support an ongoing increase in officer numbers as part of the remaining 14,000 officer uplift post 2020/21;
- iii) the maximum precept increase for 2021/22 onwards;

6.5. Therefore, whilst welcoming the settlement for 2020/21, there remains an inability to properly plan ahead in the light of no information on the PCC's funding levels beyond 2020/21. The PCC would also highlight that in total, government grant funding for 2021/22 remains lower in cash terms (and therefore substantially lower in real terms) than the level of grant funding received in 2010/11:

	2010/11 £m	2020/21 £m
Total Government Grant	234.3	218.5
% of total funding available to the PCC	67%	60%

6.6. As set out in previous budget reports, the PCC remains concerned that whilst additional grant and precept flexibility has been very welcome over the last few years, there remains an historical underfunding position in Hampshire compared to other Constabulary areas, which if addressed would deliver substantial further improvements to efficiency, productivity and effectiveness that would keep people SAFER; The independent inspectorate, HMICFRS continues to report that Hampshire is one of the lowest funded forces (5th lowest cost per head of population out of 43 forces in England and Wales).

6.7. The reality of this low funding position is that Hampshire has a very low ratio of officer numbers per 1,000 of population, and as a consequence has a very high investigative caseload per officer compared to other forces.

6.8. This is partly because the Band D rate of council tax precept paid by local residents continues to be below the national average, but predominantly because the current distribution of general grant from Government is not fit for purpose, which according to HMICFRS results in the PCC for Hampshire receiving £43.5m pa less to spend than the national average. That has a direct impact on the service that can be delivered to make the Hampshire Policing Area safer.

- 6.9. Whilst the preference remains for a new national fairer funding formula to be implemented as a priority, this increase in the grant settlement for 2020/21 is welcome, and is recognition of the extensive lobbying by the PCC and his colleagues as to the serious risks facing the delivery of policing as a result of continuous grant settlement reductions, and restrictions on the level of precept which could be raised without recourse to a referendum.

Police Grant Beyond 2020/21

- 6.10. Beyond 2020/21, there is no indication on the level of future police grant (nor Uplift grant).

For the purpose of planning ahead, an assumption has been made that Police Grant will remain static for the period 2021/22 – 2023/24. This is clearly very prudent, but ensures that the MTFS is not developed based on an over estimate of potential future grant increases, and is not an unrealistic scenario given previous grant reduction and also that there has been a significant increase in Police grant for 2020/21 which is felt unlikely to be repeated in future years.

Pension Grant

- 6.11. As part of the settlement, Hampshire will receive a specific grant of £2.99m to contribute towards the additional pension costs which the Constabulary has had to meet since this current year for Police Officer pensions. This grant is the same sum received in the current year.

Capital Grant

- 6.12. Capital grant of £0.3m has been included within this budget report. This represents a significant reduction on the sum received in the current year, which was £1.2m. This grant has historically been used as a funding source for the purchase of Police vehicles/fleet, and this reduction in funding of £0.9m will now need to be funded by a contribution from revenue, which has in effect created a pressure within the budget.

Ministry of Justice Grant

- 6.13. Grant from the Ministry of Justice has been included as an estimate pending confirmation.

Council Tax Freeze Grant

- 6.14. The continuation of this grant has been confirmed for 2020/21 in the sum of £2.520m, which is the same level as the current year, and has been assumed to continue at this value for the duration of the MTFS.

Council Tax Support Grant

- 6.15. The PCC will continue to receive council tax support grant in 2020/21 of £10.424m, which is equivalent to 10% of the council tax precept in 2012/13, to reduce the impact of the loss of council tax precept arising from lower council tax bases as a result of the changes to council tax support made in 2013/14. Decisions taken by local billing authorities regarding council tax support had a direct impact on the council tax

base, and therefore on the amount of precept that the PCC will receive. This grant has been assumed to continue at the same level for the duration of the MTFS.

7. Council Tax Precept

7.1. Each year the Government sets a referendum limit; the limit has been as follows in recent years:

Year	Maximum Precept increase without a Referendum
2015/16	1.99%
2016/17	1.99%
2017/18	£5 (3.12%)
2018/19	£12 (7.25%)
2019/20	£24 (13.52%)

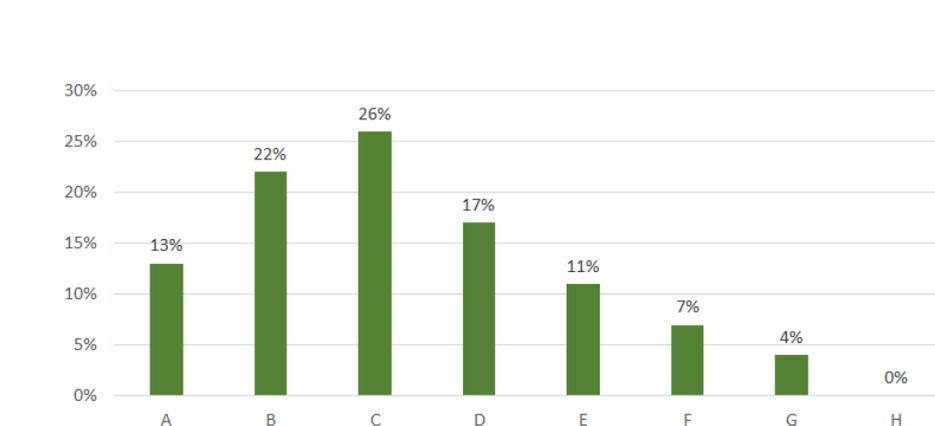
- 7.2. The settlement announcement has confirmed that for 2020/21, PCC's can increase their precept by £10 (which for Hampshire represents a 4.96% increase to the Band D precept) without the need to hold a referendum.
- 7.3. Any precept increase above the referendum limit of £10 will be deemed by the Government to be excessive and therefore a public referendum vote, within the area covered by the proposed increase, would be required to take place to gain approval for an increase in excess of this amount.
- 7.4. The precept decision for 2020/21 needs to take into account both the immediate and medium term resourcing requirements that enable Hampshire, the Isle of Wight, Southampton and Portsmouth to be safer now and in the future. This includes taking account of the Government's proposals to nationally increase police officer numbers by 6,000 in 2020/21, as part of an overall commitment to increase police officer numbers by 20,000 over the next few years.
- 7.5. The PCC's proposal is to increase the precept by the maximum permissible for 2020/21 without recourse to a referendum, which is a £10 increase in his council tax precept (for a Band D property).
- 7.6. In setting the precept and budget, the PCC is seeking to ensure that:
- i) working closely with Chief Constable, and taking account of her professional assessment of operational requirements and risks, the Constabulary budget will continue to enable

the delivery of modern, operationally effective policing, that includes capacity for innovation

- ii) resources are available to the PCC to support 'beyond policing' through commissioning to support victims and the vulnerable, reduce offending and support delivery of the Police and Crime Plan, which also help to reduce demand on frontline policing

- 7.7. Whilst the PCC welcomes the flexibility provided through the settlement to allow a precept increase of up to £10 per annum for a Band D property, and recognises the positive impact the additional revenue raised will have in the delivery of policing in Hampshire and in supporting the Chief Constable, he is acutely aware that in effect the increase in precept is in effect offsetting for the fact that government grant for 2020/21 is substantially less in both cash and real terms compared to 2010/11; the fundamental issue of the PCC being underfunded through the national funding formula remains, with no remedy via a fairer national funding formula anticipated in the near future.
- 7.8. As the referendum limit is an increase of £10, this means that PCCs with precepts that are already high will be able to put their precept up by the same cash increase as PCCs with a lower precept. This is not equitable and serves to maintain the funding inequality gap between PCCs.
- 7.9. Since 2013/14, precept increases in Hampshire have been approved at the maximum amount permitted within the referendum limit, which is in line with Government policy. This has partially mitigated the impact of the grant reductions, although significant savings have still been required.
- 7.10. The current Band D council tax precept for Hampshire Constabulary is £201.46, which is the 12th lowest in the country. The proposed precept increase would make the Band D council tax precept £211.46 in 2020/21. The current intelligence is that the majority of PCCs across England will increase their Band D precept by £10, so it is unlikely that Hampshire's position of 12th lowest precept will alter much if at all.
- 7.11. It is also important to note that a significant number (61%) of households across Hampshire and the IOW are in properties in Bands A – C, and so the increase for those households will be less than £10 per annum, as shown below:

Percentage of Households by Council Tax Band



Impact of a £10 Council Tax Increase By Council Tax Band 2020/21

Band	Monthly increase	Annual increase
A	£0.56	£6.66
B	£0.65	£7.78
C	£0.74	£8.88
D	£0.83	£10.00
E	£1.02	£12.22
F	£1.20	£14.44
G	£1.39	£16.66
H	£1.67	£20.00

7.12. The breakdown of the Hampshire precept by council tax band is shown in further detail in Appendix C, including how the precept in the current year compares with those of other PCC areas.

7.13. Whilst the government expectation is that PCCs will take up the opportunity to raise the council tax precept by £10, the PCC still has the option to not raise the precept at all, or to raise the precept by any amount up to £10.

7.14. The table below shows for a range of precept increases (up to the maximum of £10) the level of precept income which can be raised:

Comparison of Band D precept increase options

Precept increase	20/21 Band D precept (£)	Total precept (£m)	Additional precept income* (£m)
Band D zero%	201.46	£139m	0
Band D 1.99%	205.47	£142m	£3m
Band D £10 (4.96%)	211.46	£146m	£7m

*Excluding any impact of changes to the Council Tax Base.

7.15. In considering his available precept options, the PCC has given consideration to the extent to which the final proposed precept increase enables the delivery of the priorities in his PCP to keep people safer, and also enables the four priorities of the plan which include ensuring that the Chief Constable is able to deliver modern operationally effective policing, alongside delivering the overall Uplift programme.

7.16. The PCC has taken account of the specific professional and operational advice of the Chief Constable and her leadership team as to the operational policing requirements to adequately meet the increasing demand across Hampshire, and the detrimental impact on operational policing within Hampshire which would occur if a precept increase of less than £10 was implemented.

7.17. The Chief Constable is clear in her assessment that the public of Hampshire would be less safe if a lower than £10 precept increase was implemented, and she is fully supportive of the PCC's proposal to increase the precept by the full amount permissible and welcomes the PCC's commitment that the additional funding raised through the precept will be directed in full to support local policing.

7.18. The PCC has concluded, following consultation with the Chief Constable, and having due regard to her recommendations on options for the delivery of modern, operationally effective policing, that increasing the Band D precept by £10 per annum provides the best opportunity to ensure that the residents of Hampshire and the IOW are kept as safe as possible.

Council Tax Precept increase beyond 2020/21

7.19. There is no announcement on the maximum level of precept increase beyond 2020/21.

7.20. For the purposes of preparing the MTFs, a precept increase of 1.99% has been assumed per annum from 2021/22 – 2023/24. This is therefore an identified risk within the proposed MTFs, as the actual allowable increase could be lower.

8. Capital Programme including Estate Development Programme

- 8.1. The Capital Programme for the period 2020/21 to 2023/24 (and later years) is set out in Appendix E, and the Capital Strategy is set out in Appendix F.
- 8.2. The Capital Strategy provides a 'high-level' overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the services within the PCC's remit including policing, and provide an overview of how associated risk is managed and the implications for future financial sustainability.
- 8.3. The cost of financing the approved capital expenditure is included within the revenue budget calculations for capital financing for approved items.
- 8.4. The Estates Change Programme (ECP) is subject to regular review to ensure that the estate is fit for purpose. Savings have been included in future year forecasts based on the current Estates Strategy. They fluctuate across years as some buildings are decommissioned and new accommodation is built or leased.
- 8.5. The PCC and Chief Constable are seeking to ensure that officers, staff and the public are served by modern technology that maximises effectiveness and efficiency. The capital programme includes a number of technology projects as part of the ICT and Digital Transformation Programme.
- 8.6. In addition, as set out section 5 the capital programme will evolve further over the course of the next year or so to take account of the evolving requirements to support the officer uplift, the implementation of a new estates strategy for the Isle of Wight and to take account of the review of the Netley campus.
- 8.7. Additional funding of £1m to has been added to the Capita Financing budget in recognition of this future capital spending, to be used to support borrowing.
- 8.8. In addition, funding of £1m per annum has been set aside as a contribution to an Estates Uplift reserve to fund both tactical short terms changes to the estate to support the initial uplift in police officer numbers, and in the longer term to support borrowing for capital investment to deliver strategic changes to accommodate the impact of the 3 year Uplift programme.

9. Reserves and Financial Stability

- 9.1. Reserves are necessarily and appropriately held as part of good strategic financial management and are a key element in supporting the PCC's medium term planning and Medium Term Financial Strategy.
- 9.2. The level of reserves continues to be reviewed by the PCC, Chief Finance Officers and auditors to ensure that suitable reserves are in place to mitigate and manage the risk of the financial challenges faced, and to ensure that reserves are not unnecessarily held to the extent that

is detrimental to current service delivery. The level of reserves required and the intended use of those reserves is reviewed on a regular basis.

- 9.3. It is now recognised by the Home Office that it is prudent to hold appropriate reserves to both manage risk and to avoid cliff edges caused by reductions in funding, and to also be able to continue to deliver efficient and effective operational policing.
- 9.4. For the 2020/21 budget, two new earmarked reserves have been created:
 - i) **Officer Uplift Reserve** - This reserve will specifically set funding aside (£14.3m) to meet the future non pay costs and infrastructure requirements in support of increased officer numbers over the next 3 years. This will ensure that as officer numbers increase incrementally, funding is available for the necessary equipment, training, infrastructure etc. that will be required.
 - ii) **Estates Uplift Reserve** - A recurrent sum of £1m has been set aside as a contribution to this reserve to fund the tactical changes to the estate in the short term to accommodate the increase in officer numbers, and in the longer term to provide a contribution to support borrowing for the capital investment to deliver strategic changes to the estate to accommodate the overall impact of the 3 year Uplift programme.
- 9.5. In the short term, reserves will therefore increase to recognise that the impact of the police officer uplift over the next 3 years will need to be supported in terms of the supporting infrastructure, equipment, training, etc., with budget drawn down as required to match the phasing in of increased officer numbers (but to be 'funded' from the current police grant settlement).
- 9.6. The PCC continues to use reserves to pay for the cost of change and the transformation that is required to meet both the financial challenge and the necessary investment to ensure that the Constabulary remains a modern, operationally effective Police Service.
- 9.7. In 2019/20 it is forecast that £13.4m will have been drawn down from reserves to fund transformation and other one off initiatives. For example, during the year the Commissioner invested £4.9m on ICT developments, £3.7m on Estates investment and £0.8m on Wellbeing initiatives.
- 9.8. Reserves are also a one off resource, which unless replenished, can rapidly diminish.
- 9.9. In the medium term there is likely to remain significant financial stress in the system to be managed, including:
 - i) Managing the overall financial position against a back drop of increasing demand
 - ii) The investment required to ensure that the Constabulary remains modern and fit for purpose, ahead of those who

wish us harm and are engaged in criminal activities using technology as the vehicle

- iii) The still to be determined consequences of national programmes (e.g. ESMCP) which require a local funding stream for delivery of its outcomes as well as being subject to growing needs for top sliced contributions to deliver the national infrastructure
- iv) The significant investment required to embrace an ever evolving technology and digital landscape

9.10. In view of the cost pressures faced by the PCC and the Constabulary, in the medium term there is likely to be a significant call on reserves to fund one off pressures, initiatives and investment.

9.11. The two main reserves available to the PCC to fund these cost pressures are the General Reserve and the Transformation Reserve.

9.12. **General Reserve** – This is the main reserve held to manage unidentified and unforeseen risk. The PCC CFO is required to set a minimum level for the General Reserve, and this is currently set on a risk basis at £5.5m. This reserve is currently £2.8m above the minimum level, however, for example the cost of re-investigating historic cases such as the Gosport War Memorial Hospital may impact this reserve.

9.13. **Transformation Reserve** – This reserve was specifically set up to recognise the significant investment required to deliver transformational change, support the significant investment requirements linked to technology development and digital initiatives, and to provide a buffer to help manage the budget in the medium term given the ongoing uncertainty around the level of Police grant and the precept referendum cap.

9.14. Transformational change investment and programmes generally impact over more than one financial year and ensuring funds are allocated to enable delivery of the key change programmes and their outcomes makes prudent sense at a time when budgets continue to be based on annual settlements.

9.15. The Transformation Reserve has a current unallocated balance of £12m against which it is anticipated there will be a regular draw down to fund specific initiatives, averaging out at £3m per annum, leaving a forecast balance of £0.6m by 2023//24. This is illustrated below:

Transformation Reserve

	£m
Current unallocated balance	12.6
Forecast draw	(12.0)
Remaining Balance	0.6

- 9.16. There is already a significant pipeline of projects which due to funding constraints have not been prioritised for inclusion in the current budget/MTFS, but will need to be continually reassessed and prioritised for future investment.
- 9.17. For example, projects in the pipeline would include:
- Investment in artificial intelligence
 - Implementation of national technology projects and further local enabling projects
- 9.18. There therefore remains a significant number of potential calls for one off investment for consideration by the PCC, and we know that change and transformation will be continual.
- 9.19. It is clear that to ensure that the Constabulary continues to be a modern, operationally effective Police service, that ongoing investment to support transformation and keeping up to date with technology will be required.
- 9.20. The PCC CFO's assessment is that the level of the General Fund reserve is reflective of the overall risk environment in which the PCC operates, and that the level of Transformation Reserve is prudent and necessary to meet the ongoing requirement for one off expenditure to meet the transformation required to ensure that in the years ahead the Constabulary remains a modern operationally effective police force.
- 9.21. The PCC CFO, in consultation with the Constabulary CFO, has also assessed the potential future costs associated with the Uplift in police officer numbers, and is content that in light of current available information, the Uplift reserve provides a prudent level of reserves funding to help support the ongoing Uplift in officer numbers over the next 3 years, albeit that there remains a risk that due to the lack of detail over Uplift numbers in 2021/22 and 2022/23, the reserve may or may not be sufficient (but this risk is offset to a certain extent as the Constabulary will be able to manage overall recruitment and has a buffer of further reserves - (e.g. the General Reserve and Transformation reserve - against which risk can be managed).
- 9.22. The Reserves Strategy is set out in Appendix G.

10. Partnerships

- 10.1. Hampshire continues to play its part supporting national policing.
- 10.2. A number of partnerships are supported across the Force. These include the ACPO Criminal Records Office (ACRO) which is funded by the Home Office, NPCC, fees and European funding. Staff at ACRO are officially employed by the Chief Constable. The costs of supporting ACRO are recharged. In addition, a surety is held in reserves to guard against any liabilities. These reserves are not available to the PCC to support policing in Hampshire.

10.3. Less financially significant partnerships exist with the Local Criminal Justice Board, Youth Offending Team (YOT) and Community Safety Partnerships.

11. Consultation

- 11.1. As set out in section 96 of the Police Act 1996, as amended by section 14 of the Police Reform and Social Responsibility Act 2011, the PCC must obtain the views of the local community on the proposed expenditure (including capital expenditure) in the financial year ahead of the financial year to which the proposed expenditure relates.
- 11.2. Public consultation is undertaken through the year by the Police and Crime Commissioner. During 2019 members of the public have taken part in face to face consultation at a range of local community and county-wide events. This consultation has included asking if local residents would support an increase in the policing precept and on policing priorities. Following the announcement of the Police Grant Settlement on 22 January 2020, an online survey was immediately launched to provide an opportunity for local residents to indicate if they would support the specific increase of £10 per year, equivalent to 83p per month. The survey was hosted on the Police and Crime Commissioner's website and shared through a number of channels. Due to the limited time available focus groups were not undertaken this year.
- 11.3. The public consultation exercise on the precept increase has had three distinct elements:
- v) An online survey, which saw 4,377 people submit responses as of Wednesday 29 January 2020.
 - vi) An engagement consultation card, which was completed by 1,204 members of the public at events attended by the Office of the Police and Crime Commissioner since June 2019. An online version of the consultation engagement card was completed by 471 people.
 - vii) A YouGov survey of 500 demographically weighted respondents across Hampshire and the Isle of Wight.
- 11.4. The outcome from each individual element of the consultation, and the overall collective outcome shows that there is significant support for a precept increase.

Online Survey

- 11.5. The overall online survey results achieved a statistically relevant response and show that 74.2% of respondents supported an increase of £10 per year. Further details are set out below Online Survey.
- 11.6. The online survey went live and has been promoted to the public since 22 January 2020. As of 29 January 2020 residents from across the Hampshire Policing area have fed back their views by completing the online survey.

11.7. From the total number of 4,377 responses, 4,260 individuals responded to the specific question:

‘This year (2020/21) the government is giving the PCC flexibility to increase the policing element of the council tax by £10 per year which is equivalent to 83p per month (based on a Band D property). Would you be willing to pay this?’

11.8. Of those responding:

- 74.2% said they would support an increase in council tax of £10
- 25.8% said they would not support an increase in council tax of £10

Engagement Card (including online version)

11.9. During external events, an engagement card survey has been used to gauge public views on the policing precept and priorities. This has created an opportunity for face to face consultation throughout the year.

11.10. An online version has also been available since the start of 2020.

11.11. Through the engagement card survey, local residents were asked:

‘If the commissioner is permitted by Government to increase the council tax again in 2020/21, would you be willing to pay more?’

11.12. Respondents who answered this question were given the following choices:

- Yes
- No
- Don’t Know

11.13. The following results show that 66% of respondents to this question would be willing to pay more in their council tax:

		% of respondents
Yes	793	66%
No	158	13%
Don’t know	253	21%
Total	1204	100%

11.14. The top areas where respondents would prioritise a funding increase are:

- ASB
- Violent Crime
- Child Sexual Exploitation
- Theft (including burglary and vehicle crime)

YouGov Survey

11.15. An additional survey of 500 respondents was undertaken through YouGov in November 2019 to ensure a demographically representative sample of responses were also achieved. The survey was conducted using an online interview administered to members of the YouGov panel. The responding sample is weighted to ensure responses are fully representative from across the 14 districts.

11.16. The outcome from this survey was that:

- Willingness to pay more council tax to improve policing:
 - 58% - willing to pay more
 - 27% - not willing to pay more
 - 16% - not sure

- PCC investment of council tax: top three areas of importance for residents:
 - 59% Anti-social behaviour
 - 49% Theft (burglary and vehicle crime)
 - 32% Crime prevention

12. Risks

12.1. There are a number of risks that could impact on the financial position in 2020/21 and beyond, for example key risks would be:

- a decrease in government grant which would represent a reduction in funding compared with the flat grant assumption over the duration of the MTFS period
- the allowable maximum precept increase is less than the assumed 1.99% increase included in each year of the MTFS 2021/22 onwards
- inflation is greater than forecast which would create a cost pressure (as an example, each 1% increase in the pay award beyond the current assumption of a 2.5% pay award would lead to a cost pressure of £2.5m)
- grant funding for the pay costs of the Officer Uplift programme being insufficient to cover costs
- funding set aside for the estates and infrastructure costs of the Officer Uplift programme being insufficient to cover costs
- the £2m incremental recurrent revenue funding each year within the MTFS is insufficient to cover new recurrent revenue pressures
- the cost of borrowing increases reducing the level of borrowing which can be taken out to support the emerging capital programme pressures
- an increase in national top-slices

- a risk that partner agencies could reduce or withdraw their services which puts additional financial pressure on the police service
- some activities and funding could be moved to a regional or national basis that would remove funding from the Hampshire Policing Area. There is a risk that the removal of funding causes a financial difficulty that needs to be managed locally
- Insufficient savings are identified or delivered to meet the forecast medium term budget shortfall, necessitating a draw from reserves to balance the budget in any one year
- the McCloud Pensions judgement impacts the Police Pension scheme – potential compensation payments to claimants

12.2. The overall level of risk has been taken into account in assessing the minimum and overall level of reserves, and as set out in paragraph 9.20 (and in the Section 25 report in Appendix H), the PCC CFO is content that the level of General Reserve is reflective of the overall risk environment, and also that the level of Earmarked Reserves are appropriate.

13. Recommendations

13.1. It is recommended that the Police and Crime Panel support the Police and Crime Commissioner's (PCC) proposed precept increase of £10 per annum for Band D properties, which is the equivalent of 83p per month, or 19p per week.

13.2. To note that 61% of households across Hampshire and the IOW are in properties in council tax bands A-C (see paragraph 7.11), and would therefore see a precept increase of less than £10 per annum if the above recommendation is supported.

13.3. To note that the full precept increase will be utilised in support of local policing.

13.4. The Panel endorse the proposals in this report which ensure that for 2020/21 there will be significant investment in Policing within the Hampshire Policing area, including an increase in police officer numbers by 156 above the existing budgeted establishment as part of the first tranche of the Government's commitment to increase police officer numbers nationally by 20,000.

13.5. The Panel note that the PCC has undertaken broad consultation over the course of the last year to determine the public support for a precept increase, and that the overall collective outcome of the consultation shows that there is significant support for a precept increase.

Inflation and Assumptions

Inflation	2020/21	2021/22	2022/23	2023/24
Pay Inflation	2.5%	2.5%	2.5%	2.5%
Default prices inflation	2.0%	2.0%	2.0%	2.0%

*exact inflation used where it is known for certain contracts

Employer Pension Contributions	2020/21	2021/22	2022/23	2023/24
Officers	31.0%	31.0%	31.0%	31.0%
Staff	16.7%	16.7%	16.7%	16.7%

Funding	2020/21	2021/22	2022/23	2023/24
General Govt grant	7.5%	0.0%	0.0%	0.0%
Council tax benefit & freeze grants	0.0%	0.0%	0.0%	0.0%
Pension grant	0.0%	0.0%	0.0%	0.0%
Precept	4.96%	1.99%	1.99%	1.99%

Damping adjustments for policing bodies 2013/14

Policing Body	£
Northumbria	21,646,837
Cumbria	16,146,262
West Mercia	11,289,920
Cheshire	11,174,685
City of London	10,838,105
North Yorkshire	9,415,888
Merseyside	8,833,009
Lancashire	7,700,476
Surrey	6,257,140
Durham	6,074,960
Kent	5,822,489
Devon & Cornwall	3,605,644
Wiltshire	2,613,964
Gloucestershire	1,862,431
Sussex	1,402,612
Cleveland	1,341,929
Suffolk	1,134,057
Warwickshire	1,075,715
Essex	91,308
Norfolk	29,685
Lincolnshire	-237,331
South Yorkshire	-1,807,926
Dorset	-1,938,371
Derbyshire	-2,145,554
Staffordshire	-2,366,873
Northamptonshire	-2,511,967
Hertfordshire	-2,953,793
Bedfordshire	-3,028,976
Humberside	-3,693,512
Thames Valley	-4,258,419
Cambridgeshire	-4,495,316
Leicestershire	-4,796,405
West Yorkshire	-5,416,798
Greater London Authority	-6,752,890
Greater Manchester	-6,921,089
Hampshire	-10,088,267
Nottinghamshire	-10,477,328
Avon & Somerset	-10,711,010
West Midlands	-43,755,289

Council tax Precept 2018/19

Council tax at each band								
Band	A	B	C	D	E	F	G	H
2020/21	140.97	164.47	187.96	211.46	258.45	305.44	352.43	422.92
2019/20	134.31	156.69	179.08	201.46	246.23	291.00	335.77	402.92

	2010-20 Band D Precept	2020-21 Precept Assuming all increase by £10
PCC		
North Wales	£278.10	£288.10
Surrey	£260.57	£270.57
South Wales	£257.52	£267.52
Cumbria	£256.68	£266.68
North Yorkshire	£255.77	£265.77
Gwent	£255.53	£265.53
Norfolk	£253.08	£263.08
Cleveland	£250.54	£260.54
Gloucestershire	£250.49	£260.49
Dyfed-Powys	£248.56	£258.56
Northamptonshire	£245.04	£255.04
MOPAC	£242.13	£252.13
Lincolnshire	£241.38	£251.38
Dorset	£230.58	£240.58
Warwickshire	£227.98	£237.98
Humberside	£223.31	£233.31
Leicestershire	£223.23	£233.23
Cambridgeshire	£222.66	£232.66
Nottinghamshire	£219.33	£229.33
Avon & Somerset	£217.81	£227.81
West Mercia	£216.66	£226.66
Derbyshire	£216.60	£226.60
Staffordshire	£216.56	£226.56
Suffolk	£212.76	£222.76
Devon & Cornwall	£212.28	£222.28
Thames Valley	£206.28	£216.28
Wiltshire	£206.27	£216.27
Durham	£205.24	£215.24
Bedfordshire	£202.09	£212.09
Merseyside	£201.97	£211.97
Hampshire	£201.46	£211.46
Lancashire	£201.45	£211.45
Cheshire	£200.44	£210.44
Greater Manchester	£198.30	£208.30
South Yorkshire	£194.16	£204.16
Kent	£193.15	£203.15
Essex	£192.96	£202.96
Sussex	£189.91	£199.91
Hertfordshire	£188.00	£198.00
West Yorkshire	£186.95	£196.95
West Midlands	£152.55	£162.55
Northumbria	£134.33	£144.33

Appendix D

Budget 2019/20 and Medium Term Financial Strategy

Medium Term Financial Strategy		Starting Budget 2020/21	Efficiency Savings	Growth & Budget Pressure	Inflation	Forward Budget 2020/21	Forecast Budget 2021/22	Forecast Budget 2022/23	Forecast Budget 2023/24
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Funding:									
Expected amount from General Grants	GG	(184,383)	0	0	(13,799)	(198,182)	(198,182)	(198,182)	(198,182)
Council tax freeze and benefit grant	CTB	(12,944)	0	0	0	(12,944)	(12,944)	(12,944)	(12,944)
Pension Grant	PG	(2,988)	0	0	0	(2,988)	(2,988)	(2,988)	(2,988)
Uplift Grant	UG	0	0	(4,358)	0	(4,358)	(8,400)	(12,600)	(12,600)
Council tax precept	CT	(147,619)	0	0	0	(147,619)	(151,311)	(155,092)	(158,971)
Council tax collection fund surplus	CFS	(607)	0	0	0	(607)	(607)	(607)	(607)
Total amount funding expected:		(348,541)	0	(4,358)	(13,799)	(366,698)	(374,432)	(382,414)	(386,293)
Expenditure owned by the PCC:									
Office of the PCC	PCC	2,030	0	55	50	2,135	2,186	2,238	2,290
Commissioning	Comm	2,194	0	0	56	2,250	2,260	2,270	2,280
Estates	Estates	17,952	0	0	315	18,267	18,695	19,133	19,581
Capital Financing	CF	3,209	(13)	1,000	0	4,196	4,164	4,144	4,144
Interest on Balances	IN	(500)	0	0	0	(500)	(500)	(500)	(500)
Contributions to / (from) Reserves:	RE	3,199	0	15,037	0	18,236	15,139	11,222	16,043
Net Expenditure owned by Office of the PCC		28,085	(13)	16,092	421	44,584	41,943	38,505	43,838
Police Services									
Expenditure:									
Employees	EM	253,239	(6,418)	11,821	5,383	264,026	274,857	286,651	295,772
Indirect Employee Costs	IE	5,650	0	354	0	6,003	6,026	6,004	6,080
Premises	PR	1,080	(25)	500	25	1,580	1,109	1,138	1,168
Transport	TR	6,259	(125)	427	125	6,686	6,629	6,831	6,865
Supplies and Services	SS	15,335	(250)	3,105	301	18,491	19,325	22,270	23,840
Third Party Payments	TP	57,672	(5)	2,858	1,573	62,097	62,004	63,219	64,107
Support Services	SU	2,735	0	0	0	2,735	2,735	2,735	2,735
Total Expenditure on Police Services:		341,971	(6,823)	19,064	7,407	361,619	372,683	388,849	400,567
Income:									
Fees & Charges	SI	(6,782)	0	0	0	(6,782)	(6,917)	(7,054)	(7,194)
Grants & Contributions	GC	(30,158)	0	0	0	(30,158)	(30,712)	(31,277)	(31,854)
Internal Income	RC	(2,565)	0	0	0	(2,565)	(2,565)	(2,565)	(2,565)
Total Income on Police Services:		(39,505)	0	0	0	(39,505)	(40,194)	(40,896)	(41,613)
Net Expenditure on Police Services:		302,466	(6,823)	19,064	7,407	322,114	332,490	347,952	358,955
Net Expenditure on PCC and Police Services		330,550	(6,836)	35,156	7,828	366,698	374,432	386,458	402,792
Budget (surplus)/ shortfall:		(17,991)	(6,836)	30,799	(5,972)	0	0	4,044	16,499
Cumulative savings included above:						(6,836)	0	0	0

Capital Programme

	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
Estates:					
Estate Change Programme	6,137	11,204	4,936	-	-
Estates Capital Works	1,404	2,313	1,000	1,000	1,000
Estates Specific Projects	2,544	-	1,800	-	-
Vehicles	3,190	2,300	2,300	2,300	2,300
TOTAL	13,275	15,817	10,036	3,300	3,300
Capital receipts:					
Operational buildings	(3,433)	(15,110)	(5,050)	(3,450)	-
Residential buildings	-	(1,198)	-	-	-
Vehicles	(300)	(300)	(300)	(300)	(300)
Capital grant	(1,184)	(300)	(300)	(300)	(300)
RCCO	(5,641)	(3,644)	(5,800)	(2,000)	(2,000)
TOTAL	(10,558)	(20,552)	(11,450)	(6,050)	(2,600)
(Surplus) / Shortfall	2,716	(4,735)	(1,414)	(2,750)	700

Capital and Investment Strategy 2020/21 to 2023/24

- 1.1 This report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the services within the PCC's remit including policing, and provide an overview of how associated risk is managed and the implications for future financial sustainability. The Office of the Police and Crime Commissioner (OPCC) has previously reported these matters in separate reports (the revenue budget, capital programme and the medium term financial strategy). In line with the latest statutory guidance, these inter-related issues are brought together in this Capital and Investment Strategy.
- 1.2 This strategy covers:
- Governance arrangements for capital investment
 - Capital expenditure forecasts and financing
 - Prudential indicators relating to financial sustainability
 - Minimum revenue provision for the repayment of debt
 - Treasury Management definition and governance arrangements
 - Knowledge and skills
 - Chief Finance Officer's conclusion on the affordability and risk associated with the capital and investment strategy
 - Links to the statutory guidance and other information

2 Governance

- 2.1 The OPCC's medium term financial strategy ensures that we continue to invest wisely in our existing assets and deliver a programme of new assets in line with overall priorities and need.
- 2.2 The major area of OPCC capital expenditure is the Estate Change Programme which is monitored and reviewed by the ECP Board. Other areas of the capital programme are kept under review by the Chief Finance Officer.
- 2.3 In accordance with the medium term financial strategy, proposed programmes are scrutinised on a case by case basis to assess affordability. The final capital programme is then presented to the Police

and Crime Commissioner (PCC) in February each year for approval as part of the budget and overall MTFs.

3 Capital expenditure and financing

- 3.1 Capital expenditure is what the OPCC spends on assets, such as land, property and vehicles, which will be used for more than one year.
- 3.2 Capital expenditure may be funded directly from revenue however the general pressures on the OPCC's revenue budget and council tax levels limit the extent to which this may be exercised as a source of capital funding.
- 3.3 Prudential borrowing does provide an option for funding additional capital development/expenditure but one which then results in borrowing costs that have to be funded each year from within the revenue budget or from generating additional ongoing income streams.
- 3.4 Given the pressure on the OPCC's revenue budget in future years, prudent use has been made of this discretion to use borrowing to progress schemes in cases where there was a clear service or financial benefit.
- 3.5 The following table shows forecast capital expenditure and the resources available to fund this expenditure.

Table 1 – Forecast capital expenditure and resources to fund capex

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Forecast expenditure	13.3	15.8	10.0	3.3
Prudential borrowing	2.8	(4.7)	(1.5)	(2.8)
Capital grants	1.2	0.3	0.3	0.3
Capital receipts	3.7	16.6	5.4	3.8
Revenue contributions to capital	5.6	3.6	5.8	2.0
Total resources available	13.3	15.8	10.0	3.3

4 Prudential Indicators

- 4.1 The framework for the use of prudential borrowing, as updated in February 2006, includes:
- borrowing for which loan charges are financed from the revenue budget
 - temporary borrowing to accommodate shortfalls in general capital resources.

- 4.2 As the loan repayments and interest charges have to be financed by the OPCC from its own resources, it is important that the use of prudential borrowing is very closely controlled and monitored.
- 4.3 The OPCC's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). In order to ensure that over the medium term debt will only be used to fund capital, the OPCC should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

Table 2 – Ensuring borrowing is only for capital purposes

	2018/19	2019/20	2020/21	2021/22	2022/23
	Revised	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
CFR	58.1	58.9	52.3	49.2	44.8
Debt	(31.0)	(30.7)	(30.7)	(29.7)	(29.7)

- 4.4 Total debt is expected to remain below CFR during the forecast period.

Affordable borrowing limit

- 4.5 The OPCC is legally obliged to set an authorised limit for the maximum affordable amount of external debt. In line with statutory guidance, a lower 'operational boundary' is also set as a warning level should debt approach the limit. The operational boundary is based on the OPCC's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the OPCC's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

Table 3 – Affordable borrowing limits

	2019/20	2020/21	2021/22	2022/23
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Authorised Limit for Borrowing	88.1	81.5	78.4	74.0
Authorised Limit for Other Long-term Liabilities	5.0	5.0	5.0	5.0
Authorised Limit for External Debt	93.1	86.5	83.4	79.0
Operational Boundary for Borrowing	74.0	67.4	64.3	59.9
Operational Boundary for Other Long-term Liabilities	5.0	5.0	5.0	5.0
Operational Boundary for External Debt	79.0	72.4	69.3	64.9

Ratio of Financing Costs to Net Revenue Stream

- 4.6 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of

the revenue budget required to meet financing costs, net of investment income.

Table 4 – Ratio of Financing Costs to Revenue Budget Requirement

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Ratio	0.77%	1.01%	0.98%	0.87%

A low proportion is forecast demonstrating that the cost of financing is minimised and the proportion of revenue budget available for delivering services is maximised.

Incremental Impact of Capital Investment Decisions

- 4.7 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed for the next three years.

Table 5 - Incremental Impact of Capital Investment Decisions

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£	£	£
General Fund - incremental impact on annual band D Council Tax	(1.29)	3.08	(5.97)

5 Minimum Revenue Provision for debt repayment

- 5.1 Where the OPCC finances capital expenditure by debt, statutory guidance requires it to put aside revenue resources to repay that debt in later years, known as Minimum Revenue Provision (MRP). The Department for Communities and Local Government’s Guidance on Minimum Revenue Provision (the CLG Guidance) requires the OPCC to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

MRP in 2020/21

- 5.2 Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) capital expenditure funded from borrowing. Methods of making prudent provision for unsupported capital expenditure include Options 3 and 4 (which may also be used for supported capital expenditure if the OPCC chooses).
- 5.3 The OPCC will apply Option 1/Option 2 in respect of supported capital expenditure funded from borrowing and Option 3/Option 4 in respect of unsupported capital expenditure funded from borrowing.
- 5.4 MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayments for the associated deferred liability.
- 5.5 The OPCC is proposing to add £1m to its revenue budget from 20/21 for additional Minimum Revenue Provision (MRP). This will allow for additional borrowing of up to £18m to fund new capital spend on a number of initiatives currently being drawn up. Once the timing and details are confirmed, future strategies will be adjusted accordingly.
- 5.6 Capital expenditure incurred during 2020/21 will not be subject to a MRP charge until 2021/22.
- 5.7 Based on the OPCC's latest estimate of its Capital Financing Requirement on 31st March 2020, the budget for MRP has been set as follows:

	31.03.2020 Estimated CFR £m	2020/21 Estimated MRP £
Supported capital expenditure	0	138,000
Unsupported capital expenditure after 31.03.2008	58.9	1,762,000
Finance leases and Private Finance Initiative	0	0
Transferred debt	0	0
Loans to other bodies repaid in instalments	0	0
Increase for future borrowing	0	1,000,000
Total General Fund	58.9	2,900,000

6 Treasury Management

- 6.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the OPCC's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The OPCC is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 6.2 The OPCC has potentially large exposures to financial risks through its investment and borrowing activity, including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the OPCC's treasury management strategy.
- 6.3 The OPCC's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the OPCC's long-term plans change is a secondary objective.
- 6.4 The OPCC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. It therefore invests its funds prudently, and has regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.
- 6.5 The OPCC's Treasury Management Strategy is scrutinised by the Joint Audit Committee and approved by the PCC each year. Actual performance is reviewed by the Joint Audit Committee and reported to the PCC.

7 Investments targeting higher returns

- 7.1 The OPCC first invested in pooled property and equity funds in 2014 as part of its strategy to counter the increasing risk and very low returns from short-term unsecured bank investments, increasing the earmarked allocation to investments targeting higher yields to £10m in 2019.
- 7.2 The selection of investments in pooled investment vehicles is carefully managed with the assistance of Arlingclose, the OPCC's treasury management advisor. These pooled investment vehicles allow the OPCC to gain exposure to a diversified mix of investments without having to own or manage the underlying assets whilst also benefiting from the skills and expertise of specialist investment and asset managers.

- 7.3 The principle mitigation for risk is ensuring that investments in non-cash assets are held as long-term investments. This allows the initial cost of any investment and any periods of falling capital values to be overcome and it is therefore the OPCC's intention to hold these investments for at least the medium term.

8 Knowledge and skills

- 8.1 The OPCC employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions in accordance with the approved strategies. Performance against targets and learning and development needs are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
- 8.2 Staff attend training courses, seminars and conferences provided by CIPFA, Arlingclose and other providers. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.
- 8.3 CIPFA's Code of Practice requires that the OPCC ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Members of the Joint Audit Committee attended a workshop presented by Arlingclose in November 2019, which gave an update of treasury matters. A further Arlingclose workshop has been planned for November 2020.

Investment Advisers

- 8.4 The OPCC has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with Arlingclose, the Chief Finance Officer and his staff.

9 Chief Finance Officers conclusion on the affordability and risk associated with the Capital and Investment Strategy

- 9.1 This Capital and Investment Strategy has been developed alongside the Treasury Management Strategy and the Reserves Strategy (Appendix X). Together, they form an integrated approach adopted by the OPCC to balance the need for capital investment to support service priorities with consideration of affordability and the consequent impact on the revenue budget whilst recognising and managing risk to an acceptable level.
- 9.2 The forward planning of capital funding, including being in a position to maximise the use of external grants, contributions and capital receipts, together with the process of regular monitoring of actual income, expenditure, and project progress, provides assurance to the Chief Finance

Officer that the proposed capital programme is prudent, affordable and sustainable.

10 Links to statutory guidance and other information

10.1 The Local Government Act 2003, section 15(1) and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] require Local Authorities to have regard to the following guidance:

- MHCLG - Local Government Investment* [MHCLG Investment](#)
- CIPFA's Prudential Code 2017
- CIPFA's Treasury Management Code 2017

* Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, a Treasury Management Strategy in line with the requirements of the Treasury Management Code, the Investment Strategy can be published in those documents instead of a separate document

10.2 The Treasury Management Strategy is a separate document reported to JAC and PCC.

RESERVES STRATEGY 2020/21

HAMPSHIRE POLICE AND CRIME COMMISSIONER

1. Background

- 1.1. The PCC first published a Reserves Strategy as part of the 2018/19 budget report.
- 1.2. On the 31 January 2018, new reserves guidance was issued to all PCCs (see the link below). The requested information required in the new guidance is consistent with the existing Reserves Strategy but requests a further level of detail. This report sets out the relevant information already published in the Budget report and also the additional detail requested.

<https://www.gov.uk/government/publications/police-finance-reserves-guidance>

- 1.2. The Reserves Profile shows that existing planned commitments will result in a forecast reduction of reserves by March 2024 to £30.9m (down from £65.3m at the end of March 2019), of which the General Reserve would be £14.0m; 3.6% of the forecast 2023/24 revenue budget (£386.3m). This assumes that there are no adverse issues that impact on the General Reserve.
- 1.3. The PCC Chief Finance Officer has a responsibility to ensure that the level of reserves maintained is sufficient. The Police Reform and Social Responsibility Act 2011 states that only the PCC, and not the Chief Constable, is permitted to hold reserves.
- 1.4. The Chartered Institute of Public Finance and Accountancy (CIPFA) produces guidance on reserves, but the exact level of reserves to be held is left as a local decision due to the need to reflect individual circumstances. Whilst there are no firm requirements on the amount, it is clear that reserves must be held to ensure that the organisation is able to meet any unexpected liabilities. CIPFA warned that the use of reserves to deal with shortfalls in day-to-day spending would be a “recipe for significant financial problems”.
- 1.5. Reserves required for accounting purposes only are not covered by this strategy as they are not optional and follow proper accounting practices.

2. Financial Stability

- 2.1. The PCC continues to use reserves to pay for the cost of change that is required to meet both the financial challenge and the necessary investment

to ensure that the Constabulary remains a modern, operationally effective Police Service.

- 2.2. The level of reserves continues to be reviewed by the PCC, Chief Finance Officers and auditors to ensure that suitable reserves are in place to mitigate and manage the risk of the financial challenges faced, and to ensure that reserves are not unnecessarily held to the extent that is detrimental to current service delivery.
- 2.3. Additionally, Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) also review reserves. The current rating for efficiency is 'good' with no areas for improvement recommended for financial management or reserves.

Reserves are necessarily and appropriately held as part of good strategic financial management and are a key element in supporting the PCC's medium term planning and Medium Term Financial Strategy. Reserves held by the PCC are increasing in the short term (primarily to fund the Uplift programme over the next 3 years) but are forecast to reduce in the medium term.

- 2.4 Reserves are also a one off resource, which unless replenished, can rapidly diminish.

- 2.5. In the medium term there is significant financial stress in the system to be managed, including:

- i) managing the impact of changes in government funding against a back drop of increasing demand
- ii) funding necessary investment to deliver the PCC's ambition in relation to delivery of the Police and Crime Plan and commissioning of services
- iii) the consequences of national programmes (e.g. ESMCP) which require a local funding stream for delivery of its outcomes as well as being subject to growing needs for top sliced contributions to deliver the national infrastructure.
- iv) the significant investment required to embrace an ever evolving technology and digital landscape.
- v) the investment required to ensure that the Constabulary remains modern and fit for purpose, ahead of those who wish us harm and are engaged in criminal activities using technology as the vehicle.

- 2.6. In view of the cost pressures faced by the PCC and the Constabulary, in the medium term there will be a significant call on reserves to fund one off pressures, initiatives and investment.

- 2.7. In setting a precept increase for Band D of £10 per annum, the PCC has been able to fund the current priority growth/pressure items from within the revenue budget over the next 4 years.

- 2.8. This allows the draw on reserves to be reduced, and for the current level of the Transformation Reserve to be protected as part of agreeing the 2020/21 budget (net of the earmarked projects already agreed), with the

remaining balance earmarked for future utilisation to fund the required ongoing change and transformation which the Constabulary will be required to deliver in later years of the MTF5; there is already a significant pipeline of projects which due to funding constraints have not been prioritised for inclusion in the current budget/MTFS, but will need to be continually reassessed and prioritised for future investment.

- 2.9. There therefore remains a significant number of potential calls for one off investment for consideration by the PCC, and we know that change and transformation will be continual.

3. Reserves

- 3.1. The PCC continues to use reserves to pay for the cost of change that is required to meet both the financial challenge and the necessary investment to ensure that the Constabulary remains a modern, operationally effective Police Service.
- 3.2. The forecast Reserves position is set out in full in Appendix 1, with a snapshot of the position below which shows the position as at 31 March 2019, the forecast position as at 31 March 2020 and the forecast position through to the end of the medium term financial strategy as at 31 March 2024:

	Actual as at 31 March 2019	Forecast as at 31 March 2020	Forecast as at 31 March 2024
General Reserve	10.8	8.4	14.0
Earmarked Reserves	45.8	38.4	8.2
Total Reserves available for use by the PCC to support Policing and 'Beyond Policing' to deliver the Police and Crime Plan	56.6	46.8	22.1
Ring fenced Reserves held on behalf of others not available to spend by the PCC	8.7	8.7	8.7
Total Reserves	65.3	55.5	30.9

- 3.3. The table above shows that whilst the total reserves attributable to the PCC are forecast to be £55.5m at 31st March 2020, only £46.8m is available to be used directly by the PCC to support Policing and the 'beyond policing' element of his Police and Crime Plan.

- 3.4. The table also shows that reserves are forecast to reduce significantly by March 2024.
- 3.5. The two main reserves available to the PCC to fund investment, transformation and cost pressures are the General Reserve and the Transformation Reserve (which is included within 'Earmarked Reserves').
- 3.6. Whilst the General Reserve will remain fairly static over the next three years, the addition of the LGPS lump sum saving in 2022/23 and 2023/24 is contributing to the increase of this reserve in future years (section 4.1 – 4.4). However, it is anticipated that these funds will be used to fund one-off initiatives from 2022/23 onwards. There are already significant plans in place to fund a range of committed or anticipated projects from the Transformation Reserve; further detail is set out in section 5.3 – 5.7.

Categorisation of Reserves

- 3.7. The Reserves Guidance issued on the 31st January 2018 requests that reserves are split across the following headings:
 - Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan
 - Funding for specific projects and programmes beyond the current planning period will currently be the balances remaining as at March 2024.
 - The general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management

The above split of reserves is shown in Appendix 1.

4. General Reserve (Forecast 31 March 2020 is £8.4m)

- 4.1. The General Reserve is the main reserve held to manage unidentified and unforeseen risk. The PCC CFO is required to set a minimum level for the General Reserve.
- 4.2. General reserves are by nature 'not specific' (they are not earmarked), and are held to cover unforeseen risk and cost pressure, for example:
 - cost of national programmes overrun;
 - uneven cash flows and managing the timing of savings;
 - unforeseen emergencies requiring significant one off spend e.g. a significant incident; or
 - demand pressures.
- 4.3. The General Reserve balance is forecast to be £8.4m at the end of March 2020, which equates to 2.5% of the 2019/20 net budget (£337.3m) which is within the 5% maximum set by the Minister of State for Policing.

4.4. The forecast position for the General Reserve over the course of the medium term financial plan is as follows:

	£m	% of Net Budget for following year
Balance at 31 March 2019	10.8	3.2%
Forecast balance as at 31 March 2020	8.4	2.3%
Forecast balance as at 31 March 2021	7.2	1.9%
Forecast balance as at 31 March 2022	7.2	1.9%
Forecast balance as at 31 March 2023	8.5	2.2%
Forecast balance as at 31 March 2024	14.0	3.6%*

* the March 2024 balance is shown as a percentage of the 2023/24 forecast net budget as the MTF5 does not include a forecast budget for 2024/25.

5. Earmarked Reserves

5.1. In addition to the General Reserve, the PCC also holds a number of earmarked reserves, as set out below (the table shows the March 2019 balance, the forecast March 2020 balance and the forecast March 2024 balance, with more detail shown in Appendix 1):

	Actual as at 31 March 2019	Forecast as at 31 March 2020	Forecast as at 31 March 2024
Carry Forward Reserve	6.9	0.0	0.0
Revenue Grants Unapplied Reserve	1.1	0.0	0.0
Estate Reserve	0.0	5.7	2.6
IT Services Reserve	7.0	10.6	1.2
Replacement Programme Reserve	1.2	2.2	0.2
Uplift Reserve	0.0	0.0	0.0

Trading Reserves	3.2	1.8	1.8
Insurance Reserve	1.5	1.5	1.5
Commissioner's Reserve	0.6	0.5	0.3
Transformation Reserve	24.3	16.1	0.6
Total Earmarked Reserves	45.8	38.4	8.2

5.2. Further detail as to the purpose of each earmarked reserve is set out below:

Transformation Reserve (Forecast 31 March 2020 is £16.1m)

- 5.3. The Transformation Reserve was specifically set up to recognise the significant investment required to deliver transformational change, support the significant investment requirements linked to technology development and digital initiatives, and to provide a buffer to help manage the budget in the medium term at a time when the PCC's funding is being significantly reduced.
- 5.4. These programmes generally impact over more than one financial year and allocating funds to ensure delivery of the programmes and their outcomes makes prudent sense in a time when budgets continue to be based on annual settlements.
- 5.5. The opening balance of the Transformation Reserve as at 1 April 2019 was £24.3m (includes the addition of the Performance Reserve which was added to this reserve). A revenue contribution per the 2018/19 MTFS of £0.3m was contributed at the start of the year to give a balance of £24.6m. As at January 2020, allocations of £10.7m have been approved, as well as a contribution of £1.3m to the 20/21 revenue budget approved as part of the 2018/19 MTFS (total £12m). The breakdown of the approved draws from this reserve is set out below:

Transformation Reserve - committed

Commitment	£m
Contribution to revenue budget in 20/21 (MTFS)	1.3
ICT 5 year plan – investment in technology infrastructure	2.8
Estates Programme - delivery of new estate	0.7
Contact Management Platform	0.5

Crime Data Integrity team to improve the quality of crime reporting data in line with national standards	0.7
Wellbeing Strategy	0.2
Tasers	0.7
other smaller allocations to deliver change	0.1
ESMCP	5.0
Total Commitments	12.0

5.6. The commitments of £12.0m against an available balance of £24.6m left a balance of £12.6 m available for allocation at the time of approving the Budget report. There is also an earmarked sum of £3.0m per annum for forecast draws on the reserve not yet approved. The deduction of this earmarked funding, leaves £0.6m available as shown in the table below:

5.7. **Transformation Reserve – earmarked**

	£m
Unallocated balance	12.6
Earmarked funding to March 2024	
Annual earmark for future initiatives	(12.0)
Remaining Unallocated Balance	0.6

Other Earmarked Reserves

5.8. The PCC holds some other reserves for specific purposes. These are the:

- **Carry Forward Reserve** holds funds approved for carry forward by the PCC as part of the annual outturn report.
- **Revenue Grants Unapplied Reserve** holds revenue grants that have been set aside so that budgets can match expenditure in future years.
- **Estates Reserve** holds revenue funds for a number of future Estates programmes such as large repairs and maintenance projects, future potential dilapidations costs, Isle of Wight capital programme and Estate Change Programme projects. A new Estates Uplift reserve has also been created to provide funding towards estate requirements to support the increase in police officer numbers.

- **IT Services Reserve** holds funds set aside for IT refresh programmes (laptops/phones/BWV and servers) and the delivery of ESMCP.
- **Replacement Programme Reserve** holds funds available to offset the impact of large scale equipment replacement such as the need to replace body armour when the warranty for body armour expires.
- **Uplift Reserve** is a new reserve set up to meet the infrastructure and non-pay costs associated with the estimated increase in police officer numbers.
- **Trading Reserves** holds funds for specific areas of the Constabulary such as Netley Business Plan and Safer Roads. These areas generate income which is ring-fenced for specific usage.
- **Insurance Reserve** holds funds available to pay for items that are not covered by the insurance contract. Research and experience has shown that it is more cost effective to hold a reserve for some things that are low risk and low probability rather than pay an insurance premium to cover them.
- **Commissioner's Reserve** holds amounts that are used specifically to support the Commissioner's priorities. This is intended to support programmes that support the delivery of the Police and Crime Plan.

6. Ring-fenced Reserves held by but not available to use by the PCC

- 6.1. In addition to the reserves set out above, the accounts include earmarked reserves that are ring fenced for specific purposes and are not available for use by the PCC. These are:

	Actual as at 31 March 2019	Forecast as at 31 March 2020	Forecast as at 31 March 2024
ACRO Surety	4.0	4.0	4.0
AVCIS Surety	0.3	0.3	0.3
ACRO General Reserve	4.4	4.4	4.4
Total	8.7	8.7	8.7

6.2. The purpose of these reserves is as follows:

- **ACRO** is the national ACPO Criminal Records Office which is hosted in Hampshire. The funds are not available to the PCC for use in the Hampshire policing area. ACRO Surety (£4m) and AVCIS Surety (£0.3m) held to cover any potential costs to the Chief Constable or PCC should ACRO cease to trade on its current basis.
- **ACRO General Reserve** - other net surplus balances held on behalf of ACRO (£4.4m). The governance board for ACRO determines the use of reserves. The annual budget and use of reserves is presented to the National Police Chief's Council each year.

Appendix 1 – Analysis of Useable Reserves

	Analysis of how the forecast 31st March 2020 Reserves will be utilised			
	Forecast Balance 31.3.20	Planned Expenditure on projects and programmes over the medium term to 2023/24	Funding for Specific projects and programmes beyond 2023/24	As a general contingency to meet other expenditure needs
	£m	£m	£m	£m
General Reserve	8.4	1.2	0.0	7.2
Carry Forward Reserve	0.0	0.0	0.0	0.0
Revenue Grants Unapplied Reserve	0.0	0.0	0.0	0.0
Estates Reserve	5.7	3.1	2.6	0.0
IT Services Reserve	10.6	9.4	1.2	0.0
Replacement Programme Reserve	2.2	2.0	0.2	0.0
Trading Reserves	1.8	0.0	1.8	0.0
Insurance Reserve	1.5	0.0	1.5	0.0
Commissioner's Reserve	0.5	0.2	0.3	0.0

Transformation Reserve	16.1	15.5	0.6	0.0
Total Useable Reserves	46.8	31.4	8.2	7.2

Appendix 2 – Analysis of profile

	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24
General Fund Balance	(10.8)	(8.4)	(7.2)	(7.2)	(8.5)	(14.0)
Fully committed to Existing Spend Programmes						
Carry Forward Reserve	(6.9)	0.0	0.0	0.0	0.0	0.0
Revenue Grants Unapplied Reserve	(1.1)	0.0	0.0	0.0	0.0	0.0
Estate Reserve	0.0	(5.7)	(4.9)	(1.6)	(2.1)	(2.6)
IT Services Reserve	(7.0)	(10.6)	(9.5)	(6.3)	(4.8)	(1.2)
Replacement Programme Reserve	(1.2)	(2.2)	(2.2)	(0.2)	(0.2)	(0.2)
Uplift Reserve	0.0	0.0	(1.9)	(3.4)	(1.7)	0.0
Trading Reserves						
Netley Business Plan Reserve	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Safer Roads Reserve	(2.1)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Forfeit Reserve	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Risk Reserves						
Insurance Reserve	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Corporate Reserves						
Commissioner's Reserve	(0.6)	(0.5)	(0.3)	(0.3)	(0.3)	(0.3)
Transformation Reserve	(24.3)	(16.1)	(10.5)	(6.6)	(3.6)	(0.6)
Total Earmarked	(45.8)	(38.4)	(32.6)	(21.7)	(16.0)	(8.2)
Other Reserves						
AVCIS Surety	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
ACRO General Reserve	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
ACRO Surety	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
Total Revenue Reserves	(65.3)	(55.5)	(48.5)	(37.6)	(33.2)	(30.9)

Section 25 Report from the PCC Chief Financial Officer

Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (CFO) to report to the PCC when setting council tax on:

- the robustness of the estimates included in the budget, and
- the adequacy of the financial reserves in the budget.

The PCC is required to have regard to this report in approving the budget and council tax. Section 25 concentrates primarily on the risk, uncertainty and robustness of the budget for the next financial year rather than the greater uncertainties in future years. This report does however consider not only the short term position but also the position beyond 2020/21 in the context of the PCC's MTFS presented in the main report.

Robustness of Estimates in the Budget

The budget setting process within the Constabulary has been operating effectively for many years and is based on increasing the budgets each year allowing for pay and price inflation and other marginal base changes in the cost or levels of service.

Each year a zero based budgeting exercise is also carried out to review whether or not there are elements of the budget that do not reflect the current activity or need. In more recent years adjustments have also been made to the budgets to reflect the savings that have been implemented in order to balance the budget in the face of Government grant reductions.

Appropriate provisions for pay and price inflation are included within each successive MTFS and these are then refined by the Chief Financial Officer in rolling forward the detailed budget for the next financial year.

In general terms, the forecasting for the MTFS is undertaken on a very prudent basis, particularly in respect of allowances for pay and price inflation and increases in government grant, precept increase and council tax base. For the current MTFS, the PCC has only received confirmation of funding for the 2020/21 financial year, with no information on police grant, uplift grant, council tax precept for 2021/22 onwards; this has meant that a very prudent set of assumptions have been included within the MTFS to mitigate for this, and further detail is set out in the 'Risks in the Budget 2020/21' within this document.

There is a very robust process in place within the Constabulary to assess growth pressure and bids, with bids ranked according to a hierarchy which ranges from:

- Unavoidable

- Operationally unavoidable
- High Priority
- Optional

The bids are subject to scrutiny and sign off by COG and then discussed and agreed with the PCC, subject to overall affordability and assessment against the PCC's priorities. For the current MTFs, the budget pressures and growth which are included are predominately those which were unavoidable or operationally unavoidable.

Budget management within the Constabulary remains strong as demonstrated by the outturn position each year since funding reductions began and as reflected in the annual opinion of the External Auditors who has given an unqualified opinion on the annual accounts and in securing value for money / financial resilience.

As Chief Financial Officer for the PCC I have a close involvement with the budget setting process and I am content that the estimates are robust based on the knowledge we have available to us at this time.

Risks in the Budget 2020/21

- a) **Government Funding** - The one year Police Spending Settlement announced in January 2020 only provided Police Grant, Uplift Grant and the Referendum level for precept for 2020/21. This is a key risk as the funding position beyond 2022/21 is not known, requiring a significant amount of estimation to be made as to the future funding position over the course of the MTFs period.

The risk mitigation has been to include very prudent estimates within the MTFs for future funding, as follows:

- Council Tax increases limited to 1.99% for the duration of the MTFs post 2020/21
- Assumed 'flat cash' for Police Grant, i.e. no increase in grant levels for the years post 2020/1
- The allocation of grant to support the Police Officer Uplift in years 2021/22 and 2022/23 has been kept at the same level per officer as provided by the 2020/21 grant, which is £28,000 per officer

- b) **Council Tax** – The Government have only announced the precept referendum level of £10 for 2020/21, with no indication of future allowable precept increases.

Increases in council tax forms a key part of supporting the budget. In the absence of any guidance from government, the assumed precept increase has been capped within the MTFs at 1.99% for the duration of the MTFs post 2020/21. This is felt to be a prudent approach.

- c) **Pay and Price Risk** – The MTFs contains provision of 2.5% per annum for increases in Police Officer and Police staff pay, in line with the most recent police pay award

The impact of price inflation has been considered in setting the budget and the assessment is that it would take a major departure from the assumptions to create a financial problem that could not be dealt with in year from reserves.

- d) **Treasury Risk** – The Authority has limited exposure to interest rate risk as most long term borrowing is undertaken on a fixed rate. If the PCC were to approve future investment for the key emerging capital issues (Uplift, IOW estate, and Netley), this is likely to require significant prudential borrowing and decisions on when best to take out this borrowing would need to be considered. Provision to support borrowing for these areas of potential capital investment has been included within the budget.

On the investments side, the Authority has a very prudent approach to forecasting its investment returns and they also represent a very small part of the overall funding for the budget. The investment strategy protects capital ahead of yield and most of the medium term investments are in products that should return a stable income yield each year.

In addition to the above, the budget report sets a range of other key risks in section 12 of the report as follows:

- a decrease in government grant which would represent a reduction in funding compared with the flat grant assumption over the duration of the MTFS period;
- the allowable maximum precept increase is less than the assumed 1.99% increase included in each year of the MTFS 2021/22 onwards.
- inflation is greater than forecast which would create a cost pressure (as an example, each 1% increase in the pay award beyond the current assumption of a 2.5% pay award would lead to a cost pressure of £2.12m);
- grant funding for the pay costs of the Officer Uplift programme being insufficient to cover costs;
- funding set aside for the estates and infrastructure costs of the Officer Uplift programme being insufficient to cover costs;
- the £2m incremental recurrent revenue funding each year within the MTFS is insufficient to cover new recurrent revenue pressures;
- the cost of borrowing increases reducing the level of borrowing which can be taken out to support the emerging capital programme pressures;.
- an increase in national top-slices;
- a risk that partner agencies could reduce or withdraw their services which puts additional financial pressure on the police service;
- some activities and funding could be moved to a regional or national basis that would remove funding from the Hampshire Policing Area. There is a risk that the removal of funding causes a financial difficulty that needs to be managed locally;

- Insufficient savings are identified or delivered to meet the forecast medium term budget shortfall, necessitating a draw from reserves to balance the budget in any one year;
- the McCloud Pensions judgement impacts the Police Pension scheme – potential compensation payments to claimants

These risks have taken into account in assessing the minimum and overall level of reserves. My assessment is that it would be unlikely that all risks would arise in any one year, and that individually the risks can be managed. It would take a significant number of these risks to arise at the same time to be unmanageable though the available reserves in the short to medium term.

These identified risks are mitigated, to a certain extent, because the PCC:

- maintains an appropriate level of reserves and balances;
- has made prudent assumptions as to the level of future grant income, Uplift funding and precept increases which should limit the actual impact
- will proactively manage and monitor all aspects of budget performance during the year

Adequacy of Reserves

The PCC Chief Finance Officer has a responsibility to ensure that the level of reserves maintained is sufficient. The Police Reform and Social Responsibility Act 2011 states that only the PCC, and not the Chief Constable, is permitted to hold reserves.

The Chartered Institute of Public Finance and Accountancy (CIPFA) produces guidance on reserves, but the exact level of reserves to be held is left as a local decision due to the need to reflect individual circumstances. Whilst there are no firm requirements on the amount, it is clear that reserves must be held to ensure that the organisation is able to meet any unexpected liabilities. CIPFA warned that the use of reserves to deal with shortfalls in day-to-day spending would be a “recipe for significant financial problems.

The PCC continues to use reserves to pay for the cost of change that is required to meet both the financial challenge and the necessary investment to ensure that the Constabulary remains a modern, operationally effective Police Service.

Reserves are necessarily and appropriately held as part of good strategic financial management and are a key element in supporting the PCC’s medium term planning and Medium Term Financial Strategy. Reserves held by the PCC are increasing in the short term (primarily to fund the Uplift programme over the next 3 years) but are forecast to reduce in the medium term.

Further information is provided on in section 9 of the budget report, with significant detail set out in the Reserves Strategy which is Appendix G to the budget report.

Based on current planning assumptions, and taking into account the risks set out in section 12 of the budget report, the minimum general fund balance has been set at £5.5m. The actual balance of the reserve is forecast to be £8.4m (which is

2.5% of the 2019/20 net budget) at the end of March 2020, and then £7.2m for the period through until March 2022, rising to £8.5m March 2023 and £14m at March 2024.

For the medium term the general fund balance is therefore anticipated to be maintained at a level in excess of the minimum required.

The Earmarked reserves which are held, including the Transformation Reserve and the Uplift Reserve, are deemed to be appropriate, and their purpose has been set out in the Reserves Strategy. Earmarked reserves are forecast to reduce from £45.8m on 31st March 2020 to £8.2m by 31st March 2024.

Reliability / accuracy of budget estimates

The estimates have been reviewed by qualified and experienced staff in the Finance team.

There are a significant number of risks around the estimation of future costs and income contained within the budget and MTFS proposals and these are clearly set out within this appendix and within the body of the budget report, together with comments on risk mitigation.

By themselves none of these risks are so significant that they could not be managed in isolation. However, collectively they represent potential risks which if they came to fruition individually or as multiple risks would impact the MTFS position, and if not managed could cause a gradual and escalating build-up of financial pressure on the PCC and Constabulary's financial position that would need to be managed in year as necessary and where appropriate over the course of the MTFS timeline.

The risks will be closely monitored during the year and the next iteration of the MTFS will be updated accordingly.

Budget 2019/20 – Conclusion

Given the details outlined above, provided that the PCC considers the above factors which form part of the budget and MTFS and agrees the budget and MTFS as proposed, including the level of earmarked reserves and balances, a positive opinion can be given under Section 25 on the robustness of the estimates and level of reserves for 2020/21.

The Position Beyond 2020/21

Given the announcement of a one year Spending Round for 2020/21, the PCC is still in the position of not knowing what the funding position is beyond a one year planning horizon.

At this stage, in response to this position, the budget report for 2020/21 and the MTFS have been based on prudent funding assumptions, which should mean the PCC is well placed to respond to and manage changes to funding.

Whilst there are risks within the MTFS these have been mitigated as far as possible and it would take a significant change in the funding regime to create a scenario which the PCC and Chief Constable could not manage over the course of the MTFS.

Andrew Lowe

PCC Chief Financial Officer