

HAMPSHIRE POLICE AND CRIME PANEL

Report

Date Considered:	29 th January 2021	Item:	
Title:	Council tax Precept 2021/22, Budget 2021/22 and Medium Term Financial Strategy 2022/23 to 2024/25		
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1. Recommendations

- 1.1. **That the Police and Crime Panel (PCP) support the Police and Crime Commissioner's (PCC) proposed precept increase of £15 per annum for Band D properties, which is the equivalent of £1.25 per month, or 29p per week.**
- 1.2. To note the recommendations from the Chief Constable to the PCC on her operational requirements for 2021/22 onwards, and her request that the PCC support a precept increase of £15 to enable the delivery of those requirements, as set out in Appendix A.
- 1.3. To note that 61% of households across Hampshire and the IOW are in properties in council tax bands A-C (see paragraph 7.14), and would therefore see a precept increase of less than £15 per annum if the above recommendation is supported.
- 1.4. To note that the full precept increase will be utilised in support of local policing.
- 1.5. The Panel note the proposals in this report which ensure that for 2021/22 there will be significant investment in policing within Hampshire Constabulary Policing area, including an increase in police officer numbers by 146 above the existing budgeted establishment as part of the second tranche of the Government's commitment to increase police office numbers nationally by 20,000.
- 1.6. The Panel note that the PCC has undertaken a broad range of 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 majority 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 (P&CP) which was updated in 2020, 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. In support of this the budget takes full account of the Chief Constable's operational requirements and her recommendations for the necessary investment to ensure that the Constabulary remain in the strongest possible position to best deliver safer communities.

- 2.2. The current P&CP starts with and has its foundation in our communities. The four priorities of the P&CP 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) Criminal Justice

- 2.3. Within the P&CP, 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 responsibilities of a PCC with policing and beyond, working across the whole criminal justice system, with victims and the most vulnerable in our communities.

Chief Constable Operational Recommendation

- 2.4. The Chief Constable has set out in Appendix A her assessment of the operational case for a £15 increase, which sets out the case for moving the Constabulary:

'from a position of protecting and maintaining (making the best of what we have) to a position where we have the opportunity to take the fight more and more to those criminals who blight our community'.

- 2.5. The operational case also sets out the Chief Constable's clear request and support for a £15 increase in the precept:

'my operational recommendation to the Police and Crime Commissioner requires a £15 increase in Band D council tax increase.....it is my professional view that supporting anything other than a £15 increase flies in the face of the operational evidence.....that is why I have asked for the first time that my operational support for the Police and Crime Commissioner's position is included in this budget paper and sits as a matter of public record'

- 2.6. The operational case sets out why additional investment is required locally in Hampshire through the proposed precept increase, and broadly covers three key 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, estate, equipment and wellbeing initiatives that make those officers and staff ever more effective and present on the frontline protecting our communities

Low Funded Constabulary

- 2.7. Hampshire Constabulary is a very low cost force for its size and complexity of demand, receiving over £40m less per annum 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 have consistently lobbied on this matter.
- 2.8. 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.

Change in the Balance of Funding Between Grant and Council Tax

- 2.9. The balance of funding has changed over the last decade, with council tax now accounting for 41% of overall funding compared to 33% in 2010/11, and government grant accounting for 59% of overall funding compared with 66%.

Investment Opportunity

- 2.10. The funding settlement for 2021/22, which includes specific funding as part of the government's commitment to increase police officer numbers in Hampshire by 153 in 2021/22 (which includes 146 new officers in Hampshire, plus 7 new officers in the Regional Organised Crime Unit) as part of its Uplift programme, combined with the flexibility to increase the council tax precept by £15, provides an opportunity to make a significant investment in Policing across the Hampshire area in 2020/21.

The Council Tax Precept

- 2.11. Local funding through council tax to support local policing continues to be crucial for operational effectiveness, complementing the welcome national funding to increase police officer numbers.
- 2.12. 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 essential innovation to stay ahead of criminals and those who wish us harm.

- 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. This key activity also helps to reduce demand on frontline policing.
- 2.13. The precept decision for 2021/22 therefore needs to take into account both the immediate and medium term resourcing requirements that enable Hampshire, the Isle of Wight, Portsmouth and Southampton to be safer now and in the future.
- 2.14. This includes taking account of the Government’s proposals to nationally increase police officer numbers by 6,000 in 2021/22, as part of an overall commitment to increase police officer numbers by 20,000 over the 3-year period 2020/21 – 2022/23 (further detail on the Government’s commitment and the impact on Hampshire is set out in the ‘Police Officer Uplift Programme’ in section 4).

Police Settlement

- 2.15. The Police grant settlement was announced on the 17th December 2020, and confirmed for 2021/22 that:
 - i) There would be an increase in Hampshire’s Police Core Grant of £12.5m (total core grant £210.6m), to support the Uplift in officer numbers. However, the Uplift grant reduces by £1.8m to give a net increase of £10.7m for uplift.
 - ii) The pension grant would be £2.99m (which is a continuation of grant at the same level as 2020/21)
 - iii) Hampshire has been allocated £2.6m (£4.4m in 2020/21) of specific ringfenced grant to fund and enable a further ‘uplift’ in Hampshire’s police officer numbers by 153 in 2021/22 (which includes 146 new officers in Hampshire, plus 7 new officers in the Regional Organised Crime Unit); 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) Local Council Tax Support Grant would be received in the sum of £2.1m
 - v) The cap on the maximum increase in precept would be set at £15 per year for a Band D property (and it is important to note that the Home Secretary and the Minister of State for Crime and Policing assumptions are very much based on PCCs implementing the maximum £15 increase), which would equate to a 7.1% increase (for 2020/21 the maximum precept increase was capped at £10, an increase of 4.96% 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 2021/22 to 2024/25 based upon current guidance and assumptions.

Precept Proposal

2.18. The PCC has fully reviewed and scrutinised the detail of the Chief Constable's operational case and request for a precept increase of £15, and is in no doubt that the operational case is compelling; the PCC proposal is therefore for a £15 increase in his council tax precept for 2021/22 (for a Band D property), as set out in section 7.

2.19. The PCC's view is that 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, and enables the Chief Constable to have the necessary resources to deliver her operational requirements.

2.20. The Chief Constable is clear that:

'it is my professional view that supporting anything other than a £15 increase flies in the face of the operational evidence'

2.21. In the context of the proposed £15 precept increase, 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 £15 per annum (see paragraph 7.14).

What will the Budget Deliver

2.22. On the assumption of a £15 precept increase (Band D), this report sets out that the PCC can:

- i) Set a balanced budget for 2021/22
- ii) Fund the significant costs to deliver the Chief Constable's operational requirements and recommendations, making the necessary investment to enable the Constabulary to continue to be a modern, operationally effective Police Service (see section 5 and Appendix E), including setting aside funding to meet the significant infrastructure investment required both now and in future years to invest in the Police estate and to support the incremental police officer uplift programme.
- iii) Provide the investment to support the additional 153 officers in Hampshire delivered through Uplift, and allow the Chief Constable to properly train and equip all of them, and once again fast track additional officers that would otherwise arrive in the following year so that they can serve our communities far earlier.
- iv) Support the Chief Constable to deliver her aspiration to:

'move Hampshire Constabulary from a position of protecting and maintaining (making the best of what we have) to a position where we have the opportunity to take

the fight to the criminals and those who blight our local communities'

- v) Increase the funding available in support of policing through an increase in targeted resources for Crime Prevention and Rural Crime
- vi) Ensure that reserves remain adequate to meet the significant number of known cost pressures and risks which arise over the timeline of the medium term financial strategy

2.23. Based on previous performance, the Chief Constable's assessment is that the package of proposed investment provides the opportunity to:

- Investigate 26,000 more crimes
- Arrest 300 of the most dangerous drug related harm criminals
- Reduce offending by 1000 crimes
- Safeguard an additional 12,000 vulnerable people
- Provide targeted support for rural initiatives
- Provide infrastructure and support to deliver on a sustainable basis

2.24. The budget will therefore deliver:

i) **More Frontline**

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

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.

iv) Investment in the Police Estate

- Investment to support the Uplift in police officer numbers (including the refurbishment of Bitterne Police Station in 2021/22)
- Funding to support investment including in the IOW estate and options for the Netley Site

v) Increased Crime Prevention Initiatives

This will include an expansion of the Safer Streets initiative to Basingstoke and Portsmouth, building on the work already undertaken in Southampton

vi) Further Investment in Preventing and Tackling Crime in Rural Communities

Specific funding has been set aside to increase the resources to prevent and tackle rural crime, including funding for a geo tagging scheme for quad bikes and high value farm vehicles/machinery, and additional 4x4 vehicles in support of rural policing

Medium Term Position

2.25. This report also sets out that on the assumption of a £15 precept increase (Band D) for 2021/22, followed by precept increases of 1.99% in each of the following 3 years (2022/23 – 2024/25), it is likely that savings will be required in later years to balance the budget, as set out in section 3:

	Forecast Budget Deficit £m
2022/23	4.4
2023/24	16.8
2024/25	22.0

2.26. There is significant uncertainty around both government funding (including Uplift funding) and the permissible level of precept increases for 2022/23 and beyond, which have made it difficult to estimate the future years position with any level of certainty.

2.27. The MTFS therefore includes a number of assumptions that will need to be updated and refined as information becomes available for 2022/23 and beyond.

Consultation

- 2.28. 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 £15.
- 2.29. As a result of the restrictions for face to face engagement throughout the year due to the pandemic restrictions, the PCC has undertaken extensive online consultation on the police precept, reaching the highest number of local residents than in the previous eight years.
- 2.30. During 2020/21 8,348 members of the public have taken part in a number of online consultation exercises. The public consultation exercise on the police precept increase has had three distinct elements:
- i) Online surveys, which saw 7,848 people submit responses across multiple platforms. These included:
 - 2,294 responses to budget question in Policing the Pandemic Survey
 - 5,427 responses to PCC's online survey
 - 127 responses to the PCC's online survey from the OPCC Consultation and Focus Group Panel members
 - ii) A YouGov survey of 500 demographically weighted respondents across Hampshire and the Isle of Wight.
 - iii) Two focus groups conducted by the OPCC with members of the Consultation and Research Group on Friday 15 January 2021, observed by Deputy Chair of the Panel Councillor Jan Warwick, and, Saturday 16 January 2021 observed by Michael Coombes of the Panel's Finance Working Group.

2.31. The outcome from each individual element of the consultation, and the overall collective outcome shows that there is significant support for a precept increase of £15 to enable Hampshire Constabulary to take its fight to criminals and reduce crime.

2.32. A summary of the results is set out in section 12, and the full details are set out in appendix J.

Summary

- 2.33. The PCC is clear, having taken advice from the Chief Constable, that to set a precept increase lower than £15 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.
- 2.34. The PCC's assessment is that not taking the permitted increase in Council Tax would result in communities, families and individuals being less safe.

- 2.35. In summary, implementing the £15 increase for 2021/22 in line with the expectations of Government, in line with the Chief Constable's recommendations in terms of her operational requirements, and consistent with support from our communities, will provide significant investment to sustain and continue to transform Policing in Hampshire, alongside enabling a significant increase in police officer numbers (146 above current establishment) as part of the Government's Uplift commitment
- 2.36. In terms of longer term risk - it is right to acknowledge that without any funding certainly beyond 2021/22, 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 6 (Grant Settlement) and section 7 (Council Tax Precept), the PCC has no information on future Police grant for 2022/23 and beyond, no information as to the 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 2021/22.
- 3.3. The key funding assumptions which have therefore been used to underpin the MTFS are as follows:
- a precept increase of £15 in 2021/22, followed by precept increases of 1.99% in the following years 2022/23 – 2024/25
 - flat Police grant for the period 2022/23 – 2024/25
 - no assumption that additional funding will be available to support the forecast increase in the Employer costs of the Police Officer Pension scheme (see paragraph 3.19)
- 3.4. Based on these assumptions, the MTFS currently shows that for 2021/22 the PCC is able to set a balanced budget, but for the years 2022/23, 2023/24 and 2024/25 the budget currently shows a shortfall/budget in excess of forecast income of:

	Forecast Budget Deficit £m
2022/23	4.4
2023/24	16.8
2024/25	22.0

- 3.5. As currently presented, it is likely 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 2021/22 budget and later years. The budget pressures are operationally unavoidable costs if the PCC and Constabulary are 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 2021/22 total £31.958m as shown in the table below, with the detail set out 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:

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
More Frontline	16.443	14.848	14.192	14.117
Right Place Right Time	5.004	3.499	2.361	2.361
Better Equipped	3.622	4.820	2.074	1.815
Capital Financing	1.000	1.000	1.000	1.000
Estate	4.711	4.711	0.711	0.711
Commissioning	1.178	1.178	1.178	1.178
Gross investments	31.958	30.056	21.516	21.182
Funded by reserves	(2.900)			
Uplift related grants	(10.700)	(18.950)	(18.950)	(18.950)
Total	18.358	11.106	2.566	2.232

- 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 2021/22– 2024/25: Other Assumptions

- 3.10. The MTFS for 2021/22 to 2024/25 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 2021/22 budget.

Police Officer Uplift Programme

- 3.11. As set out in paragraph 4.4, no details of the allocation of the remaining 8,000 police officers nor the associated 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 150 as its share of the 8,000.

Inflation and Pay

- 3.12. The budget includes provision for inflation for contract spend and other areas where inflationary increases are unavoidable.
- 3.13. The inflation assumptions applied are shown in Appendix B. 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 1.5% has been used where inflation is unknown.
- 3.14. The most significant inflation value is the pay award; no new pay award is assumed for 2021/22 in line with government guidance, and for 2022/23 onwards the pay award is included at an estimate of 1% per annum.
- 3.15. If there is any variation to that pay award assumption then, for example, an extra 1% would equate to an extra £2.8m of cost per annum.
- 3.16. 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.
- 3.17. 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.

Future Cost Pressures and Growth Items

Growth

- 3.18. The MTFS at Appendix D allows within the budget for £5m to fund recurrent revenue pressures and growth per annum (incremental each year from 2022/23, so an additional £15m by 2024/25). This ensures that the MTFS provides an allowance to fund future growth and pressures, and based on recent years £5m is the minimum realistic sum which should be set aside. As this is an estimate, there is a risk to the MTFS that the actual level of recurrent revenue pressures /growth is greater than £5m per annum.

Police Officer Pension Valuation

- 3.19. The next revaluation of the Police Officer pension scheme will impact from the 2023/24 financial year. The national intelligence suggests that there will be a significant increase in the cost of the scheme, which will impact the Employer rate of contribution. The MTFS assumption is that the rate will increase by 7% (reflective of the scale of increase at the previous valuation), which would have an annual cost of £8m.

- 3.20. At the last revaluation, the government did provide funding for the increase in the Employer pension rate through a combination of an increase in the police grant plus a specific grant; this funding increase was only secured following extensive lobbying from the sector.
- 3.21. The current MTFS does not include an assumption that the pension cost will be funded by government. If specific additional funding was made available, it would offset the increase in cost.

Savings

- 3.22. As set out in the MTFS summary the forecast position is that whilst the budget is balanced in 2021/22 there are forecast budget deficits in 2022/23, 2023/24 and 2024/25.
- 3.23. In the event that after updating for spending settlements post 2021/22 the budget remains in deficit for those years, the Chief Constable would need to review planned expenditure and propose mitigating reductions to the budget.
- 3.24. 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

- 3.25. There is one significant saving which impacted the budget from 2020/21, which arises as a result of the 2019 LGPS Actuarial Valuation of the Hampshire Pension Fund.
- 3.26. 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.
- 3.27. 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.
- 3.28. As the most recent valuation has determined that the Hampshire LGPS is fully funded, the requirement to pay deficit contributions falls away for the period 2020/21 – 2022/23.
- 3.29. 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 as a one off 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.
- 3.30. On that basis, the deficit saving is being utilised across the next 2 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

3.31. 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, including the refurbishment of Bitterne Police station in Southampton during 2021/22
- review of and investment in the Isle of Wight estate and the Netley site.

3.32. Further detail is set out in section 9, and the Capital Strategy is attached as appendix G.

Reserves

3.33. The PCC CFO's assessment is that:

- i) the level of the General Fund reserve is reflective of the overall risk environment in which the PCC operates
- ii) the level of Earmarked reserves and their purpose are necessary and appropriate
- iii) the 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.

3.34. Further detail on reserves is set in section 10, and the Reserves Strategy is attached as appendix H.

Risk

3.35. There are a number of risks which could impact on the MTFS, and these are detailed in section 13.

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

CFO Section 25 report

3.37. 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.

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

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 was 6,000, of which Hampshire Constabulary's share was an additional 156 officers, although the Constabulary is on track to recruit an additional 250 officers in total this year as set out in last year's budget report.
- 4.3. As part of the Police Funding Settlement Announcement on 17th December, it was confirmed that as part of the year 2 total uplift of a further 6,000 officers, Hampshire's additional allocation for 2021/22 is £2.6m to fund an additional 153 officers (which includes 146 new officers in Hampshire, plus 7 new officers in the Regional Organised Crime Unit).
- 4.4. The allocation of the remaining 8,000 officers in 2022/23 and the funding to support it has not been announced at an individual Constabulary level
- 4.5. The funding of £2.6m equates to funding per officer of circa £17,000 (which is less than the full whole time equivalent cost of a constable; the assumption is that for 2021/22 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.
- 4.6. Funding for infrastructure and non-pay costs (including 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 2021/22 (so from within the additional net police grant of £10.7m).
- 4.7. In the absence of any clear methodology to determine Hampshire's share of the remaining 8,000 uplift beyond 2021/22, a prudent estimate has been that Hampshire will receive a further increase of 150 officers to the establishment in 2022/23
- 4.8. To manage the available Uplift funding over the 3 year period, the funding is managed through an Uplift reserve against which the Constabulary can draw down funds to meet the infrastructure and non-pay costs over the next 2 year period.
- 4.9. 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. The Chief Constable has set out her operational case for a £15 increase in the precept (Band D) to fund not only unavoidable cost increases but also a number of growth items for investment to ensure that the Constabulary moves:

'from a position of protecting and maintaining (making the best of what we have) to a position where we have the opportunity to take the fight more and more to those criminals who blight our community.....'

The financial position creates a current reality that, although the Constabulary is able to deploy officers and staff to all higher harm and/or risk incidents, the Constabulary currently has to prioritise the response to some other lower harm and/ or risk incidents. Were the Constabulary not to do this then the Constabulary would have by far the highest caseload per officer in the country. An increase in resources - in line with the Government's assessment of need - would allow the Constabulary to investigate more crimes and take action that will reduce the number of crimes that would otherwise occur.'

- 5.3. The package of investment proposed provides for additional frontline officers and staff to provide a greater visible presence, to investigate more crimes, to reduce crime and reduce risk for the more vulnerable people in society. The package includes the support required to deliver that performance, such as greater forensic capacity, the investment in technology to make processes more efficient and other measures such as wellbeing to ensure that the additional personnel are available to work and productive.
- 5.4. Based on previous performance, the Chief Constable's assessment is that the package of proposed investment provides the opportunity to:
- Investigate 26,000 more crimes
 - Arrest 300 of the most dangerous drug related harm criminals
 - Reduce offending by 1000 crimes
 - Safeguard an additional 12,000 vulnerable people
 - Provide targeted support for rural initiatives
 - Provide infrastructure and support to deliver on a sustainable basis
 - Protection of PCSO numbers
- 5.5. For our communities the investment package will improve the quality of life, improve life chances and make us all safer.
- 5.6. There are significant cost pressures and growth items included in the 2021/22 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.

5.7. The budget pressures and growth for 2021/22 total £31.96m 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 in appendix E for each of those headings.

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
More Frontline	16.443	14.848	14.192	14.117
Right Place Right Time	5.004	3.499	2.361	2.361
Better Equipped	3.622	4.820	2.074	1.815
Capital Financing	1.000	1.000	1.000	1.000
Estate	4.711	4.711	0.711	0.711
Commissioning	1.178	1.178	1.178	1.178
Gross investments	31.958	30.056	21.516	21.182
Funded by reserves	(2.900)			
Uplift related grants	(10.700)	(18.950)	(18.950)	(18.950)
Total	18.358	11.106	2.566	2.232

6. Grant Settlement 2021/22

- 6.1. The Police grant settlement was announced on the 17th December 2020, which has not allowed much time for extensive public consultation on the PCC's proposed precept increase of £15, nor for the usual level of engagement with the PCP's Finance working group prior to publication of this report.
- 6.2. The settlement announcement confirmed that for 2021/22:
- i) There would be an increase in Hampshire's Police Core Grant of £12.5m (total core grant £210.6m), to support the Uplift in officer numbers. However, the Uplift grant reduces by £1.8m to give a net increase of £10.7m for uplift.
 - ii) The pension grant would be £2.99m (which is a continuation of grant at the same level as 2020/21)
 - iii) Hampshire has been allocated £2.6m (£4.4m in 2020/21) of specific ringfenced grant to fund and enable a further 'uplift' in Hampshire's police officer numbers by 153 in 2021/22 (which includes 146 new officers in Hampshire, plus 7 new officers in the Regional Organised Crime Unit); 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) Local Council Tax Support Grant would be received in the sum of £2.1m
 - v) The cap on the maximum increase in precept would be set at £15 per year for a Band D property (and it is important to note that the Home Secretary and the Minister of State for Crime and Policing assumptions are very much based on PCCs implementing the maximum £15 increase), which would equate to a 7.1% increase (for 2020/21 the maximum precept increase was capped at £10, an increase of 4.96% 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 Minister of State for Crime and Policing, Kit Malthouse MP, set out that:
- 'This year has once again emphasised the police's outstanding bravery and commitment to public service and we would again like to express our sincere gratitude for all your work. Sector leaders, frontline officers and staff have responded with speed and flexibility to the unprecedented challenges brought about by the COVID-19 pandemic.*
- We are also extremely pleased with the progress forces have made in the first year of the recruitment programme, with 5,824 additional officers already recruited as a result of the Uplift Programme by the end of September. We are firmly on track to meet the first-year target and we expect this momentum to continue into year two of the programme.*
- This settlement provides a total of up to £15.8 billion for policing in 2021/22, an increase of £636 million on the 2020/21 funding settlement. Available funding to Police and Crime Commissioners (PCCs) will increase by **up to an additional £703 million in 2021/22, including local flexibility to increase council tax precept.....***
- Up to £288 million additional funding from council tax precept, if all PCCs maximise their precept flexibility. We are enabling PCCs to increase precept by up to £15 for a Band D equivalent property'***
- 6.4. The PCC positively welcomes both the increase in Police Grant for 2020/21, and the specific ring fenced grant to support an increase of 153 police officers.
- 6.5. The precept flexibility offered, enables a precept increase of up to £15 for a Band D property, but the PCC notes the presumption by the Home and Secretary and the Minister that the overall funding available to Hampshire is predicated on maximalising the precept at £15; whilst the PCC has consistently lobbied government over the past 4 years for recognition that Hampshire is underfunded in comparison to other Forces across England, he remains concerned that raising local tax increasingly is seen by government as a way to increase funding at the local Force level, representing a shift away from government grant funding to an increasing reliance on council tax income.

- 6.6. It is a concern that using the precept as a mechanism to increase funding does nothing to address the historical underfunding which Hampshire has faced, which can only be addressed by a review of the Police Grant funding formula.
- 6.7. Nevertheless, in the absence of a fairer funding formula, and recognising the continued underfunding of Hampshire through the continued receipt of a proportionate share of Police Grant based on an outdated funding formula, the only mechanism available to the PCC to secure additional funding for the Hampshire Force area to deliver the operational requirements of the Chief Constable is to utilise the flexibility to increase the precept.
- 6.8. With regard to the grant settlement, the PCC is conscious that the settlement is silent on:
 - i) the level of Police Grant in future years beyond 2021/22;
 - ii) the level of future grant to support an ongoing increase in officer numbers as part of the remaining 8,000 officer uplift post 2021/22;
 - iii) the maximum precept increase for 2022/23 onwards;
- 6.9. Therefore, whilst welcoming the settlement for 2021/22, there remains an inability to properly plan ahead in the light of no information on the PCC's funding levels beyond 2021/22.
- 6.10. As set out above and 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).
- 6.11. 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.
- 6.12. 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.
- 6.13. Whilst the preference remains for a new national fairer funding formula to be implemented as a priority, the increase in the grant settlement for 2021/22 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

previous restrictions on the level of precept which could be raised without recourse to a referendum.

Police Grant Beyond 2021/22

- 6.14. Beyond 2021/22, 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 2022/23 – 2024/25. 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 reductions and also that there has been a significant increase in Police grant for 2021/22 which is felt unlikely to be repeated in future years.

Pension Grant

- 6.15. 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 2019/20 year for Police Officer pensions. This grant is the same sum received in the current year.

Capital Grant

- 6.16. Capital grant of £0.3m has been included within this budget report, which is the same as in the current year.
- 6.17. For a Force the size of Hampshire, with a large geography, increasing officer numbers, a significant built infrastructure, and significant soft infrastructure requirements (vehicles, large scale IT estate, tasers, body armour, equipment need etc) this level of capital grant is clearly insufficient to fund need.
- 6.18. The revenue budget therefore must be increased so that the PCC can ensure that all the supporting infrastructure needs of the Chief Constable can be funded on a sustainable basis over the medium term. The revenue budget includes both contributions to support capital expenditure plus an increase to support future borrowing.

Ministry of Justice Grant

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

Local Council Tax Support Grant

- 6.20. Subsequent to the Police Grant Settlement, as part of additional funding to recognise the pressures on Preceptors arising from both depressed council tax receipts and a depressed council tax base as a result of the COVID-19 pandemic, the government announced the PCC would receive one off Local Council Tax Support grant of £2.1m.
- 6.21. At the time of writing this report the final Local Government Finance settlement (through which this grant funding has been announced) has not been confirmed, so final confirmation that this grant will be payable to PCCs is awaited.

6.22. Given the above, the grant will be set aside in a Council Tax reserve; this reserve will be utilised to manage any ongoing impact from COVID-19 of a Council Tax deficit arising from 2020/21 and any ongoing impact on council tax collection in 2021/22, and to manage any ongoing impact (slow recovery/reduced growth) on the Council Tax Base.

7. Council Tax Precept

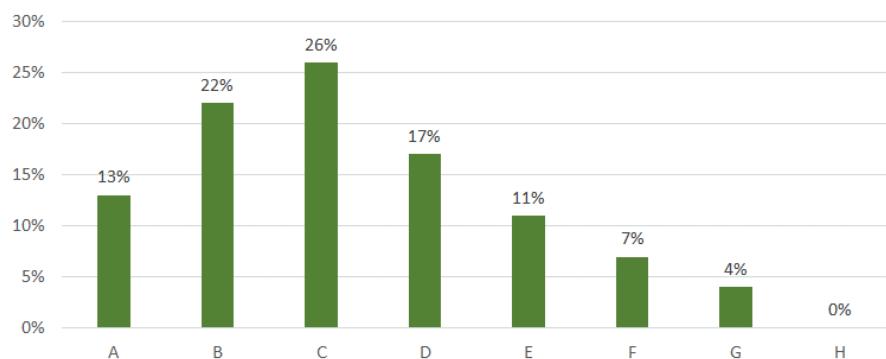
- 7.1. The settlement announcement has confirmed that for 2021/22, PCC's can increase their precept by £15 (which for Hampshire represents a 7.1% increase to the Band D precept) without the need to hold a referendum.
- 7.2. Any precept increase above the referendum limit of £15 will be deemed by the 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.
- 7.3. The precept decision for 2021/22 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.
- 7.4. The PCC's proposal is to increase the precept (for a Band D property) by the maximum £15 permissible for 2021/22 without recourse to a referendum.
- 7.5. 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.
- 7.6. As set out in Appendix A, the Chief Constable has set out her operational requirements, and made a clear recommendation to the PCC that her recommendation is that he increases the precept by £15.
- 7.7. In her assessment of the operational requirements, the Chief Constable *has made clear that:*

'an extra £15 per year can move Hampshire Constabulary from a position of protecting and maintaining (making the best of what we have) to a position where we have the opportunity to take the fight more and more those criminals who blight our local communities'
- 7.8. Whilst the PCC welcomes the flexibility provided through the settlement to allow a precept increase of up to £15 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, 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.

- 7.9. As the referendum limit is an increase of £15, 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.
- 7.10. The evidence available suggests that a significant number of PCC's across England will increase their precept by £15; whilst that is not itself a reason to increase the precept by the same amount in Hampshire, if the precept increase in Hampshire is less than that of other PCCs the current funding gap in comparison to other PCCs will continue to widen.
- 7.11. 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.
- 7.12. The current Band D council tax precept for Hampshire Constabulary is £211.46, which is the 12th lowest of the 37 English forces.
- 7.13. The proposed precept increase would make the Band D council tax precept £226.46 in 2021/22. As set out above, the current intelligence is that the majority of PCCs across England will increase their Band D precept by £15, so it is unlikely that Hampshire's position of 12th lowest precept will alter much if at all.
- 7.14. 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 £15 per annum, as shown below:

Percentage of Households by Council Tax Band



Impact of a £15 Council Tax Increase By Council Tax Band 2021/22

Band	Monthly Increase £	Annual Increase £
A	0.83	10.00
B	0.97	11.67
C	1.11	13.33
D	1.25	15.00
E	1.53	18.33
F	1.81	21.67
G	2.08	25.00
H	2.50	30.00

- 7.15. 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.
- 7.16. Whilst the government expectation is that PCCs will take up the opportunity to raise the council tax precept by £15, the PCC still has the option to not raise the precept at all, or to raise the precept by any amount up to £15.
- 7.17. The table below shows for a range of precept increases (up to the maximum of £15) the level of precept income which can be raised:

Comparison of Band D precept increase options

Precept increase	21/22 Band D precept (£)	Total precept (£m)	Additional precept income* (£m)
Band D zero%	211.46	147.9	0
Band D 1.99%	215.67	150.9	3
Band D £15 (7.1%)	226.46	158.4	10.5

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

- 7.18. 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.

- 7.19. 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 £15 was implemented.
- 7.20. The Chief Constable is clear in her assessment (as set out in Appendix A) that the public of Hampshire would be less safe if a lower than £15 precept increase was implemented, and she has recommended to the PCC that he implement the maximum increase of £15.
- 7.21. The Chief Constable is therefore fully supportive of the PCC's proposal to increase the precept by the full amount permissible and welcomes the PCCs commitment that the additional funding raised through the precept will be directed in full to support local policing.
- 7.22. The PCC has concluded, following consultation with the Chief Constable, and having due regard to her operational case for a £15 precept increase, and her recommendations on options for the delivery of modern, operationally effective policing, that increasing the Band D precept by £15 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 2021/22

- 7.23. There is no announcement on the maximum level of precept increase beyond 2021/22.
- 7.24. For the purposes of preparing the MTFS, a precept increase of 1.99% has been assumed per annum from 2022/23 – 2024/25. This is therefore an identified risk within the proposed MTFS, as the actual allowable increase could be lower.

8. Council Tax Deficit

- 8.1. The impact of the COVID-19 pandemic has impacted the in-year collection of Council Tax across Hampshire and the IOW.
- 8.2. The estimated deficit forecast by the billing authorities for 2020/21 is £1.686m.
- 8.3. In recognition of the impact COVID-19 has had on collection, the government confirmed as part of the settlement announcement that they will put in place a Local Tax Income guarantee which will:
 - i) allow the repayment of collection fund deficits arising in 2020-21 to be spread over the next 3 years rather than the usual period of a year.
 - ii) also fund 75% of the irrecoverable losses in this deficit. The government will pay a Section 31 grant to the PCC during the

2021-22 financial year to fund this. However, as noted below, there are significant exclusions from what is funded.

Three year phasing of 2020-21 collection fund deficits

- 8.4. As a result of COVID-19, there has also been an impact on the both the level of council tax being collected, and also on the council tax base (more claimants for Council Tax support, and a depressed development limiting the increase in new dwellings).
- 8.5. The impact of the Billing Authorities collecting less council tax in year than expected, is that the share of any resultant unplanned deficit on the council tax collection fund in 2020/21 is passed back to Preceptors in 2021/22.
- 8.6. In recognition of the pressure on council tax collection, the government has put in place a process that will allow repayments to meet collection fund deficits accrued in 2020-21 to be phased over a three-year period (2021-22 to 2023-24) to ease immediate pressures on budgets.
- 8.7. This is helpful as the impact of the estimated council tax deficit on the 2021/22 budget will be reduced.

Section 31 Grant to cover 75% of the Council Tax Deficit

- 8.8. In addition to allowing the 2020/21 Council Tax deficit to be accounted for over 3 years, the government will also fund 75% of the resultant 1/3rd irrecoverable losses in this deficit each year.
- 8.9. The government will pay this via a Section 31 grant.
- 8.10. However, a significant amount of COVID-19 losses, such as those caused by bad debts are not eligible for this funding. Therefore, until more detailed estimates are available from billing authorities, there is some uncertainty as to the level of grant we will receive. Updated figures will be included once they become available and included in the final budget.

Impact on the Deficit Included in the 2021/22 Budget

- 8.11. The net deficit which is included within the 2021/22 budget is £0.408m, which takes account of the 3 year phasing.

8.12. The position is as follows:

	<u>£m</u>	<u>£m</u>
Gross Forecast Council Tax Deficit for 2020/21	1.686	
Allocate 1/3 rd of the deficit to 2021/22		0.562
Balance of 2019/20 surplus		(0.154)
Net Council Tax Deficit included in the budget		0.408

8.13. The current estimate is that the PCC will receive section 31 grant for 75% of the 2021/22 deficit included in the budget of £0.562m, which would be a grant of £0.421m, but as above this is likely to change once final estimates are received from billing authorities.

8.14. The estimated overall net impact on the budget is a small surplus of £13k, as set out below:

	<u>£k</u>
Net Council Tax Deficit included in the budget	0.408
Section 31 grant	(0.421)
Net impact	(0.13)

9. Capital Programme including Estate Development Programme

- 9.1. The Capital Programme for the period 2021/22 to 2024/25) is set out in Appendix F, and the Capital Strategy is set out in Appendix G.
- 9.2. 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.
- 9.3. The cost of financing the approved capital expenditure is included within the revenue budget calculations for capital financing for approved items.
- 9.4. 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.

- 9.5. 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.
- 9.6. 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 site.

Additional funding of £1m has been added to the Capital Financing budget in recognition of this future capital spending, to be used to support borrowing.

10. Reserves and Financial Stability

- 10.1. 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, and further detail is set out in the Reserves Strategy at Appendix H.
- 10.2. 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.
- 10.3. 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.
- 10.4. For the 2021/22 budget, a number of new earmarked reserves have been created:
 - i) **Grant Equalisation Reserve** - this reserve in the sum of £6m will be used to offset and manage future uncertainty in the level of Police grant (and is funded by a transfer from the Transformation reserve)
 - ii) **Council Tax reserve** – this reserve will be utilised to manage any ongoing impact from COVID-19 of a Council Tax deficit arising from 2020/21 and any ongoing impact on council tax collection in 2021/22, and to manage any ongoing impact (slow recovery/reduced growth) on the Council Tax Base
 - iii) **Operation Magenta Reserve** – The reinvestigation of the historic events at Gosport War Memorial Hospital is an investigation of national importance. The PCC is currently able to apply for Special Grant from the Home Office to support 85% of expenditure annually, although it is anticipated that the available special grant could reduce to 75% in future

years. The costs of the investigation on an annual basis are now significant, and at a 25% contribution rate would equate to a cost to be funded by the PCC of over £2m per annum over the next 2 years and possibly beyond (50% annual spend currently assumed for year 3). This new reserve has been set up to ensure that funding is set aside to meet these costs. The reserve, in the sum of £5.9m, has been funded via transfers from the General Fund Reserve and the Uplift Reserve

- iv) **Pension Remedy Reserve** – this reserve, in the sum of £3m, has been funded via a transfer from the General Fund reserve. It sets aside specific funding in recognition of the one off costs which will arise from implementation of the McCloud/Sargeant pension remedy judgment impacting Police Pensions

10.5. 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.

10.6. Reserves are a one off resource, which unless replenished, can rapidly diminish.

10.7. 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 backdrop 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) funding the necessary investment to deliver a new PCC's ambition in relation to delivery of their Police and Crime Plan and commissioning of services
- iv) meeting the Chief Constables operational requirements, which includes 'taking the fight more and more to those criminals who blight our communities'
- v) 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
- vi) the significant investment required to embrace an ever evolving technology and digital landscape
- vii) the requirement to continue to fund 15% (potentially rising to 25%) of the annual ongoing costs of Operation

Magenta, which is the investigation regarding the historical deaths at Gosport War Memorial Hospital

- 10.8. 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.
- 10.9. The two main reserves available to the PCC to fund these cost pressures are the General Reserve and the Transformation Reserve.
- 10.10. **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.
- 10.11. **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 uncertainty around the future level of Police grant and the precept referendum cap.
- 10.12. 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.
- 10.13. The Transformation Reserve has a current unallocated balance of £6m against which it is anticipated there will be a regular draw down to fund specific initiatives, averaging out at £1.5m per annum, leaving a forecast balance of £0.5m by 2024/25. This is illustrated below:

Transformation Reserve

	£m
Current unallocated balance	6.5
Forecast draw	(6.0)
Remaining Balance	0.5

- 10.14. 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.
- 10.15. 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.
- 10.16. 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.

CFO Assessment of Reserves

10.17. The PCC CFO's assessment is that:

- i) the level of the General Fund reserve is reflective of the overall risk environment in which the PCC operates
- ii) the level of Earmarked reserves and their purpose are necessary and appropriate
- iii) the 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.
- iv) the overall level of reserves is appropriate given the known financial pressures and risks faced by the PCC.

10.18. A number of new and necessary earmarked reserves have been created against known risks, and these will be continually reassessed to ensure that the reserves held are commensurate with the risk.

10.19. 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 for next year. Should the Uplift reserve not be sufficient –this risk can be managed/mitigated through a call on the General Fund Reserve.

11. Partnerships

11.1. Hampshire continues to play its part supporting national policing.

11.2. 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, as a levy charged to all constabularies fees for services provided to the public 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.

12. Consultation

12.1. 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.

12.2. As a result of the restrictions for face to face engagement throughout the year due to the pandemic restrictions, the PCC has undertaken

extensive online consultation on police precept, reaching the highest number of local residents than in the previous eight years.

- 12.3. During 2020/21 8,348 members of the public have taken part in a number of online consultation exercises. The public consultation exercise on the police precept increase has had three distinct elements:
 - i) Online surveys, which saw 7,848 people submit responses across multiple platforms. These included:
 - 2,294 responses to budget question in Policing the Pandemic Survey
 - 5,427 responses to PCC's online survey
 - 127 responses to the PCC's online survey from the OPCC Consultation and Focus Group Panel members
 - ii) A YouGov survey of 500 demographically weighted respondents across Hampshire and the Isle of Wight.
 - iii) Two focus groups conducted by the OPCC with members of the Consultation and Research Group on Friday 15 January 2021, observed by Deputy Chair of the Panel Councillor Jan Warwick, and, Saturday 16 January 2021 observed by Michael Coombes of the Panel Finance Working Group.
- 12.4. The outcome from each individual element of the consultation, and the overall collective outcome shows that there is significant support for a precept increase of £15 to enable Hampshire Constabulary to take its fight to criminals and reduce crime.
- 12.5. A summary of the results is set out below, and the full details are set out in appendix J.

Online Surveys

Policing the Pandemic Survey

- 12.6. During the first lockdown back in April 2020 a survey was launched with Hampshire Constabulary to find out people's views of Hampshire Constabulary's policing of the pandemic.
- 12.7. The survey was undertaken again at the start of further restrictions in December 2020. At this time, the Government had not outlined what flexibility in setting the level of the police precept would be given to PCCs, but the opportunity was taken to ask a broad question to gauge an initial view from local residents view on a possible increase. As part of this survey a question was included asking:

Last year, your increase in the policing element of the council tax enabled the direct recruitment of 200 additional police officers. This year (2021/22) the government is giving Police and Crime Commissioners flexibility to increase the policing element of the council

tax again this year. Would you be willing to pay more to maintain police services in Hampshire, the Isle of Wight Portsmouth and Southampton?

- 12.8. From this survey 2,294 responses were received from the public.
- 12.9. Results showed an initial appetite from local communities to pay more towards maintaining police services with **1,340 (58.4%) stating that they would be happy to pay more**. 552 (24.1%) said they would not be willing to pay more and 402 (17.5%) said they didn't know.

Online budget survey

- 12.10. The online survey was hosted on the Police and Crime Commissioner's website and shared through extensive channels including Hants Alert, Neighbourhood Policing Teams social media, OPCC social media (including advertising to widen the reach), local print media and to a range of partners.
- 12.11. This year the budget consultation survey ran for four weeks from 17 December 2020, and received a 97% (5,191) completion rate. At its close 5,427 residents from across the Hampshire Policing area fed back their views. From the total number of 5,427 responses, 5,395 individuals responded to the specific question:

'Would you support an increase of 29p per week (based on Band D) in the policing precept of the Council Tax to maintain the continuing increase in police officer numbers, to reduce crime and keep us all safer?'

- 12.12. The reference to 29p equates to a £15 per annum increase for a Band D property.
- 12.13. **Overall, through this online survey 66.1% of participants would support a 29 pence per week increase in the precept.**

Consultation and Focus Group Panel Survey

- 12.14. The OPCC consultation and focus group panel is made up of local residents who have a desire to share their thoughts and views around policing and keeping safe on a regular basis. Currently this panel is made up of just over 400 participants from across all 14 districts.
- 12.15. There were a total of 127 responses with a 100% response rate to the online budget survey. The questions asked were the same as our YouGov survey, seeking views on the support or opposition of the 29p per week increase and where residents would like to see any additional funding spent.
- 12.16. **Out of our 127 responses 66.9% support a 29 pence per week increase to the precept.**

YouGov Survey

- 12.17. An additional survey of 500 respondents was undertaken through YouGov in December 2020 to ensure a demographically representative sample of responses were also achieved. The survey was conducted using an independent online interview administered to members of the YouGov panel.
- 12.18. The responding sample is weighted to ensure responses are fully representative from across the 14 districts.
- 12.19. The outcome from this survey was that:
 - **67% of residents are in support of the 29p* per week increase to the precept**

*which equates to £15 per annum increase on a Band D property

Focus Group

- 12.20. Our focus groups this year were different to our usual process due to the current lockdown restrictions of COVID-19. We opted for a virtual approach to meet our residents, these were participants who volunteered from our consultation and focus group panel to share their thoughts and views on the precept.
- 12.21. 14 participants over two focus groups took part. Each focus group was for an hour and a half, and had an independent observer from the Police and Crime Panel to ensure the validity of each session taking place.
- 12.22. Participants were shown a short video from the Police and Crime Commissioner introducing the focus group, followed by a 15 live minute talk from the Chief Constable Olivia Pinkney, then two slides highlighting the what the precept is, where current funding is spent, the current underfunding of Hampshire Constabulary from central government and the 29p per week increase being proposed.
- 12.23. We heard from participants that “*I am willing to pay more if the money goes in the right areas*” and “*willing to pay the top amount but the police need to be more accountable to us*”.
- 12.24. **The majority of participants are in support of paying the £15 increase on the condition that the police show they can achieve their priorities and meet the statements made as part of this process. This evidence has been offered in support however due to the size of the cohort a greater emphasis has been placed on the online survey undertaken this year.**

13. Risks

- 13.1. There are a number of risks that could impact upon the financial position in 2021/22 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 2022/23 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 1% pay award would lead to a cost pressure of £2.8m)
- the COVID-19 pandemic further impacts Constabulary resilience leading to additional cost
- the government support which has been available to support the specific additional costs of COVID-19 is removed/reduced
- the Local government income compensation scheme for lost sales, fees and charges in relation to COVID-19, which applies to Policing, is reduced below the current 75% reimbursement available (after an initial 5% deductible), or the 5% deductible increases, or the scheme ceases before the impacts of the pandemic cease to be felt
- the impact on both the council tax collected and the council tax deficit are slower to recover post the pandemic which negatively impacts future year budgets
- grant funding for the pay costs and infrastructure 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 £5m 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
- the costs of Operation Magenta increase, and the investigation continues beyond 2023/24
- Special Grant available to support Operation Magenta is reduced below the 75% level anticipated, and/or Special Grant is no longer available
- 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
- National Police Air Support cost sharing arrangements are under review which is likely to result in an increase in charges. There is also a potential requirement to make large investment in replacement air fleet within the next 3 years
- the McCloud Pensions judgement leads to substantial remedy costs and payments to claimants over the next 2 years along with the cost of the remedy itself in respect of implementation costs and the additional benefits earned
- the earmarked reserves are insufficient to cover the pressures/risks to which they relate

13.2. 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 10.17 (and in the Section 25 report in Appendix I), 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.

14. Recommendations

- 14.1. **That the Police and Crime Panel (PCP) support the Police and Crime Commissioner's (PCC) proposed precept increase of £15 per annum for Band D properties, which is the equivalent of £1.25 per month, or 29p per week.**
- 14.2. To note the recommendations from the Chief Constable to the PCC on her Operational requirements for 2021/22 onwards, and her request that the PCC support a precept increase of £15 to enable the delivery of those requirements, as set out in Appendix A.
- 14.3. To note that 61% of households across Hampshire and the IOW are in properties in council tax bands A-C (see paragraph 7.14), and would therefore see a precept increase of less than £15 per annum if the above recommendation is supported.
- 14.4. To note that the full precept increase will be utilised in support of local policing.
- 14.5. The Panel note the proposals in this report which ensure that for 2021/22 there will be significant investment in policing within Hampshire Constabulary Policing area, including an increase in police officer numbers by 146 above the existing budgeted establishment as part of the second tranche of the Government's commitment to increase police office numbers nationally by 20,000.
- 14.6. The Panel note that the PCC has undertaken a broad range of 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 majority support for a precept increase.

Appendix A

The operational case for a £15 increase in council tax precept

Chief Constable Olivia Pinkney

As the chief constable of Hampshire Constabulary, I am duty bound to make decisions about the safety of our communities. These include how we prioritise neighbourhood policing and keep our current number of PCSOs when others are cutting theirs, our response to the terrorist threat that remains in our country, and how we disrupt the organised crime gangs who prey on rural communities, the vulnerable, and our young people.

What matters in all of these decisions is how we best deliver safer communities. That is what I am committed to, and safer communities is also what our Police and Crime Commissioner has rightly put right at the heart of his Police and Crime Plan. When it comes to decisions on local council tax, it is therefore also right that we focus on what it is we need to deliver safer communities and the life opportunities that doing this provides to the people we serve.

It is with this in mind that my operational recommendation to the Police and Crime Commissioner requires a £15 increase in Band D council tax precept.

I do not make this recommendation lightly and I am fully conscious that many people and businesses face economic difficulties. Partners, friends and families of serving officers and staff are amongst those who are facing the challenge of redundancy and furlough. The public sector pay freeze will hit frontline workers, including our police officers and staff who have spent the past ten months putting themselves at risk to protect the NHS and save lives.

The economic situation means that decisions cannot be made without due consideration of public opinion. So, what is the public view of policing and do our communities support a £15 increase?

The Police and Crime Commissioner has shared with me compelling evidence from thousands of people engaged in public consultation. This is very welcome, showing that 66.1% are supportive of the £15 increase and that there is a majority of support in every district of Hampshire and the Isle of Wight.

This is not surprising given that public view of policing that I hear extends beyond gratitude for so much bravery and dedication to concern that “There aren’t enough of you”, “You need to do more to take the fight to criminals” and “You need to be more representative”. I share these views and the desire to do something about them.

The reality is that only a maximum £15 increase in council tax enables us to address these points of public concern in a sustainable manner.

Hampshire Constabulary is a force that already has high productivity. Our officers get the most results for victims compared with all closest comparators, and independent assessment has judged the force “Good” across all measures. This includes how wisely we spend our money. The benefits and financial prudence of the Constabulary’s plans have also been scrutinised in detail by the Commissioner and his team.

This year the force will benefit from a national uplift in officer numbers, which is welcome but does nothing to close the fairness gap compared to other areas of the country that have more investment. It is relevant that, in the absence of national funding, achieving a level playing field would require an increase of more than £60 in local council tax - four times higher than the operational recommendation that I am making. It is also worthy of note that, in our area, council tax contributions to policing are below the national average, and that most people live in properties that mean they would pay lower than the £15 per year we are talking about.

This financial position creates a current reality that, although we are able to deploy officers and staff to all higher harm and/or risk incidents, we currently have to prioritise our response to some other lower harm and/ or risk incidents. Were we not to do this we would have by far the highest caseload per officer in the country. An increase in resources - in line with the Government’s assessment of need - would allow us to investigate more crimes and take action that will reduce the number of crimes that would otherwise occur. As Chief Constable, I want to be able to investigate more crimes and make us safer.

The evidence makes clear that to be able to invest in the environment, systems and support that will enable our officers to remain productive in the face of criminals who are continuously evolving and exploiting situations such as COVID-19, we need local investment. If we want to boost regular officers with specialist teams to tackle organised county lines drug networks who threaten our communities, we need local investment. If we want to get ahead of the game by getting police officers recruited and on our streets earlier, we need local investment.

The proposals that we are putting forward have the support of all Hampshire Constabulary staff associations including the Police Federation. They enable all of these things and much more. Operational benefits will also include:

- **An additional 146 police officers.** These are all new officers in 2021/22 rather than replacements for those who have left. There are also an additional seven officers for the Regional Organised Crime Unit (taking the total to 153). Local council tax investment allows us to properly train and equip all of them and means we can once again fast track additional officers that would otherwise arrive in the following year so that they can serve our communities far sooner. We have taken that approach this year, and we will do it again.

- **The capability to arrest an extra 300 of the most dangerous organised criminals who run county lines drug crime in our towns and cities.** Drug related crime is a major concern and this year we created a new team called Monument. This took the fight to criminals, arresting key individuals, taking thousands of pounds of Class A drugs and knives off the streets, and helping vulnerable children caught up in it. This budget enables us to go a step further. Based on the evidence of this year, sixteen additional officers (on top of our 146 national increase) will enable us to disrupt more than 150 county lines (drug networks), to arrest more than 300 more organised criminals, and to protect 140 more young people.
- **The potential to investigate 26,000 more crimes.** The current position is that as chief constable I am not in a positon to be able to investigate as many crimes as I would want to. Painstaking investigation of crimes such as 2,500 rapes reported per year require very high levels of evidence assessment. Here, the requirements we have to meet in areas such as disclosure are growing. Currently, our officers on average investigate 180 crimes per year. We always have to be very careful of projections based on general numbers, as it depends which kind of crimes are being investigated and COVID-19 has created new dynamics, but if you take that 180 figure and the 146 additional officers that gives us the potential to investigate an extra 26,000 crimes per year because of this budget. We will always prioritise the highest harm crimes but, as resources grow, so does the potential to investigate more of the visible crimes that concern our communities.
- **Reducing 1,000 crimes a year, through new prevention work.** The work we are doing through projects such as Gateway diverts young people from crime and protects vulnerable people. This budget enables us to prevent 1,000 crimes a year in this way. That is 1,000 fewer victims of crime. It will also free us up to investigate other crimes that we know are important to you.
- **Safeguarding an additional 12,000 vulnerable people.** The first COVID-19 national lockdown led to a 50% increase in referrals including children at risk in Hampshire, a pattern that, sadly, shows every sign of continuing. This budget enables us to rise to that, safeguard vulnerable people, and protect 240 more high-risk children through our work with partner organisations.
- **Keeping investment in Country Watch.** Our activity here is taking the fight to organised crime groups who go into farms and other rural communities to steal quad bikes and machinery to fuel and fund crime elsewhere in our force area. There is an additional £150,000 identified for rural initiatives in the budget proposals.
- **Continued investment in our buildings, technology and essential safety kit.** Thanks to carefully planned and ambitious plans,

Hampshire Constabulary already benefits from some of the best buildings. These enable modern policing and continuing this work will support increased numbers, officer wellbeing and fast deployment. The budget also allows us to provide for vital equipment such as necessary replacements to our body armour, new digital technology, Taser and further investment for our Marine Unit.

- **A further focus on reducing sickness to keeping staff and officers at work serving the public.** Unfortunately, the evidence underlines that more police officers are now being injured serving the public and harrowing crimes such as domestic and online child abuse take their toll. Investment in health and wellbeing in recent years has led to Hampshire having far lower sickness rates than most other forces. We are consistently in the best five, and our wellbeing programme cut sickness by 6,000 days across police officers and staff last year. That is the equivalent of 30 extra full time officers and staff serving our communities every day. At a time when health has never been more in the spotlight, we need to do more of this vital work. This budget enables us to do just that.
- **Better justice for victims and more criminals held to account.** Policing relies on the whole criminal justice system, and COVID-19 has had a huge impact in terms of delays and pressure on that system. This budget will enable us to meet required standards on an additional backlog of 200 Crown Court trials and 2,500 Magistrate Court cases that are in the system.

These benefits are just some of what we will be able to achieve. They show how an extra £15 per year can move Hampshire Constabulary from a position of protecting and maintaining (making the best of what we have) to a position where we have the opportunity to take the fight more and more to those criminals who blight our local communities. That is why £15 is the operational recommendation of the chief constable.

I understand that some will be cautious at this time. However, it is my professional view that supporting anything other than a £15 increase flies in the face of the operational evidence. We would be in conflict with strong public support for this maximum increase. We would also have to explain to our communities why we chose, in the face of a growth in serious violence and uncertainty, not to do everything possible to make them safer. How could we justify that?

Above all, we have an opportunity to invest in safer communities. By doing this we will create new opportunities for the people who live in those communities. I believe that we have a duty of optimism, to unlock those opportunities. That is why I have asked, for the first time, that my operational support for the Police and Crime Commissioner's position is included in this budget paper and sits as a matter of public record.

Appendix B

Inflation and Assumptions

Inflation	2021/22	2022/23	2023/24	2024/25
Pay Inflation	1%	0.6%	1%	1%
Default prices inflation	2.0%	1.5%	1.50%	1.5%

*exact inflation used where it is known for certain contracts

Employer Pension Contributions	2021/22	2022/23	2023/24	2024/25
Officers	31.0%	31.0%	38.0%	38.0%
Staff	16.7%	16.7%	16.7%	16.7%

Funding	2021/22	2022/23	2023/24	2024/25
General Govt grant	6.3%	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	7.1%	1.99%	1.99%	1.99%

Appendix C

Council tax Precept 2021/22

Council tax at each band								
Band	A	B	C	D	E	F	G	H
£	150.97	176.14	201.30	226.46	276.78	327.11	377.43	452.92

PCC	Band D 20/21 £
Surrey	270.57
North Yorkshire	265.77
Cumbria	265.59
Norfolk	263.07
Cleveland	260.54
Gloucestershire	257.25
Northamptonshire	255.04
Lincolnshire	251.37
Dorset	240.58
Warwickshire	237.97
Leicestershire	233.23
Cambridgeshire	232.65
Nottinghamshire	229.32
Humberside	228.22
Avon & Somerset	227.81
Derbyshire	226.60
West Mercia	225.20
Staffordshire	225.09
Suffolk	222.75
Devon & Cornwall	221.64
Thames Valley	216.28
Wiltshire	216.27
Durham	215.24
Bedfordshire	212.09
Merseyside	211.97
Hampshire	211.46
Lancashire	211.45
Cheshire	210.44
Greater Manchester	208.30
Kent	203.15
Sussex	199.91
Essex	198.63
South Yorks	198.04
Hertfordshire	198.00
West Yorkshire	196.28
West Midlands	162.55
Northumbria	137.00

Appendix D

Budget 2021/22 and Medium Term Financial Strategy

Medium Term Financial Strategy	Revised Budget 2020/21	Reverse One-Off Changes	Other in year changes	Starting Budget 2021/22	Efficiency Savings	Growth & Budget Pressure	Inflation	Forward Budget 2021/22	Forecast Budget 2022/23	Forecast Budget 2023/24	Forecast Budget 2024/25
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Funding:											
Expected amount from General Grants	(198,182)	0	(12,458)	(210,640)	0	0	0	(210,640)	(210,640)	(210,640)	(210,640)
Council tax freeze and benefit grant	(12,944)	0	0	(12,944)	0	0	0	(12,944)	(12,944)	(12,944)	(12,944)
Pension Grant	(2,988)	0	0	(2,988)	0	0	0	(2,988)	(2,988)	(2,988)	(2,988)
Uplift Grant	(4,358)	0	1,758	(2,600)	0	0	0	(2,600)	(10,850)	(10,850)	(10,850)
Council tax precept	(147,619)	0	(10,789)	(158,408)	0	0	0	(158,408)	(162,370)	(166,432)	(170,595)
Council tax collection fund surplus	(607)	0	1,015	408	0	0	0	408	408	408	0
Collection Fund Adjustment Grant	0	0	(421)	(421)	0	0	0	(421)	(421)	(421)	0
Total amount funding expected:	(366,698)	0	(20,896)	(387,594)	0	0	0	(387,594)	(399,806)	(403,868)	(408,017)
Expenditure owned by the PCC:											
Office of the PCC	2,603	(352)	93	2,344	0	0	0	2,344	2,363	2,389	2,415
Commissioning	2,284	(25)	3	2,262	0	1,178	0	3,440	3,442	3,446	3,451
Estates	18,873	(600)	(11)	18,262	0	711	111	19,083	19,509	19,954	20,411
Capital Financing	4,196	0	(32)	4,164	0	1,000	0	5,164	5,144	5,144	5,144
Interest on Balances	(500)	0	160	(340)	0	0	0	(340)	(340)	(340)	(340)
Contributions to / (from) Reserves:	15,993	(536)	(9,187)	6,271	0	11,411	0	17,681	16,479	11,340	11,340
Net Expenditure owned by Office of the PCC	43,449	(1,513)	(8,974)	32,962	0	14,299	111	47,372	46,596	41,933	42,421
Police Services											
Expenditure:											
Employees	265,321	(429)	345	265,237	0	12,579	3,314	281,129	291,783	310,336	313,256
Indirect Employee Costs	6,062	(308)	13	5,766	0	0	0	5,766	5,807	5,859	5,911
Premises	1,611	(526)	(103)	982	0	0	0	982	1,003	1,024	1,046
Transport	6,513	(251)	236	6,498	(500)	300	0	6,298	6,458	6,626	6,800
Supplies and Services	19,019	(1,944)	274	17,349	0	3,510	106	20,965	25,806	29,491	34,428
Third Party Payments	70,488	(8,623)	(735)	61,130	(520)	1,270	1,241	63,121	65,683	64,939	65,872
Support Services	2,770	0	0	2,770	0	0	0	2,770	2,770	2,770	2,770
Total Expenditure on Police Services:	371,783	(12,081)	30	359,731	(1,020)	17,659	4,661	381,031	399,310	421,045	430,083
Income:											
Fees & Charges	(6,880)	(29)	(671)	(7,579)	0	0	0	(7,579)	(8,035)	(8,300)	(8,049)
Grants & Contributions	(39,054)	8,574	454	(30,026)	0	0	(574)	(30,600)	(31,002)	(31,416)	(31,835)
Internal Income	(2,600)	0	(30)	(2,630)	0	0	0	(2,630)	(2,630)	(2,630)	(2,630)
Total Income on Police Services:	(48,534)	8,545	(247)	(40,236)	0	0	(574)	(40,810)	(41,666)	(42,346)	(42,514)
Net Expenditure on Police Services:	323,249	(3,537)	(217)	319,496	(1,020)	17,659	4,087	340,221	357,644	378,700	387,569
Net Expenditure on PCC and Police Services	366,698	(5,049)	(9,191)	352,458	(1,020)	31,958	4,198	387,594	404,240	420,633	429,990
Budget (surplus)/ shortfall:	0	(5,049)	(30,087)	(35,136)	(1,020)	31,958	4,198	0	4,434	16,764	21,973

Appendix E

Detailed explanation of investment

- 1.1. As set out in section 5 of the report, the budget pressures and growth for 2020/21 total £31.96m 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 provided below for each of those headings.

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
More Frontline	16.443	14.848	14.192	14.117
Right Place Right Time	5.004	3.499	2.361	2.361
Better Equipped	3.622	4.820	2.074	1.815
Capital Financing	1.000	1.000	1.000	1.000
Estate	4.711	4.711	0.711	0.711
Commissioning	1.178	1.178	1.178	1.178
Gross investments	31.958	30.056	21.516	21.182
Funded by reserves	(2.900)			
Uplift related grants	(10.700)	(18.950)	(18.950)	(18.950)
Total	18.358	11.106	2.566	2.232

- 1.2. For police officer posts, the budget proposals show the posts that will need to be funded to match funding to the operational need. The budget proposals will fund the officer posts listed on a permanent basis so that the roles added can deliver the expected benefits on an ongoing basis, without creating vacancies elsewhere. That reduces the risk of vacancies on the frontline. After a period of significant funding pressures and not reaching establishment levels, the recent increases in recruitment and retention mean that the financial flexibility is reduced and therefore restating the establishment numbers is a higher priority to deliver the added value.

Policing services – More Frontline

- 1.3. **Uplift Programme** - The Government announced an intention to uplift police officers nationally by 20,000 officers over the period 2020/21 – 2022/23. Hampshire's share of the year 1 national allocation of 6000 officers was 156 officers
- 1.4. The Hampshire allocation for year 2 (2021/22) is 153 of the national allocation of 6,000 officers, but 7 of those officers must be contributed to the South East Regional Organised Crime Unit (SEROCU) so the net increase for the Constabulary is 146 officers in 2021/22. Hampshire has set an ambitious recruitment plan for the current financial year (2020/21) which will ensure that the additional 156 officers are recruited

as well as filling the vacancies that existed at the beginning of the financial year and replacing officers that leave during the course of the year.

- 1.5. For police officer posts, the budget proposals show the posts that will need to be funded to match funding to the operational need. The budget proposals will fund the officer posts listed on a permanent basis so that the roles added can deliver the expected benefits on an ongoing basis, without creating vacancies elsewhere. That reduces the risk of vacancies on the frontline. After a period of significant funding pressures and not reaching establishment levels, the recent increases in recruitment and retention mean that the financial flexibility is reduced and therefore restating the establishment numbers is a higher priority to deliver the added value.

Policing services – More Frontline

- 1.6. **Uplift Programme** - The Government announced an intention to uplift police officers nationally by 20,000 officers over the period 2020/21 – 2022/23. Hampshire's share of the year 1 national allocation of 6000 officers was 156 officers
- 1.7. The Hampshire allocation for year 2 (2021/22) is 153 of the national allocation of 6,000 officers, but 7 of those officers must be contributed to the South East Regional Organised Crime Unit (SEROCU) so the net increase for the Constabulary is 146 officers in 2021/22. Hampshire has set an ambitious recruitment plan for the current financial year (2020/21) which will ensure that the additional 156 officers are recruited as well as filling the vacancies that existed at the beginning of the financial year and replacing officers that leave during the course of the year.
- 1.8. The PCC has supported the ambitious recruitment plan, that will effectively over-recruit against those targets in 2020/21 to the effect that the Constabulary is aiming to recruit an additional 250 officers in 2020/21 rather than the 156 officers funded by Government. That is allowing officers that will be funded from future allocations to be recruited early so that the benefits of those officers is felt sooner by the public. We are on track to deliver the 250 additional officers in total in 2020/21.
- 1.9. There is a thorough recruitment and selection process required for officers. Officers would normally be signed off for independent patrol after approximately 40 weeks of training. The national Police Education Qualification Framework (PEQF) has introduced 2 or 3 year student officer training schemes for new constables. Therefore, there can be a lengthy time between when funding is authorised to recruit officers and the point at which the public see the benefits from that decision. The PCC is taking action to shorten that time and provide those benefits sooner by facilitating the earlier recruit of officers funded by the national Uplift programme
- 1.10. A similar approach is being taken for 2021/22 that will allow the Constabulary to accelerate the recruitment of officers ahead of formal

confirmation of uplift numbers for 2022/23. We do not know what the allocation of officers for Hampshire will be in 2022/23 but we do know that 8,000 officers will need to be recruited nationally if the Government is to meet the 20,000 officer target over the three years. It is possible that a greater share of the 8,000 officers to be recruited in 2022/23 could be allocated to national or regional police functions so the Constabulary is using 150 officers as the planning assumption for 2022/23.

- 1.11. There is some risk involved in recruiting officers before the 2022/24 allocation is formally known but that risk is mitigated by the natural turnover of officers that would mean that the level of risk could be funded from reserves until officer numbers naturally reduced to the required level, even in the very unlikely event that the Constabulary allocation of officers in 2022/23 is zero.
- 1.12. The 2021/22 budget includes the salaries of officers appointed in 2020/21 as well as officers funded through Uplift (£5.100m) in 2022/23 and funding to allow the Constabulary to recruit additional officers (£1.650m) against the prospect of Uplift funding in 2023/24.
- 1.13. Within PEQF, the three-year apprenticeship programme is funded from the apprenticeship levy draw down but officers on the two-year **degree holder entry programme** require funding because the apprenticeship levy cannot be applied (£0.097m). This route quickens the student officer process and allows a more diverse range of people to join as police officers. **Tutoring** costs are estimated at a further £0.150m.
- 1.14. **Officer Uplift Infrastructure** - 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 is used to set funding aside to support the uplift programme, with funding drawn down to fund, for example, new laptops, body worn video and phones.
- 1.15. The major elements of cost in 2021/22 are additional IT kit and licences additional training costs and more vehicles. Other costs are required for areas such as additional recruitment, positive action, vetting, HR staff and uniform. The projected amount required for 2021/22 is £4.314m.
- 1.16. This amount will again be contributed to an Uplift reserve so that the amounts spent can be subject to scrutiny. In 2020/21, the Scrutiny Panel approach has resulted in finding ways to absorb some projected costs being absorbed within existing activities and budgets. Hence a contribution of £1.900m from the balance of the existing Uplift Reserve is being applied to assist with funding the 2021/22 costs. The allocation for Uplift enabler costs for 2022/23 is also less than 2021/22 as a result of the learning from the Scrutiny Panel process.
- 1.17. The funding settlement states that 7 of the 153 Uplift officer allocation for Hampshire in 2021/22 must be given to SEROCU. The funding for those posts will therefore be passed to SEROCU at a cost of £0.484m.

- 1.18. **Forensics** –To increase the forensic capability to meet the increase in demand to allow more crimes to be investigated (£0.339m) and more Forensic Managers (£0.229m) The Transforming Forensics programme will improve fingerprint analysis and link to the national network in an accredited manner (£0.444m). A further £0.180m is included for increased costs in relation to processing forensic for serious sexual offences due to changes in the level of accreditation required.
- 1.19. **County Lines drug related harm** – Operation Monument for a funded team to disrupt serious and organised crime groups creating drug related harm and inducing vulnerable people into a life of crime, Based on previous performance the investment would allow the Constabulary to disrupt 150 drug networks and bring 300 offenders to justice per annum.
- 1.20. **MASH** – An increase in sergeants to meet the demand created from additional referrals. 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 (£0.198m).
- 1.21. **Missing, Exploited, Trafficking Team** –additional personnel to meet current demand levels and protect vulnerable people (£0.241m).
- 1.22. **Gateway** – navigating potential offenders away from reoffending which should reduce crime levels by an estimated 1000 crimes per year (£0.284m).
- 1.23. **Child Abuse Investigation Unit** – 3 Detective Sergeants to increase the capability to investigate a higher number of reported suspects (£0.189m).
- 1.24. **Offender Management** – 3 more officers to keep pace the number of offenders that require management within the community £0.143m.
- 1.25. **Witness Care Unit** – a one-off amount is included to boost the Witness Care Unit for one year to deal with the backlog of cases in the criminal justice system as a result of COVID-19. It is important to be able to support victims and witnesses through the extended period (£0.322m)
- 1.26. **Criminal Justice Recovery Hub** – a one-off investment to provide the criminal justice system work that is created by the COVID-19 delay (£0.194m).
- 1.27. **Covert Detective Inspector** – to improve management of the disclosure of sensitive material and manage an increase in intelligence from sources (£0.079m)
- 1.28. **Radio Replacement** - The new national Emergency Services Network continues to be delayed so replacement radios are required for the existing network. Covert radios (£0.214m one-off). There is £2m within the Equipment Reserve that is earmarked for replacing non-covert Airwave radios over the next 2 years. The progress of the Emergency Services Mobile Communications Programme will be closely monitored to balance the need for radios against the risk of them becoming obsolete when the new Emergency Services Network is implemented.

- 1.29. **Forensic Collision Investigation** – training and equipment for the unit to meet the new accreditation standards (£0.104m).
- 1.30. **Communications Intelligence Unit** – the Constabulary was a partner in a collaborated function organised by South West forces that has now ceased. In order to maintain 24/7 service levels as an individual force, a budget increase of £0.087m pa is required for 2 years, while a new partnership arrangement is identified and implemented.
- 1.31. **Force bail team administrators** – A greater number of individuals are requiring to be released under investigation. This is being impacted by the criminal justice system and currently the COVID-19 consequences as well. Additional staff are required to administer the process at a cost of £0.075m pa.
- 1.32. **Mental Health** – A Mental Health Sergeant post to co-ordinate the Constabulary's engagement on mental health issues (£0.064m)
- 1.33. **Public Order Trainer** – One additional post to align with taser training requirements (£0.034m)

Policing services – Right Place, Right Time

- 1.34. **Contact Management** – The 2020/21 budget included an increase in Contact Management staff to enable better response times and longer handling times to improve the service to the public. Performance has been greatly improved through 2020/21. An increase in management of 1 Superintendent and 1 Chief Inspector needs to be established within the base budget to continue to manage the performance levels and drive further improvements (£0.172m). The vacancy saving factor for Contact Management police staff of £0.458m has also been removed to allow Contact Management to be at full establishment at all times.
- 1.35. **Intelligence** – additional analysis (£0.268m) and a Briefing Coordinator (£0.035m) to provide analysis capacity for the additional officers.
- 1.36. **Introduction** and upgrade of IT systems - to enable Hampshire to comply with national policing programmes and changes implemented by software suppliers totalling £1.923m:

Project	£m
SCCM Migration to Intune	0.161
Esri Licensing & Support Cost Increase	0.061
Force Access System	0.183
Home Office ICT Projects	0.299
National Law Enforcement Database (NLED)	0.102
ICT Health Check	0.061
Oracle Licencing	0.230
Office 365 Licence Increase	0.148
Microsoft Windows Server Licences	0.230
APD Telematics	0.165

- 1.37. **Niche RMS upgrade** – to upgrade the main crime management system to keep it in line with the latest versions being used by other forces in the region (£0.662m).
- 1.38. **CMP Business benefits** – a programme to ensure that the full benefits of CMP are realised (£0.213m)
- 1.39. **CMP re-platforming** - a project to explore the potential of re-platforming CMPO due to a change in Microsoft strategy. The investment is expected to generate future savings if CMP can be re-platformed to the cloud)£0.226m)
- 1.40. **Digital Intelligence and Investigation** – funding to allow piloting and implementation of new digital investigation tools £0.186m and Digital Support Team (£0.069m).
- 1.41. **Command Suite** – to bring the Command Suites up to standard should they be required for Gold and Silver command for a major incident (£0.400m).
- 1.42. **Digital evidence** – storage on evidence in the Digital Evidence Management System (£0.046m).
- 1.43. **Criminal Justice Digital Programme Inspector** – to co-ordinate the criminal justice digital programmes being developed jointly across the criminal justice system (£0.079m).
- 1.44. **Commercial and Contact Manager** – to fill a gap in the existing capability to manage contracts and seize commercial opportunities. The Constabulary is increasing its use of national framework contracts and these will require more contract management input, particularly in relation to PEQF and the new national Bluelight Company. The expectation is that forces should be able to generate greater efficiencies if forces procure jointly through national framework agreements being developed by the Bluelight Company (£0.050m).**Staff Officer post** – to support the Chief Officer Group to improve productivity and deal with additional expected projects (£0.042m).

Policing services – Better Equipped

- 1.45. **Body Armour** - The Constabulary invested in a significant body armour replacement programme with a 10-year warranty 10 years ago. Hence a new replacement programme will need to be implemented over the next two financial years. The estimated cost is £1m pa in each year. The need for a replacement programme has been known for the last 10 years so a reserve of £2m has been funded over that period to cover the cost of the replacement. Therefore, the £1m cost in 2021/22 can be funded from an offsetting contribution from reserves. Further annual contributions to reserves over the next 10 years for the next replacement are built into the base budget.

- 1.46. **Vehicle Replacement Programme** – An increase of £0.3m pa. is required to keep pace with inflationary costs for vehicle costs. Prices are increasing due to various factors, but primarily due to emissions research costs for manufacturers.
- 1.47. **Insurance** – all organisations have seen an increase in insurance premiums. The contract for casualty and motor fleet insurance was renewed in 2020/21 through a competitive process. The additional cost of £0.4m pa must be built into the budget.
- 1.48. **Digital Interview Recorders** – to enable DIRs at custody centres to be networked (£0.100m).
- 1.49. **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 and digitally rather than having to use forms or return to the station. An additional sum is required to be built into the budget now contracts have been signed (£0.086m).
- 1.50. **Tranman** – upgrade of the Transport Management system that is going out of support and is essential for the management of fleet vehicles (£0.090m).
- 1.51. **Service Desk** – to boost Service Desk personnel and introduce new software to manage the additional demand from additional personnel and the additional remote working (£0.150m).
- 1.52. **Auto Number Plate Recognition** – equipment refresh £0.200m.
- 1.53. **Wellbeing, Recruitment & Development** - the People Strategy project team £0.428m will help to deliver wellbeing, recruitment and development issues that continue to reduce sickness and improve productivity. This strategy also includes **Specialist Neuro Diversity** (£0.042m) **Occupational Health** (£0.120m), **Performance Psychologist** (£0.088m), **Physiotherapy** (£0.070m) and **Equality & Inclusion** (£0.030m). A separate PCC decision has already been approved for a comprehensive Equality and Inclusion training programme.
- 1.54. **Professional Standards Department** – Inspector and Researcher £0.110m to manage complaints and the database required to record them.
- 1.55. **Legal fees** - the cost of legal fees has exceeded the budget available for the past two years. An analysis has shown that an increase of £0.430m is required to meet the current requirements. This includes increases in the value and number of fees payable to courts.
- 1.56. **House entry equipment** - £0.020m

Estates Investment

- 1.57. The estate continues to be modernised in order to provide fit for purpose accommodation. The ongoing Officer Uplift programme will

continue to require a review of the current estate strategy both because of the additional personnel and to take into account any change in operational strategy.

- 1.58. 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:
 - to support estate changes required to support the Uplift in officer numbers
 - 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.
- 1.59. A new contribution to the Estates reserve of £4m has been included within the budget for 2021/22 and 2022/23 in recognition of the investment required in the estate across Hampshire and the IOW, including as set out in last year's budget report investment to fund investment in both the IOW and Netley.
- 1.60. 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, and for 2021/22 will be used as a funding contribution to the refurbishment of Bitterne Police station.

Keeping Us Safer: Crime Prevention Initiatives

- 1.61. The PCC has set aside £1m per annum to increase the work keeping the residents of Hampshire safer, reducing the impact of crime on residents and the burden on the Constabulary of investigating crime through pro-active initiatives to reduce crime. For 2021/22 this funding will be used to support an expansion of the Safer Streets initiative to Basingstoke and Portsmouth. Beyond 2021/22, a new PCC will be able to determine how this funding is best utilised to deliver their priorities and its best use in support of the Constabulary.

Preventing and Tackling Crime in Rural Communities

- 1.62. As set out in the Chief Constable's operational requirements statement at Appendix A, this additional funding of £150k will support the Constabulary in:

'taking the fight to organised crime groups who go into farms and other rural communities to steal quad bikes and machinery to fuel and funding crime elsewhere in our force area'.

- 1.63. In 2021/22 this funding will in part be used to launch a free geo tagging scheme which will enable those in farms and the rural community to geo tag for example quad bikes and high value machinery, seeking to both reduce the incidence of theft and also making it easier to track and recover high value items.
- 1.64. The funding will also enable the purchase of 2 additional 4x4 vehicles to be used in support of rural policing.
- 1.65. The PCC will work with Country Watch and the Constabulary on further initiatives to reduce the incidence and impact of crime across our rural communities.

Appendix F
Capital Programme

	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
Capital spend	ECP	8,387	11,299	2,500
	Estates Capital Works	769	1,560	1,000
	Estates Specific Projects	-	1,800	-
	Vehicles	3,880	2,300	2,300
	TOTAL	13,036	16,959	5,800
		13,036	16,959	5,800
Funding	Receipts - Operational buildings	(6,050)	(9,550)	(5,200)
	Receipts - Residential buildings	-	(1,198)	-
	Receipts - Vehicles	(300)	(300)	(300)
		(6,350)	(11,048)	(5,500)
Capital grant	RCCO	(300)	(300)	(300)
		(6,386)	(5,611)	-
	TOTAL	(13,036)	(16,959)	(5,800)
		(13,036)	(16,959)	(5,800)
	(Surplus) / Shortfall	-	-	-

Capital and Investment Strategy 2021/22 to 2023/24

1 Introduction

- 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 provides an overview of how associated risk is managed and the implications for future financial sustainability.
- 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

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Forecast expenditure	13.0	17.0	5.8	3.3
Prudential borrowing	-	-	-	-
Capital grants	(0.3)	(0.3)	(0.3)	(0.3)
Capital receipts	(6.4)	(11.0)	(5.5)	(1.0)
Revenue contributions to capital	(6.3)	(5.7)	-	(2.0)
Total resources available	(13.0)	(17.0)	(5.8)	(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

	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
CFR	55.1	54.0	52.9	51.8
Debt	30.5	30.2	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

	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Authorised Limit for Borrowing	86.1	85.0	83.9	82.8
Authorised Limit for Other Long-term Liabilities	5.0	5.0	5.0	5.0
Authorised Limit for External Debt	91.1	90.0	88.9	87.8
Operational Boundary for Borrowing	71.1	70.0	68.9	67.8
Operational Boundary for Other Long-term Liabilities	5.0	5.0	5.0	5.0
Operational Boundary for External Debt	76.1	75.0	73.9	72.8

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

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Ratio	0.54%	1.00%	0.99%	0.97%

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

	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£	£	£
General Fund - incremental impact on annual band D Council Tax	7.35	(6.25)	(2.86)

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 2021/22

- 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 In 2021/22 the OPCC has increased the revenue budget for additional Minimum Revenue Provision (MRP) by £1m to allow for additional borrowing of up to £18m (over 25 years) 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 2021/22 will not be subject to a MRP charge until 2022/23.
- 5.7 Based on the OPCC's latest estimate of its Capital Financing Requirement on 31st March 2021, the budget for MRP has been set as follows:

	31.03.2021 Estimated CFR £m	2021/22 Estimated MRP £
Supported capital expenditure	0	198,000
Unsupported capital expenditure after 31.03.2008	55.1	1,128,000
Finance leases and Private Finance Initiative	0	0
Transferred debt	0	0
Loans to other bodies repaid in instalments	0	0
Future borrowing	0	2,754,000*
Total General Fund	55.1	3,900,000

*the budget includes £2.75m to finance future borrowing which has not yet been taken out.

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 Given the increasing risk and very low returns from short-term unsecured bank investments, the OPCC aims to continue to hold investments that provide diversification through greater security and/or higher yielding asset classes during 2021/22. This is especially the case for the estimated £15m that is available for longer-term investment.
- 7.2 At 31 December 2020 approximately 66% of the OPCC's cash was invested so that it was not subject to bail-in risk, as it was invested in local authorities, strategic pooled funds, and secured bank bonds. Of the 34% of cash that was subject to bail-in risk, 51% was held in overnight money market funds which are subject to a reduced risk of bail-in, 19% was held in overnight call accounts with banks to allow for liquidity and 30% was held in short-term notice accounts providing a comparatively favourable rate of interest in exchange for a short notice period within the 35-day maximum recommended by Arlingclose.
- 7.3 This diversification will represent a continuation of the strategy adopted in 2015/16.
- 7.4 The OPCC also invests in pooled property, equity and multi-asset funds, which allow diversification into asset classes other than cash without the need to own and manage the underlying investments. The funds operate on a variable net asset value (VNAV) basis and offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer the potential for enhanced returns over the longer term but are likely to be more volatile in the short-term. All of the OPCC's pooled fund investments are in the funds' distributing share classes which pay out the income generated.
- 7.5 Money can usually be redeemed from pooled funds at short notice however these investments must be viewed as long-term investments from core

balances not required for immediate liquidity requirements. This ensures that even in times of market volatility, the OPCC will not be a forced seller and will not crystallise capital losses.

- 7.6 The performance of these investments and their suitability in meeting the OPCC's investment objectives are monitored regularly and discussed with Arlingclose.

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 December 2020, which gave an update of treasury matters. A further Arlingclose workshop has been planned for November 2021.

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 H). 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.



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RESERVES STRATEGY 2021/22



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>
- 1.3. The Reserves Profile shows that existing planned commitments will result in a forecast reduction of reserves by March 2025 to £28.0m (down from £76.7m at the end of March 2020), of which the General Reserve would be £6.4m, which is 1.5% of the forecast 2024/25 revenue budget (£420.6m). This assumes that there are no adverse issues that impact on the General Reserve.
- 1.4. The Chief Finance Officers have 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. In Hampshire, it was agreed that this would continue to be the case after the Stage 2 transfer in May 2014.
- 1.5. 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”.
- 1.6. The current financial climate remains challenging, and there are a number of financial pressures and risks which need to be managed over the medium term, for which reserves are in place to mitigate. Reserves will also be required to support the significant investment required to reform policing and achieve the Policing Vision 2025.
- 1.7. 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.
- 2.4. 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 reducing, and are likely to reduce further in the medium term.
- 2.5. Reserves are also a one-off resource, which unless replenished, can rapidly diminish.
- 2.6. In the medium term there is 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) funding the necessary investment to deliver a new PCC's ambition in relation to delivery of their Police and Crime Plan and commissioning of services
 - iv) meeting the Chief Constables operational requirements, which includes 'taking the fight more and more to those criminals who blight our communities'
 - v) 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
 - vi) the significant investment required to embrace an ever evolving technology and digital landscape
 - vii) the requirement to continue to fund 15% (potentially rising to 25%) of the annual ongoing costs of Operation Magenta, which is the investigation regarding the historical deaths at Gosport War Memorial Hospital
- 2.7. 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.

- 2.8. In setting a precept increase for Band D of £15 per annum, the PCC has been able to fund the current priority growth/pressure items from within the revenue budget.
 - 2.9. This allows the draw on reserves to be reduced, and the current level of the Transformation Reserve to be protected (net of the earmarked projects already agreed), with the remaining balance available for future utilisation to fund the required ongoing change and transformation which the Constabulary will be required to deliver in later years of the MTFS; 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.
 - 2.10. 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.
- 2.11. The PCC CFO's assessment is that:
- i) the level of the General Fund reserve is reflective of the overall risk environment in which the PCC operates
 - ii) the level of Earmarked reserves and their purpose are necessary and appropriate
 - iii) the 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.
 - iv) the overall level of reserves is appropriate given the known financial pressures and risks faced by the PCC.

- 2.12. A number of new and necessary earmarked reserves have been created against known risks, and these will be continually reassessed to ensure that the reserves held are commensurate with the risk.
- 2.13. 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 for next year. Should the Uplift reserve not be sufficient this risk can be managed/mitigated through a call on the General Fund Reserve.

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, as well as to ensure that sufficient and appropriate funds are set aside for the known medium term financial risks and pressures.
- 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 2020, the forecast position as at 31 March 2021 and the forecast position through to the end of the medium term financial strategy as at 31 March 2025:

	Actual as at 31 March 2020	Forecast as at 31 March 2021	Forecast as at 31 March 2025
General Reserve	18.9	6.4	6.4
Earmarked Reserves	50.1	63.4	15.8
Total Reserves available for use by the PCC to support Policing and 'Beyond Policing' to deliver the Police and Crime Plan	69.0	69.8	22.2
Ring fenced Reserves held on behalf of others not available to spend by the PCC	7.8	5.8	5.8
Total Reserves	76.8	75.6	28.0

- 3.3. The table above shows that the reserves available to be used directly by the PCC to support Policing and the 'beyond policing' element of his Police and Crime Plan have slightly increased since 2019/20
- 3.4. A number of new reserves have been created to manage known/potential pressures in future years. These new reserves are explained in more detail in section 5.6 but in summary new reserves will help the Constabulary to meet the costs from the ongoing Gosport War Memorial Hospital investigation (Operation Magenta), the costs associated with the Uplift (and the impact on the Estate) and implementation costs resulting from the McCloud pension judgement.
- 3.5. The two main reserves available to the PCC to fund investment, transformation and unforeseen cost pressures are the General Reserve and the Transformation Reserve (which is included within 'Earmarked Reserves').
- 3.6. The General Reserve balance has reduced significantly since March 2020 for a number of reasons. The balance as at 31 March 2020 included £5.8m of ICT carry forwards which were drawn down in year to enable the projects to continue. There have also been transfers of £6.8m to other specific reserves set up for Operation Magenta, the McCloud pension judgement and for ESMCP (more detail on each reserve is set out in section 5.8).
- 3.7. There are 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. These commitments will see the Transformation Reserve balance reduce from £7.2m as at 31 March 2021 to £0.5m by the end of 2024/25.

Categorisation of Reserves

- 3.8. 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 2025.
- 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 2021 is £6.4m)

- 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 £6.4m at the end of March 2021. This equates to 1.7% of the 2020/21 net budget (£366.7m) which is within the 5% maximum set by the Minister of State for Crime and 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
Forecast balance as at 31 March 2021	6.4	1.7%
Forecast balance as at 31 March 2022	6.4	1.6%
Forecast balance as at 31 March 2023	6.4	1.5%
Forecast balance as at 31 March 2024	6.4	1.5%
Forecast balance as at 31 March 2025	6.4	1.5%

* the March 2025 balance is shown as a percentage of the 2024/25 forecast net budget as the MTFS does not include a forecast budget for 2025/26.

5. Earmarked Reserves

In addition to the General Reserve, the PCC also holds a number of earmarked reserves, as set out below (the table shows the March 2020 balance, the forecast March 2021 balance and the forecast March 2025 balance, with more detail shown in Appendix 1):

	Actual as at 31 March 2020	Forecast as at 31 March 2021	Forecast as at 31 March 2025
Carry Forward Reserve	0.3	0.0	0.0
Commissioner's Reserve	0.9	0.2	0.0
Council Tax Reserve	0.0	0.0	2.1
Estate Reserve	10.2	13.2	6.2
Grant Equalisation Reserve	0.0	6.0	0.0
Insurance Reserve	1.5	1.5	1.5
IT Services Reserve	13.0	16.7	0.1
Operation Magenta Reserve	0.0	5.9	0.0
Pension Remedy Reserve	0.0	3.0	0.0
Replacement Programme Reserve	2.2	4.0	2.4
Trading Reserves	3.0	3.0	3.0
Transformation Reserve	19.0	7.2	0.5
Uplift Reserve	0.0	2.7	0.0
Total Earmarked Reserves	50.1	63.4	15.8

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

Transformation Reserve (Forecast 31 March 2021 is £7.2m)

- 5.2. 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.
- 5.3. 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.
- 5.4. The opening balance of the Transformation Reserve as at 1 April 2020 was £19.0m. As at January 2021, allocations of £12.5m have been approved. A breakdown of the approved draws from this reserve is set out below:

Transformation Reserve - committed

Commitment	£m
Contribution to revenue budget per 2019/20 MTFS	1.1
Transfer to Grant Equalisation Reserve	6.0
Estates Programme - delivery of new estate	3.0
Digital Intelligence and Investigation	0.6
Advancement of Inclusion and Equality in HC	0.9
Estate Security Improvements	0.4
Tasers	0.5
Total Commitments	12.5

- 5.5. There is also an earmarked sum of £1.5m per annum for four years (total £6m) from 2021/22 until 2024/25 for forecast draws on the reserve not yet approved. The deduction of this earmarked funding, leaves £0.5m available as shown in the table below:

Transformation Reserve – summary

	£m
Balance as at 01 April 2020	19.0
Committed expenditure	(12.5)
Annual earmark for future initiatives	(6.0)
Remaining Unallocated Balance	0.5

Other Earmarked Reserves

- 5.6. The PCC holds earmarked reserves for specific purposes. These are the:
- i) **Carry Forward Reserve** holds funds approved for carry forward by the PCC as part of the annual outturn report.
 - ii) **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.
 - iii) **Council Tax Reserve (NEW)** has been set up to hold the one-off Local Council Tax Support grant of £2.1m in 2021/22. – this reserve will be utilised to manage any ongoing impact from COVID-19 of a Council Tax deficit arising from 2020/21 and any ongoing impact on council tax collection in 2021/22, and to manage and any ongoing impact (slow recovery/reduced growth) on the Council Tax Base
 - iv) **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.
- v) **Grant Equalisation Reserve (NEW)** will be used to offset and manage future uncertainty in the level of Police grant (and is funded by a transfer of £6m from the Transformation Reserve).
 - vi) **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.
 - vii) **IT Services Reserve** holds funds set aside for IT refresh programmes (laptops/phones/BWV and servers) and the delivery of ESMCP.
 - viii) **Operation Magenta Reserve (NEW)** has been set up in response to the reinvestigation of the historic events at Gosport War Memorial Hospital which is an investigation of national interest. The PCC is currently able to apply for Special Grant from the Home Office to support 85% of expenditure annually, although it is anticipated that the available Special Grant could reduce to 75% in future years. The costs of the investigation on an annual basis are now significant, and at a 25% contribution rate would equate to a cost to be funded by the PCC of over £2m per annum over the next 2 years and possibly beyond (50% annual spend currently assumed for year 3). This new reserve has been set up to ensure that funding is set aside to meet these costs. The reserve, in the sum of £5.9m, has been funded via transfers from the General Fund Reserve and the Uplift Reserve.
 - ix) **Pension Remedy Reserve (NEW)** sets aside specific funding in recognition of the one-off costs which will arise from implementation of the McCloud/Sargeant pension remedy judgment impacting Police Pensions. It has been funded via a transfer from the General Fund reserve.
 - x) **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.
 - xi) **Uplift Reserve** holds funds to meet the infrastructure and non-pay costs associated with the estimated increase in police officer numbers.

- xii) **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.

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 2020	Forecast as at 31 March 2021	Forecast as at 31 March 2025
ACRO Surety	4.0	2.0	2.0
AVCIS Surety	0.3	0.3	0.3
ACRO General Reserve	3.5	3.5	3.5
Total	7.8	5.8	5.8

- 6.2. The purpose of these reserves is as follows:

- i) **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** and **AVCIS Surety** are held to cover any potential costs to the Chief Constable or PCC should ACRO cease to trade on its current basis. The PCC approved a decision in 2020/21 to allow ACRO to draw down £2m from the ACRO Surety Reserve to mitigate against risk and liabilities.
- ii) **ACRO General Reserve** - other net surplus balances held on behalf of ACRO. The governance board for ACRO determines the use of these reserves. The annual budget and use of reserves is presented to the National Police Chief's Council each year.

7. Overall CFO Assessment of reserves

- 7.1. The PCC CFO's assessment is that:

- i) the level of the General Fund reserve is reflective of the overall risk environment in which the PCC operates
- ii) the level of Earmarked reserves and their purpose are necessary and appropriate
- iii) the 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.

- iv) the overall level of reserves is appropriate given the known financial pressures and risks faced by the PCC.
- 7.2. A number of new and necessary earmarked reserves have been created against known risks, and these will be continually reassessed to ensure that the reserves held are commensurate with the risk.
- 7.3. 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 for next year. Should the Uplift reserve not be sufficient –this risk can be managed/mitigated through a call on the General Fund Reserve.

Appendix 1 – Analysis of Useable Reserves

		Analysis of how the forecast 31 st March 2021 Reserves will be utilised		
	Forecast Balance 31.3.21	Planned Expenditure on projects and programmes over the medium term to 2024/25	Funding for Specific projects and programmes beyond 2024/25	As a general contingency to meet other expenditure needs
	£m	£m	£m	£m
General Reserve	6.4	0.0	0.0	6.4
Commissioner's Reserve	0.2	0.2	0.0	0.0
Estates Reserve	13.2	7.0	6.2	0.0
Grant Equalisation Reserve	6.0	6.0	0.0	0.0
Insurance Reserve	1.5	0.0	1.5	0.0
IT Services Reserve	16.7	16.6	0.1	0.0
Operation Magenta Reserve	5.9	5.9	0.0	0.0
Pension Remedy Reserve	3.0	3.0	0.0	0.0
Replacement Programme Reserve	4.0	1.6	2.4	0.0
Trading Reserves	3.0	0.0	3.0	0.0
Transformation Reserve	7.2	6.7	0.5	0.0
Uplift Reserve	2.7	2.7	0.0	0.0
Total Useable Reserves	69.8	49.7	13.7	6.4

Appendix 2 – Analysis of profile

	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
General Fund Balance	(18.9)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)
Fully committed to Existing Spend Programmes						
Carry Forward Reserve	(0.3)	0.0	0.0	0.0	0.0	0.0
Estate Reserve	(10.2)	(13.2)	(13.9)	(16.2)	(11.2)	(6.2)
IT Services Reserve	(13.0)	(16.7)	(14.1)	(14.1)	(14.1)	(0.1)
Replacement Programme Reserve	(2.2)	(4.0)	(2.6)	(1.2)	(1.8)	(2.4)
Uplift Reserve	0.0	(2.7)	0.0	0.0	0.0	0.0
Trading Reserves						
HC Trading Reserves	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Risk Reserves						
Council Tax Reserve	0.0	0.0	(2.1)	(2.1)	(2.1)	(2.1)
Grant Equalisation Reserve	0.0	(6.0)	(4.5)	(3.0)	(1.5)	0.0
Insurance Reserve	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Operation Magenta Reserve	0.0	(5.9)	(3.6)	(1.2)	0.0	0.0
Pension Remedy Reserve	0.0	(3.0)	(1.5)	0.0	0.0	0.0
Corporate Reserves						
Commissioner's Reserve	(0.9)	(0.2)	(0.1)	0.0	0.0	0.0
Transformation Reserve	(19.0)	(7.2)	(5.1)	(3.5)	(2.0)	(0.5)
Total Earmarked	(50.1)	(63.4)	(52.0)	(45.8)	(37.2)	(15.8)
Other Reserves						
AVCIS Surety	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
ACRO General Reserve	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)
ACRO Surety	(4.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Total Revenue Reserves	(76.8)	(75.6)	(64.2)	(58.0)	(49.4)	(28.0)

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 2021/22 in the context of the PCC's Medium Term Financial Strategy (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 2021/22 financial year, with no information on police grant, uplift grant, council tax precept for 2022/23 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 2021/22' 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 Force Executive and Joint Chief Officer Group with Thames Valley Police for collaborated initiatives and then discussed and agreed with the PCC, subject to overall affordability and assessment against the PCC's priorities. For the current year, the budget includes

a number of pressures which are predominately unavoidable, plus a range of growth items for investment which can be afforded within the available funding. For the remainder of the MTFS, the budget estimates only include unavoidable cost increases and growth items for investment which are operationally unavoidable (and an allowance for future pressures incrementally per annum of £5m).

Budget management within the Constabulary remains strong as demonstrated by the outturn position each year.

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 2021/22 and the MTFS

- a) **Government Funding** - The one year Police Spending Settlement announced in December 2020 only provided Police Grant, Uplift Grant and the Referendum level for precept for 2021/22. This is a key risk as the funding position beyond 2021/22 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 2021/22
- Assumed 'flat cash' for Police Grant, i.e. no increase in grant levels for the years post 2021/22
- No funding has been assumed to be made available to support the anticipated increase in Employer Police pension contributions arising as a result of the next Police Pensions valuation

In addition, a Grant Equalisation reserve has been set up which can be utilised to offset and manage any fluctuations in Police grant over the medium term.

- b) **Council Tax** – The Government have only announced the precept referendum level of £15 for 2021/22, 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) **Council Tax Collection** – COVID-19 has impacted the collection of Council Tax, and at the time of writing this report the final estimates have not yet been confirmed by the billing authorities. It is however clear that in comparison to recent years, a significant deficit is emerging, and the latest forecast position has been included within the budget.

In recognition of the impact COVID-19 has had on collection, the government confirmed as part of the settlement announcement that they will put in place a Local Tax Income guarantee which will:

- i) allow the repayment of collection fund deficits arising in 2020-21 to be spread over the next 3 years rather than the usual period of a year.
- ii) also fund 75% of the irrecoverable losses in this deficit. The government will pay a Section 31 grant to the PCC during the 2021-22 financial year to fund this.

This additional support from government has mitigated the impact of the 2020/21 collection fund deficit on the 2021/22 budget, allowing the position to be managed over 3 years. The level of Section 31 grant has not yet been confirmed, although in overall terms it has a marginal impact on the overall funding position, and any shortfall against the estimate included in the budget can be managed through the Council Tax reserve.

Over the medium term, it may take time for Council tax collection to fully recover, and for the Council Tax base to grow in line with pre pandemic trends. The Council Tax reserve will be utilised to manage any ongoing impact to the overall level of precept income.

- d) **Pay and Price Risk** – The MTFS contains provision of 1% per annum for increases in Police Officer and Police staff pay, reflecting the current economic environment.

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.

- e) **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. In addition specific revenue funding has been set aside in both the 2021/22 and 2022/23 budgets for investment in the estate, which will reduce the overall level of any borrowing required.

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 out 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 2022/23 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 1% pay award would lead to a cost pressure of £2.8m)

- the COVID-19 pandemic further impacts Constabulary resilience leading to additional cost
- the government support which has been available to support the specific additional costs of COVID-19 is removed/reduced
- the Local government income compensation scheme for lost sales, fees and charges in relation to COVID-19, which applies to Policing, is reduced below the current 75% reimbursement available (after an initial 5% deductible), or the 5% deductible increases, or the scheme ceases before the impacts of the pandemic cease to be felt
- the impact on both the council tax collected and the council tax deficit are slower to recover post the pandemic which negatively impacts future year budgets
- grant funding for the pay costs and infrastructure 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 £5m 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
- the costs of Operation Magenta increase, and the investigation continues beyond 2023/24
- Special Grant available to support Operation Magenta is reduced below the 75% level anticipated, and/or Special Grant is no longer available
- 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
- National Police Air Support cost sharing arrangements are under review which is likely to result in an increase in charges. There is also a potential requirement to make large investment in replacement air fleet within the next 3 years
- the McCloud Pensions judgement leads to substantial remedy costs and payments to claimants over the next 2 years along with the cost of the remedy itself in respect of implementation costs and the additional benefits earned

- the earmarked reserves are insufficient to cover the pressures/risks to which they relate

These risks have been 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 through 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 forecast to reduce in the medium term.

For 2021/22 a number of new earmarked Reserves have been created to recognise specific risk issues to funded over the medium term:

- i) **Grant Equalisation Reserve** - this reserve in the sum of £6m will be used to offset and manage future uncertainty in the level of Police grant (and is funded by a transfer from the Transformation reserve)
- ii) **Council Tax reserve** – this reserve will be utilised to manage any ongoing impact from COVID-19 of a Council Tax deficit arising from 2020/21 and any ongoing impact on council tax collection in 2021/22, and to manage any ongoing impact (slow recovery/reduced growth) on the Council Tax Base

- iii) **Operation Magenta Reserve** – The reinvestigation of the historic events at Gosport War Memorial Hospital is an investigation of national importance. The PCC is currently able to apply for Special Grant from the Home Office to support 85% of expenditure annually, although it is anticipated that the available special grant could reduce to 75% in future years. The costs of the investigation on an annual basis are now significant, and at a 25% contribution rate would equate to a cost to be funded by the PCC of over £2m per annum over the next 2 years and possibly beyond (50% annual spend currently assumed for year 3). This new reserve has been set up to ensure that funding is set aside to meet these costs. The reserve, in the sum of £5.9m, has been funded via transfers from the General Fund Reserve and the Uplift Reserve
- iv) **Pension Remedy Reserve** – this reserve, in the sum of £3m, has been funded via a transfer from the General Fund reserve. It sets aside specific funding in recognition of the one off costs which will arise from implementation of the McCloud/Sargeant pension remedy judgment impacting Police Pensions

Further information on Reserves is provided in section 10 of the budget report, with significant detail set out in the Reserves Strategy which is Appendix H to the budget report.

Based on current planning assumptions, and taking into account the risks set out in section 13 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 £6.4m (which is 1.7% of the 2020/21 net budget) at the end of March 2021, and then remaining at £6.4m for the period through until March 2025.

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 £63.4m on 31st March 2021 to £15.8m by 31st March 2025.

As set out in the Reserves Strategy, my view on the adequacy of Reserves is as follows:

- i) the level of the General Fund reserve is reflective of the overall risk environment in which the PCC operates
- ii) the level of Earmarked reserves and their purpose are necessary and appropriate
- iii) the 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.
- iv) the overall level of reserves is appropriate given the known financial pressures and risks faced by the PCC.

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.

Whilst COVID-19 has been and remains a risk to manage, the impact on the Constabulary has so far been manageable, and the financial impact not significant or unmanageable. The position has been helped through the availability of government grant support, both for unavoidable expenditure (e.g. PPE, which is also now nationally funded via the Department of Health) and for 75% of income losses (after a 5% deductible) through the Sales, Fees and Charges scheme. The spending Review 2020 confirmed that the SFC scheme will operate for the first 3 months of the next financial year (April-June 2021), so will provide ongoing mitigation.

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

Budget 2021/22 – 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 2021/22.

Cash Flow

As part of setting the budget, I have reviewed, together with the Chief Constable's CFO, the cash flow forecast for the period through until end of March 2022. The cash flow position remains very positive, and I have no concerns as to the cash position.

The minimum forecast cash balance over the next financial year (excluding cash investments with an investment term duration greater than 1 day) is £31.5m, with the maximum balance forecast to be £113m.

In practice, through effective treasury management throughout the year, surplus cash will be invested until required, ensuring that the OPCC keeps sufficient but not excessive cash available to meet the OPCC's day to day spending needs, while managing the risks involved (in line with the CIPFA code and the treasury management strategy). On that basis actual short term cash balances may be

less than forecast as surplus cash will be invested in periods longer than 1 day duration.

The Position Beyond 2021/22

Given the announcement of a one-year Spending Round for 2021/22, 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 2021/22 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.

As set out earlier, the MTFS is necessarily based on prudent assumptions which do show budget shortfalls across the 3 years post 2021/22. However, 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 through either planned budget reduction and/or draws from reserves.

Andrew Lowe
PCC Chief Financial Officer

Appendix J

Final Consultation Report - Budget 2021/22

See separate document