

# HAMPSHIRE POLICE AND CRIME PANEL

## Report

<b>Date Considered:</b>	<b>28<sup>th</sup> January 2022</b>
<b>Title:</b>	Council tax Precept 2022/23, Budget 2022/23 and Medium-Term Financial Strategy 2023/24 to 2025/26
<b>Report from:</b>	Andy Lowe, PCC Chief Finance Officer Richard Croucher, Force Chief Finance Officer

**Tel:** 01962 871595

**Email:** [opcc@hampshire.pnn.police.uk](mailto:opcc@hampshire.pnn.police.uk)

### 1. Recommendations

#### The Police and Crime Panel (P&CP):

- 1.1. **Support the Police and Crime Commissioner's (PCC) proposed precept increase of £10 per annum for Band D properties, which is the equivalent of £0.83 per month, or 19p per week.**
- 1.2. Note the recommendations from the Chief Constable to the PCC on her operational requirements for 2022/23 onwards, and her support for a precept increase of £10 to enable the delivery of those requirements, as set out in Appendix A.
- 1.3. Note that 61% of households across Hampshire and the Isle of Wight are in properties in Council Tax bands A-C (see paragraph 7.13), and would therefore see a precept increase of less than £10 per annum if the above recommendation is supported.
- 1.4. Note that the precept increase will support the delivery of the PCC's Police and Crime Plan 'More Police, Safer Streets'
- 1.5. Note the proposals in this report which will ensure that for 2022/23 there will be significant investment to enable 'More Police, Safer Streets', which includes delivering an increase in police officer numbers by 196 above the existing budgeted establishment as part of the third tranche of the Government's commitment to increase police office numbers nationally by 20,000
- 1.6. Note that the total uplift in police officer numbers in Hampshire Constabulary over the three-year period 2020/21 – 2022/23 delivered through the Government's Uplift programme is 498, and that with support from the PCC, Hampshire Constabulary is targeting an increase of 600 officers by April 2023, and the budget proposed for 2022/23 includes additional funding to deliver this target
- 1.7. 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 Police and Crime Commissioner's Police and Crime Plan– 'More Police, Safer Streets' - which was published in 2021, and to meet the PCC's vision which is:

**'for Hampshire and the Isle of Wight to be two of the safest places to live, work and visit in the country'**

2.2. The PCC's Police and Crime Plan (Plan) can be accessed using the link below:

[www.morepolicesaferstreets.com](http://www.morepolicesaferstreets.com)

2.3. The Plan sets out nine key priorities:

- i) 600 more police officers by 2023
- ii) improve police visibility
- iii) tackle anti-social behaviour
- iv) making it easier to report crime through 101
- v) prevent young people from committing crime
- vi) zero tolerance approach to knife crime
- vii) crack down on unauthorised encampments
- viii) improved outcome for victims
- ix) targeting rural crime

2.4. The budget and proposed precept increase set out in this report will help ensure that the PCC can deliver on her Plan priorities, in total investing **£20.95m** to fund new initiatives which includes:

- significant investment of **£11.3m** in 196 new police officers for Hampshire Constabulary and the enabling infrastructure, which supports and will deliver the PCC's number one priority which is to have '600 more police officers' by 2023, and will also help meet the priority of 'improving police visibility'
- a particular focus on 'improved outcomes for victims' and 'preventing young people from committing crime', for which the PCC has set aside an additional **£1m** in 2022/23 to support increased commissioning of services to support these priorities
- significant investment of **£1.5m** in both staff and supporting infrastructure for the 101 service
- additional investment of **£2.9m** to ensure that the police estate remains operationally effective, is continually improved, and is a modern and safe environment; this is in addition to the existing budget commitment for 2022/23 of an additional £4m capital contribution for future capital investment

- ensuring the police have the right resources to tackle crime in order to keep the residents of Hampshire and the Isle of Wight safe – in total the investment in the Constabulary will increase by circa **£28m\*** compared to the 2021/22 budget. This includes a focus on the delivery of the top five areas which impact the public of Hampshire and the Isle of Wight the most:
  - i) serious and organised crime and countering terrorism
  - ii) murder and serious violence
  - iii) domestic abuse, rape and serious sexual offences
  - iv) child abuse, exploitation and vulnerability
  - v) fraud and cyber crime

\*this is the net increase in direct support of the Constabulary budget and includes inflation £6.6m, Efficiency Savings (£1.4m), Growth £11.1m, Specific allocation to Reserves £11.5m (Uplift, vehicles, Marine Unit, Equipment)

- taking 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 support the PCC in delivery of her Plan and her vision ‘for Hampshire and the Isle of Wight to be two of the safest places to live, work and visit in the country’
- in addition to the £20.95m for growth initiatives, the budget also includes inflation funding to allow for a police officer and police staff pay award of up to 3.5%, which recognises that the public sector pay freeze has been lifted; the actual pay award will be agreed following recommendations from the Pay Review bodies.

#### Chief Constable Operational Recommendation

2.5. The Chief Constable has outlined in Appendix A her support for and assessment of the operational case for a £10 increase to support the PCC to deliver ‘More Police, Safer Streets’, and has set out that:

***‘The operational case for investing locally is clear.....these budget papers contain a clear list of the specific things this budget will enable that without Council Tax increases will not be possible .....these are all enabled by a £10 increase in council tax’***

2.6. The operational case sets out clearly why additional investment is required for policing in Hampshire and the Isle of Wight, and the benefits that will be delivered.

#### Police Settlement

2.7. The Police grant settlement was announced on the 16<sup>th</sup> December 2021, and confirmed for 2022/23 that:

- i) There would be an increase in Hampshire’s Police Core Grant of £12.4m (total core grant £223.0m), to support the Uplift in officer numbers. In addition the Police Uplift Grant increases

by £0.9m to £3.5m giving a net increase of £13.3m for Government grant.

- ii) The Pension Grant remains at £2.99m
- iii) Hampshire has been allocated £3.5m (£2.6m in 2021/22) of specific ringfenced grant to fund and enable a further 'uplift' in Hampshire's police officer numbers (an increase in establishment of 196 officers).
- iv) The cap on the maximum increase in precept would be set at £10 per year for a Band D property (and it is important to note that the Home Secretary and the Minister of State for Crime and Policing assumptions are very much based on PCCs implementing the maximum £10 increase), which would equate to a 4.4% precept increase (for 2021/22 the maximum precept increase was capped at £15, an increase of 7.1% in Hampshire) per Band D property.

2.8. In summary the grant settlement position is as below:

	<b>2021/22</b>	<b>2022/23</b>	<b>Increase</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Core Police Grant	210.6	223	12.4
Police Uplift Grant	2.6	3.5	0.9
Pension Grant	3	3	0
Legacy Council Tax Grant	12.9	12.9	0
<b>Total Government Grant</b>	<b>229.2</b>	<b>242.5</b>	<b>13.3</b>

2.9. The PCC positively welcomes both the increase in Police Grant for 2022/23, and the specific ring-fenced grant to support an increase of 196 police officers, as well as the announcement on grant and precept levels for later years.

2.10. Further detail on the grant settlement is set out in section 6.

#### The Council Tax Precept

2.11. Local funding through Council Tax remains an important source of funding to compliment and add to the increase in government grant, and will support and enable the PCC to deliver the key priorities within her Plan, deliver an uplift in police officer numbers, and support the Chief Constable in delivering operational effectiveness.

#### Change in the Balance of Funding Between Grant and Council Tax

2.12. 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

- 2.13. The funding settlement for 2022/23, which includes specific funding as part of the government's commitment to increase police officer numbers in Hampshire by 196 in 2022/23 as part of its Uplift programme, combined with the flexibility to increase the council tax precept by £10, provides an opportunity to make a significant investment in policing, the police estate, crime prevention and support to victims of crime across Hampshire and the Isle of Wight in 2022/23.

### Precept Proposal

- 2.14. The PCC must ensure sufficient resources are available to deliver her Plan and her statutory responsibilities.
- 2.15. The PCC has fully reviewed and scrutinised the detail of the Chief Constable's operational case and request for a Precept increase of £10 in support of policing, and is in no doubt that the operational case is compelling.
- 2.16. Taking account of the above, and also the positive feedback to the Precept consultation (see paragraphs 14.1 – 14.9) the PCC's proposal is therefore for a £10 increase in the Council Tax Precept for 2022/23 (for a Band D property), as set out in section 7.
- 2.17. Increasing the Precept by £10 will raise an additional circa £7m per annum from 2022/23 (on a like for like basis to 2021/22 without taking account of any increase in the Council Tax Base from 2021/22).
- 2.18. The total Precept raised for 2022/23 is estimated to be £167.1m, a total increase of £9m compared to 2021/22 (allowing for an estimated increase in the Council Tax base of 1.23%).
- 2.19. The PCC's view is that increasing the council tax precept by the maximum permitted amount is the responsible thing to do to because it will enable and support her vision ***'for Hampshire and the Isle of Wight to be two of the safest places to live, work and visit in the country'***, provide increased investment in support of her Plan and enable the Chief Constable to have the necessary resources to deliver her operational requirements.
- 2.20. The Chief Constable is clear in her support for a £10 precept increase and the operational benefits that it will deliver.
- 2.21. In the context of the proposed £10 precept increase, it should be noted that 61% of households across Hampshire and the Isle of Wight are in Bands A – C, and so will see an increase of less than £10 per annum (see paragraph 7.13).

### What will the Budget Deliver

- 2.22. On the assumption of a £10 precept increase (Band D), this report sets out that the PCC can:
- i) Set a balanced budget for 2022/23 in the sum of £410.5m, as set out below:

	<b>£m</b>	<b>%</b>
Hampshire Constabulary	357.9	87.2
Police Estate	22.3	5.4
Office of the Police & Crime Commissioner	2.5	0.6
Commissioning	3.6	0.9
Crime Prevention	1.2	0.3
Capital Financing (net of Interest earned of £0.5m)	4.6	1.1
Contribution to Reserves*	18.4	4.5
<b>Total Proposed Budget</b>	<b>410.5</b>	<b>100</b>

\* The contribution to reserves is further analysed in paragraphs 11.1 – 11.13, but in summary includes £11.5m set aside for specific direct investment in Hampshire Constabulary resource (for example Police Officer Uplift, equipment, vehicles, IT), £6.9m investment in the Police Estate)

- ii) Support the delivery of her vision and enable delivery of the key priorities as set out in her Plan
- iii) Fund a significant increase in the Chief Constable's budget to enable the Chief Constable to deliver her operational requirements, making the necessary investment to ensure the Constabulary continue to be a modern, operationally effective Police Service, 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 Police Officer Uplift programme and the PCC's priority for 600 more police officers by 2023
- iv) Provide additional funding to support the Capital Programme
- v) 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. The budget will deliver investment of **£20.95m** as set out below, and with further detail provided in Appendix E:

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
<b>More Frontline</b>	<b>13.163</b>	<b>10.482</b>	<b>10.465</b>	<b>10.635</b>
<b>Right Place, Right Time</b>	<b>5.887</b>	<b>3.821</b>	<b>2.377</b>	<b>2.324</b>
<b>Better Equipped</b>	<b>3.896</b>	<b>1.295</b>	<b>0.788</b>	<b>1.656</b>
<b>Contributions from reserves</b>	<b>(5.946)</b>	<b>(0.574)</b>	<b>(0.067)</b>	<b>(1.049)</b>
<b>Estates</b>	<b>2.936</b>	<b>2.436</b>	<b>2.436</b>	<b>2.436</b>
<b>Commissioning</b>	<b>1.017</b>	<b>1.017</b>	<b>1.017</b>	<b>1.017</b>
<b>Future pressures</b>	<b>-</b>	<b>5.000</b>	<b>10.000</b>	<b>15.000</b>
<b>Net Total</b>	<b>20.954</b>	<b>23.476</b>	<b>27.016</b>	<b>32.020</b>

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, and to provide the public with feedback
- 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**

- Additional investment across the estate to support the Uplift in police officer numbers
- Additional investment in preventative and reactive maintenance and statutory compliance

- Funding to support investment in the Police estate
- v) **Increased Support to Victims of Crime**  
Significant further investment in commissioned services enabling improved outcomes for victims
- vi) **Increased Crime Prevention Initiatives**  
Significant further investment in commissioned services enabling increased early intervention to prevent young people from committing crime
- vii) **Investment in Preventing and Tackling Crime in Rural Communities**  
Specific funding has continued to be set aside to prevent and tackle rural crime

#### Medium Term Position

2.24. This report also sets out that on the assumption of a £10 precept increase (Band D) for 2022/23, followed by precept increases of 1.99% in each of the following 3 years (2023/24 – 2025/26), it is likely that savings will be required in later years to balance the budget, as set out in section 3:

	<b>Forecast Budget Deficit £m</b>
2023/24	10.2
2024/25	13.2
2025/26	22.5

2.25. The Police Settlement has provided greater clarity on the expected levels of Government grant support and Council Tax Precept referendum limits for 2023/24 and 2024/25. Whilst the grant support is not confirmed at individual PCC level, it is very helpful from a financial planning perspective.

2.26. The MTFs therefore includes a number of assumptions that will need to be updated and refined as information becomes available for 2023/24 and beyond.

#### Capital Programme

2.27. The capital programme has been updated, and from a financing perspective provision has been made to support capital expenditure and borrowing to ensure continued investment across the Police estate, including the provision of the estate requirements in support the Police Officer Uplift programme



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

### Reserves

2.29. 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

2.30. Further detail on reserves is set in section 11, and the Reserves Strategy is attached as Appendix H.

### Risk

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

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

### CFO Section 25 report

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

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

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

### Consultation

2.35. In considering whether or not to use the flexibility given to Commissioners by Central Government to increase the precept by £10, the PCC has given due consideration to the views of the public and also to the consequences of setting a precept lower than £10.

2.36. The PCC has undertaken extensive online consultation on the police precept, using two online surveys and focus groups.

2.37. A total of 4,340 members of the public have taken part in a number of online consultation exercises during the four week consultation period from 2 December 2021 to 4 January 2022. The public consultation exercise on the police precept has had three distinct elements:

- i) Online surveys, which saw 4,314 people submit responses across multiple platforms. This included the PCC's online survey, which achieved 3,814 responses.
- ii) A YouGov survey of 500 demographically weighted respondents across Hampshire and the Isle of Wight.
- iii) Six focus groups were conducted by the OPCC from Thursday 6 January to Tuesday 11 January 2022. Police and Crime Panel members Councillor John Beavis,

Councillor Margot Power of the P&CP Finance Working Group and Co-opted member of the P&CP and Chair of the Finance Working Group Shirley Young observed two focus groups.

2.38. The outcome from each individual element of the consultation, and the overall collective outcome shows that there is significant support for an increase of £10 in the precept for 2022/23.

2.39. A summary of the results is set out in section 14, and the full details are set out in Appendix J.

#### Summary

2.40. The PCC is clear that as set out above, implementing a precept increase of £10 for a Band D property is necessary to deliver her vision and the priorities within her Plan.

2.41. The Chief Constable has set out her operational case in clear support of a £10 precept increase.

2.42. The precept consultation has shown clear support for a £10 precept increase.

2.43. 61% of households across Hampshire and the Isle of Wight are in properties in council tax bands A-C, and would therefore see a precept increase of less than £10 per annum as set out below

2.44. The CFO's section 25 report, attached to this report as Appendix I, provides a positive opinion on:

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

2.45. Further detail on the financial assumptions which underpin the proposed budget and Medium-Term Financial Strategy is set out in sections 3 – 12 below.

### **3. Medium Term Financial Strategy (MTFS) Summary**

3.1. As set out in section 6 (Grant Settlement) and section 7 (Council Tax Precept), the Police Grant Settlement announcement confirmed:

- the overall level of Police Grant for later years, 2023/24 and 2024/25, although the announcement did not include allocations at an individual PCC level
- that PCC's would be permitted to increase the police precept by an additional £10 in each year 2023/24 and 2024/25

3.2. In view of the above the key funding assumptions which have therefore been used to underpin the MTFS are as follows:

- a precept increase of £10 in 2022/23, followed by precept increases of 1.99% in the following years 2023/24 – 2024/25; clearly this leaves flexibility for the PCC to consider the level of

precept rises in these later years (a £10 increase in 2023/24 for example would be an increase of 4.23%)

- an increase in police grant in both 2023/24 and 2024/25 in line with Hampshire’s usual share of the overall total police grant allocation, and flat grant (no increase) for 2025/26 (in comparison to 2024/25)
- an assumption that additional funding will be available to support any increase in the Employer costs of the Police Officer Pension Scheme (see paragraph 3.15-3.16) which arise as a result of the Police Pension Fund quadrennial valuation

3.3. Based on these assumptions, the MTFs currently shows that for 2022/23 the PCC is able to set a balanced budget, but for the years 2023/24, 2024/25 and 2025/26 the budget currently shows a shortfall/budget in excess of forecast income of:

	<b>Forecast Budget Deficit £m</b>
2023/24	10.2
2024/25	13.2
2025/26	22.5

- 3.4. As currently presented, it is likely that further savings will be necessary in future years to balance the budget in 2023/24 and beyond, but this will be firmed up in later iterations of the MTFs as the assumptions which underpin the MTFs (e.g. grant funding, pay award, inflation, LGPS pension employer rate, future year precept increase, budget pressures) become clearer.
- 3.5. In the event that the MTFs were to remain unbalanced in future years post confirmation of funding for the years 2023/24 onwards, the PCC and Chief Constable would need to review planned expenditure and propose mitigating reductions to balance the budget position.

Investment

- 3.6. The MTFs includes significant cost pressures and growth items included in the 2022/23 budget and later years. The budget pressures are primarily 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.
- 3.7. The budget pressures and growth for 2022/23 total £20.95m as set out in section 5 and Appendix E

## MTFS 2022/23– 2025/26: Other Assumptions

- 3.8. The summary MTFS position for 2022/23 to 2025/26 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 2022/23 budget.

### **Inflation and Pay**

- 3.9. The budget includes provision for inflation for contract spend and other areas where inflationary increases are unavoidable.
- 3.10. The inflation assumptions applied are shown in Appendix B. In some areas, 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 4% has been used where inflation is unknown in line with the prevailing Consumer Price Index (CPI) as at October 2021; CPI has since risen to 5.1% for the 12 month period to November 2021, so inflation is a potential risk to the budget which will need to be managed.
- 3.11. The most significant inflation value is the pay award; a 3.5% pay award is assumed with effect from 1 September 2022 in line with other forces. The Home Secretary decides on the actual pay award following consideration of the recommendations from the Police Pay Review Body with effect from September each year, so the actual pay award will not be known until nearer September 2022.
- 3.12. If there is any variation to the pay award assumption then, for example, an extra 1% would equate to an extra £1.7m of cost in 2022/23 as there is only a part-year effect given that the pay award takes effect from September each year.
- 3.13. 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

- 3.14. The MTFS at Appendix D allows within the budget for £5m to fund recurrent revenue pressures and growth per annum (incremental each year from 2023/24, so an additional £15m by 2025/26). 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

- 3.15. The next revaluation of the Police Officer Pension Scheme will impact from the 2024/25 financial year. There is a significant risk that there could be an increase in the cost of the scheme, which will impact the employer rate of contribution.
- 3.16. At the last revaluation, the Government provided 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. A key assumption within the MTFs is that any increase in cost will be offset by additional grant (over and above the current settlement announcement) but that remains a risk.

### **Savings**

- 3.17. The forecast position is that whilst the budget is balanced in 2022/23 there are estimated budget deficits in 2023/24, 2024/25 and 2025/26.
- 3.18. In the event that after updating the assumptions within the MTFs for post 2022/23 the budget remains in deficit for those years, the PCC and Chief Constable would need to review planned expenditure and propose mitigating reductions to the budget.
- 3.19. There is one significant saving which may materialise and impact the MTFs forecast, in relation to the LGPS pension deficit contribution saving, and further details are set out below.

### **LGPS Pension Deficit Contribution**

- 3.20. 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.
- 3.21. From 2017/18 – 2019/20, the Constabulary and OPCC had 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.
- 3.22. As the most 2019 recent valuation determined that the Hampshire LGPS was fully funded, the requirement to pay deficit contributions fell away for the period 2020/21 – 2022/23.
- 3.23. The advice from the CFO to the Hampshire Pension Fund in advance of the 2020/21 budget was that as the valuation is on a 3 year cycle, and includes a whole range of assumptions which will be re-visited at the next valuation in 2022 (for example the return on investments), the most prudent treatment of this saving was as a one off saving over the period of this valuation cycle, on the basis that at the next valuation in 2022 the Fund could be in deficit and the requirement for a deficit payment re-emerge.
- 3.24. On that basis, the deficit saving of £5.5m has been utilised over the past two years to fund one-off pressures, and will also be used on the same basis to fund one off pressures within the 2022/23 budget.
- 3.25. Based on the actual performance of the Hampshire LGPS Fund over the last three years, it is possible that an outcome from the 2022 valuation could be that the Fund remains in surplus, in which case it may be possible that the £5.5m could be set aside on a recurrent basis and utilised to fund the overall budget.
- 3.26. The outcome of the valuation will be known in advance of setting the 2023/24 budget and so the implications can be taken into account.

3.27. The one-off items to be funded from this saving in 2022/23 are included within the growth items set out in section 5.

### **Capital Programme**

3.28. The capital programme has been updated, and from a financing perspective provision has been made to support capital expenditure and borrowing to ensure continued investment across the Police estate, including the provision of the estate requirements in support the Police Officer Uplift programme

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

## **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 three 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.

4.3. Hampshire's additional allocation for 2021/22 was an additional 153 officers (which includes 146 new officers in Hampshire, plus 7 new officers in the South East Regional Organised Crime Unit (SEROCU)).

4.4. The final year of allocation in 2022/23 gives Hampshire 207 new officers, of which 11 officers go to SEROCU, leaving 196 officers for Hampshire. Over the three years that provides a total of an extra 498 officers for Hampshire through the Police Uplift Programme; however with support from the PCC, Hampshire Constabulary is targeting an increase of 600 officers by April 2023, and the budget proposed for 2022/23 includes additional funding to deliver this target

## **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 £10 increase in the precept.

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.

5.4. There are significant cost pressures and growth items included in the 2022/23 budget and later years. The budget pressures are predominantly unavoidable or operationally unavoidable costs to support the Chief Constable and the Constabulary to deliver the additional

capacity and productivity required to meet the priorities set out in the Plan, and to meet the demand and expectations of the public.

- 5.5. The budget pressures and growth for 2022/23 total £20.95m as shown in the table below. In addition the budget includes 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:

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
<b>More Frontline</b>	<b>13.163</b>	<b>10.482</b>	<b>10.465</b>	<b>10.635</b>
<b>Right Place, Right Time</b>	<b>5.887</b>	<b>3.821</b>	<b>2.377</b>	<b>2.324</b>
<b>Better Equipped</b>	<b>3.896</b>	<b>1.295</b>	<b>0.788</b>	<b>1.656</b>
<b>Contributions from reserves</b>	<b>(5.946)</b>	<b>(0.574)</b>	<b>(0.067)</b>	<b>(1.049)</b>
<b>Estates</b>	<b>2.936</b>	<b>2.436</b>	<b>2.436</b>	<b>2.436</b>
<b>Commissioning</b>	<b>1.017</b>	<b>1.017</b>	<b>1.017</b>	<b>1.017</b>
<b>Future pressures</b>	<b>-</b>	<b>5.000</b>	<b>10.000</b>	<b>15.000</b>
<b>Net Total</b>	<b>20.954</b>	<b>23.476</b>	<b>27.016</b>	<b>32.020</b>

## 6. Grant Settlement 2022/23

- 6.1. The Police grant settlement was announced on the 16<sup>th</sup> December 2021, which has not allowed much time for extensive public consultation on the PCC's proposed precept increase of £10.
- 6.2. At a national level, the settlement announcement confirmed:
- i) total grant funding for police forces for the next three years, with increases of £550 million in 2022/23, at least £650 million in 2023/24 and no less than £800 million in 2024/25; these increases are incremental, so is an extra £100m in 2023/24 compared to 2022/23, and an additional £150m in 2024/25 compared with 2023/24
  - ii) PCCs will be able to increase their precept by up to £10 in each of the next three years; any increase beyond £10 would require a referendum
- 6.3. For 2022/23 this means that:
- i) There will be an increase in Hampshire's Police Core Grant of £12.4m (total core grant £223.0m), to support the Uplift in officer numbers. The Uplift Grant increases by £0.9m to £3.5m giving a net increase of £13.3m for Government grant.
  - ii) The Pension Grant remains at £2.99m
  - iii) Hampshire has been allocated £3.5m (£2.6m in 2021/22) of specific ringfenced grant to fund and enable a further 'uplift' in Hampshire's police officer numbers.

iv) The cap on the maximum increase in precept would be set at £10 per year for a Band D property (and it is important to note that the Home Secretary and the Minister of State for Crime and Policing assumptions are very much based on PCCs implementing the maximum £10 increase), which would equate to a 4.4% increase (for 2021/22 the maximum precept increase was capped at £15, an increase of 7.1% in Hampshire per Band D property)

6.4. 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 and Probation, Kit Malthouse MP, set out that:

*‘The Spending Review, which confirmed budgets up to 2024/25, will provide financial certainty and stability to allow for longer-term, strategic financial planning.*

*This will enable the completion and maintenance of the 20,000 additional officers recruited as part of the Police Uplift Programme.*

*This settlement for 2022/23 provides a total of up to £16.9 billion for policing in 2022/23, an increase of up to £1.1 billion on the 2021/22 funding settlement.*

*Available funding to Police and Crime Commissioners (PCCs) will increase by up to an additional £796 million in 2022/23, including local flexibility to increase council tax precept. This increase is broken down as follows:*

- *A £550 million increase in Government grant funding to PCCs. This additional funding will support the final year of the Police Uplift Programme. This funding will be allocated according to funding formula shares and £135 million of this will be ringfenced and paid out in line with progress on recruitment.*
- *Up to £246 million additional funding from council tax precept, based on current forecasts and assuming all PCCs maximise their precept flexibility. The Government is enabling PCCs to increase precept by up to £10 for a Band D equivalent property, less than 20p per week.’*

6.5. The letter also confirmed that:

***Year 3 of the Police Uplift Programme:***

*‘One of our top priorities will be to complete the recruitment of the 20,000 additional officers by March 2023. All forces have continued to deliver through year two of the programme and, working in partnership with you, we have already recruited 11,053 additional officers. We expect the pace of delivery to continue.’*

6.6. The PCC positively welcomes both the increase in Police Grant for 2022/23, and the specific ring-fenced grant to support an increase of 196 police officers, as well as the announcement on grant and precept levels for later years.



- 6.7. The PCC also notes the Home Secretary’s priority in relation to the recruitment of additional officers as part of Year 3 of the Police Uplift Programme, and that this entirely aligns with her own number one priority which is to ‘have 600 more police on our streets by the end of 2023’.
- 6.8. The precept flexibility offered, enables a precept increase of up to £10 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 £10.

Police Grant Beyond 2022/23

- 6.9. For the purpose of planning ahead, it has been assumed that Hampshire will receive its proportionate share of the increase in total Police Grant funding over the next three years; the national incremental increase in grant will be £100m for 2023/24 and a further increase of no less than £150m in 2024/25 (compared to 2023/24).
- 6.10. For Hampshire, assumed Police Grant (incl Uplift Grant) is therefore:

	£m	Increase £m	Basis
2022/23	226.551		Agreed
2023/24	229.145	2.594	Estimate
2024/25	233.036	3.891	Estimate
2025/26	233.036	Nil	Estimate

- 6.11. In the absence of a funding announcement beyond 2024/25, it has prudently been assumed that the Police Grant will not increase in 2025/26.

Pension Grant

- 6.12. 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, and it is assumed that this level of grant will continue to be received each year for the MTFS period 2023/24 – 2025/26.

Capital Grant

- 6.13. The settlement confirmed that Police Capital Grant will cease, and that there will therefore be no general capital grant allocations to PCCs for 2022/23 onwards.
- 6.14. Compared to the current financial year 2021/22, this represents an ongoing reduction of £0.3m in Capital grant.
- 6.15. For a PCC with a Constabulary 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) receiving no capital grant does place a significant burden on the revenue account to fund capital need.

- 6.16. The revenue budget has therefore been increased to include a Revenue Contribution to Capital of £375k, so that the PCC can ensure that all the supporting infrastructure needs of estate and the Chief Constable can be funded on a sustainable basis over the medium term.
- 6.17. The revenue budget includes other ongoing contributions to support capital expenditure and budget to support future borrowing.

#### Ministry of Justice Grant

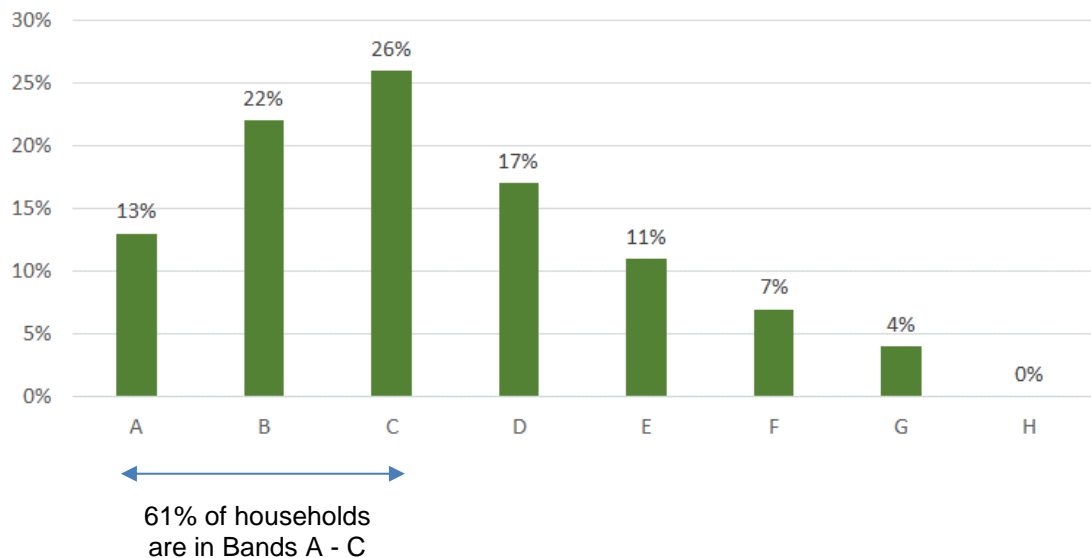
- 6.18. Grant from the Ministry of Justice in the sum of £2.6m has been included as an estimate pending confirmation.

### **7. Council Tax Precept**

- 7.1. The settlement announcement has confirmed that for 2022/23, PCC's can increase their precept by £10 (which for Hampshire represents a 4.42% increase to the Band D precept) without the need to hold a referendum, and that the same maximum £10 precept increase will also be allowable in 2023/24 and 2024/25.
- 7.2. Any precept increase above the referendum limit of £10 will be deemed by the Government to be excessive and therefore a public referendum vote, within the area covered by the proposed increase, would be required to take place to gain approval for an increase in excess of this amount.
- 7.3. The precept decision for 2022/23 needs to take into account both the immediate and medium term resourcing requirements that enable the PCC to deliver her Plan both now and over the course of the MTFs.
- 7.4. The PCC's proposal is to increase the precept (for a Band D property) by the maximum £10 permissible for 2022/23.
- 7.5. Increasing the Precept by £10 will raise an additional circa £7m per annum from 2022/23 (on a like for like basis to 2021/22 without taking account of any increase in the Council Tax Base from 2021/22).
- 7.6. The total precept raised for 2022/23 is estimated to be £167.1m, a total increase of £9m compared to 2021/22 (allowing for an estimated increase in the Council Tax base of 1.23%).
- 7.7. The PCC's view is that increasing the Council Tax Precept by the maximum permitted amount is the responsible thing to do to because it will enable and support her vision *'for Hampshire and the Isle of Wight to be two of the safest places to live, work and visit in the country'*, provide increased investment in support of her Plan and enable the Chief Constable to have the necessary resources to deliver her operational requirements.

- 7.8. As set out in Appendix A, the Chief Constable has set out her operational requirements, and made a clear recommendation to the PCC that she increases the precept by £10.
- 7.9. 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 additional funding raised through the precept will support local policing.
- 7.10. Since 2013/14, precept increases in Hampshire have been approved at the maximum amount permitted within the referendum limit, which has been in line with Government expectations.
- 7.11. The current Band D Council Tax Precept for Hampshire Constabulary is £226.46, which is the 12<sup>th</sup> lowest of the 37 English forces (see Appendix C).
- 7.12. The proposed precept increase would make the Band D Council Tax Precept £236.46 in 2022/23. The current intelligence is that the majority of PCCs across England will increase their Band D precept by £10, so it is unlikely that Hampshire’s position of 12<sup>th</sup> lowest precept will alter much if at all.
- 7.13. It is also important to note that a significant number (61%) of households across Hampshire and the IOW are in properties in Bands A – C, and so the increase for those households will be less than £10 per annum, as shown below:

Percentage of Households by Council Tax Band



Impact of a £10 Council Tax Increase By Council Tax Band 2022/23

<b>Band</b>	<b>Monthly Increase £</b>	<b>Annual increase £</b>
<b>A</b>	0.56	6.67
<b>B</b>	0.65	7.77
<b>C</b>	0.74	8.89
<b>D</b>	0.83	10.00
<b>E</b>	1.02	12.23
<b>F</b>	1.20	14.44
<b>G</b>	1.39	16.67
<b>H</b>	1.67	20.00

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

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

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

**Comparison of Band D precept increase options**

Precept increase	22/23 Band D precept (£)	Total precept (£m)	Additional precept income* (£m)
Band D zero%	226.46	158.1	0
Band D 1.99%	230.97	161.2	3.1
Band D £10 (4.42%)	236.46	165.1	7.0

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

7.17. In considering the available precept options, the PCC has given consideration to the extent to which the final proposed precept increase enables the delivery of her stated vision and the priorities in her Plan and has taken account of the precept consultation feedback.

- 7.18. The PCC has concluded, following consultation with the Chief Constable, and having due regard to her Plan, and the Chief Constable's operational case for a £10 precept increase, that increasing the Band D precept by £10 per annum provides the best opportunity to ensure that her vision 'for Hampshire and the Isle of Wight to be two of the safest places to live, work and visit' is enabled.

#### Council Tax Precept increase beyond 2022/23

- 7.19. For 2023/24 – 2025/26, the MTFS assumes that the precept increase will be 1.99%; clearly this leaves flexibility for the PCC to consider the level of precept rises in these later years (a £10 increase in 2023/24 for example would be an increase of 4.23%).

### **8. Council Tax Base**

- 8.1. The total estimated precept income for 2022/23 of £167.1m is based on an estimated council tax base of 706,536 Band D equivalents (see Appendix C). This figure will be updated once the Billing Authorities have confirmed their final tax bases which they must do by the 31<sup>st</sup> January 2022.

### **9. Council Tax Collection Fund Surplus**

- 9.1. The impact of the COVID-19 pandemic has only had a limited impact on the in-year collection of Council Tax across Hampshire and the Isle of Wight.
- 9.2. The estimated surplus forecast by the billing authorities for 2021/22 is circa £1m.

#### Three-year phasing of 2020-21 collection fund deficits

- 9.3. As a result of COVID-19, there had 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) in 2020/21.
- 9.4. The impact of the Billing Authorities collecting less council tax in 2020/21 than expected, was that the share of the resultant unplanned deficit on the council tax collection fund in 2020/21 of £1.6m was passed back to Preceptors in 2021/22.
- 9.5. In recognition of the pressure on Council Tax collection, the government put in place a process that allowed 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.
- 9.6. This was helpful as the impact of the Council Tax deficit on the 2021/22 budget was reduced, although the impact does now feed through to both 2022/23 and 2023/24.

#### Impact of the 2020/21 Deficit Included in the 2022/23 Budget

- 9.7. The net deficit from 2020/21 which is included within the 2022/23 budget is £0.548m, which takes account of the three-year phasing.

9.8. The position is as follows:

	<b><u>£m</u></b>
<b>Original Gross Forecast Council Tax Deficit for 2020/21</b>	<b>1.644</b>
Allocate 1/3 <sup>rd</sup> of the deficit to 2021/22	0.548
<b>Remaining Deficit to be recovered</b>	<b>1.096</b>
Amount to allocated/recovered against 2022/23 budget	0.548
<b>Net Council Tax Deficit from 2020/21 carried forward to 2023/24</b>	<b>0.548</b>

Overall Council Tax Collection Fund Position

9.9. The estimated overall net impact on the budget is a forecast council tax collection fund surplus of £994k, as set out below:

	<b><u>£k</u></b>
<b>Net Council Tax Collection Fund Deficit from 2020/21 included in the budget</b>	<b>0.548</b>
Estimated Council Tax Collection Fund surplus 2021/22	(1.542)
<b>Net estimated Council Tax Collection Fund Surplus included in 2022/23 Budget</b>	<b>(0.994)</b>

**10. Capital Programme including Estate Development Programme**

10.1. The Capital Programme for the period 2022/23 to 2024/25 is set out in Appendix F, and the Capital Strategy is set out in Appendix G.

10.2. In summary, the Capital Programme is as set out below:

**Capital programme**

	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000
Capital Spend	6,981	9,564	18,900	26,300
Funding	(8,783)	(17,500)	(20,117)	(15,825)
<b>In year (surplus) / shortfall</b>	<b>(1,802)</b>	<b>(7,936)</b>	<b>(1,217)</b>	<b>10,475</b>
<b>Cumulative (surplus) / shortfall</b>	<b>(1,802)</b>	<b>(9,738)</b>	<b>(10,955)</b>	<b>(480)</b>

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

10.4. The cost of financing the approved capital expenditure is included within the revenue budget calculations for capital financing.

10.5. The overall Estate will continue to be subject to regular review to ensure that the estate is fit for purpose.

10.6. 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.

## 11. Reserves and Financial Stability

11.1. 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.

11.2. The current level of reserves is as set out below, and further detail is set out in the Reserves Strategy at Appendix H:

	Actual as at 31 March 2021	Forecast as at 31 March 2022	Forecast as at 31 March 2026
General Reserve	13.1	10.3	7.8
Earmarked Reserves	78.0	82.8	11.8
<b>Total Reserves available for use by the PCC to support delivery of the Police &amp; Crime Plan and to support the Constabulary</b>	<b>91.1</b>	<b>93.1</b>	<b>19.6</b>

- 11.3. The level of reserves continues to be reviewed by the PCC and the Chief Finance Officers 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.
- 11.4. It is recognised by the Home Office that it is prudent to hold appropriate reserves to both manage risk and to avoid cliff edges caused by fluctuations and changes in funding and unexpected budget shocks, and to also be able to continue to deliver efficient and effective operational policing.
- 11.5. The PCC continues to use reserves to support the overall budget and medium-term financial strategy, to support the Estates strategy and capital programme, fund the necessary ongoing investment to deliver her Plan and to ensure that the Constabulary remains a modern, operationally effective Police Service.
- 11.6. Reserves are a one-off resource, which unless replenished, can rapidly diminish.
- 11.7. 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) funding the necessary investment to deliver the PCC's ambition in relation to delivery of her Plan and commissioning of services
  - iii) meeting the Chief Constables operational requirements, in support of 'More Police, Safer Streets'
  - iv) the investment required to ensure that the Constabulary remains modern and fit for purpose
  - v) ensuring that the police estate remains operationally effective, is continually improved, and is a modern and safe environment
  - vi) 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
  - vii) the significant investment required to embrace an ever evolving technology and digital landscape
  - viii) the requirement to continue to fund an increasing share of the annual ongoing costs of Operation Magenta, which is the investigation regarding the historical deaths at Gosport War Memorial Hospital



- ix) inflationary pressures, including yet to be agreed pay awards

- 11.8. 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.
- 11.9. The two main reserves available to the PCC to fund these cost pressures are the General Reserve and Earmarked Reserves.
- 11.10. **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. The forecast balance on the General Fund Reserve at the 31<sup>st</sup> March 2022 is £10.3m.
- 11.11. **Earmarked Reserves** – the PCC holds a number of specific reserves which can be utilised in support of the budget over the timeline of the MTFS, and further detail is set out in the Reserves Strategy in appendix H.

#### **CFO Assessment of Reserves**

- 11.12. 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 overall level of reserves is appropriate given the known financial pressures and risks faced by the PCC.
- 11.13. The overall level of reserves, and the purposes for which they are held, including against known risks, will be continually reassessed to ensure that the reserves held are commensurate with the risk.
- 11.14. 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, that 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 Reserve.

## **12. Risks**

- 12.1. There are a number of risks that could impact upon the financial position in 2022/23 and beyond, for example key risks would be:
- a change in the government grant announced for future years
  - the Precept proposed by the PCC is less than the assumed 1.99% increase included in each year of the MTFS 2023/24 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 3.5% pay award would lead to a full year cost pressure of £2.8m)
- the COVID-19 pandemic continues and impacts Constabulary resilience leading to additional cost
- 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
- 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
- costs for implementing pension remedy exceeds the available funding set aside
- any cost increase arising as a result of the Police Pension Scheme valuation is not funded in full by central government
- 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; the level of Government Special Grant support for Operation Magenta continues to decrease
- Special Grant available to support Operation Magenta 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
- the earmarked reserves are insufficient to cover the pressures/risks to which they relate

12.2. The overall level of risk has been taken into account in assessing the minimum and overall level of reserves, and as set out in paragraph 11.12 (and in the Section 25 report in Appendix I), the PCC's CFO is content that the level of General Reserve is reflective of the overall risk

environment, and also that the level of Earmarked Reserves are appropriate.

### **13. Partnerships**

13.1. Hampshire continues to play its part supporting national policing

13.2. 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.

### **14. Consultation**

14.1. 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.

14.2. As a result of Covid-19 and social restrictions the decision was made to move the whole consultation exercise online which has enabled the PCC to undertake an extensive online consultation on police precept, reaching a significant number of residents in Hampshire and Isle of Wight.

14.3. During 2021/22 4,340 members of the public took part in the online consultation exercises. The public consultation exercise on the police precept increase has had three distinct elements:

- i) Online surveys, which saw 4,314 people submit responses across multiple platforms. This included the PCC's online survey, which achieved 3,814 responses.
- ii) A YouGov survey of 500 demographically weighted respondents across Hampshire and the Isle of Wight.
- iii) Six focus groups were conducted by the OPCC in total:
  - a. Two focus groups were conducted on Thursday 6 January 2022 with members of the public
  - b. Two focus groups were conducted on Friday 7 January 2022, one with the Older Persons Reference Panel observed by P&CP member Councillor John Beavis and one with members of the OPCC Consultation and Research Group

- c. One focus group was held with members of the public on Saturday 8 January 2022, observed by Shirley Young, Co-opted member of the P&CP and Chair of the Finance Working Group
- d. The final focus group was conducted on Tuesday 11 January 2022, observed by Cllr Margot Power of the P&CP Finance Working Group.

14.4. The outcome from each individual element of the consultation, and the overall collective outcome shows that there is significant support for an increase of £10 in the precept for 2022/23.

14.5. A summary of the results is set out below, and the full details are set out in Appendix J.

Online budget survey

14.6. The PCC's survey was distributed online through HantsAlerts, key stakeholders, the OPCC's Focus Group and Consultation Panel and the PCC's Older Persons Reference group.

14.7. The survey link was also promoted on social media via Facebook, Twitter and LinkedIn. This included paid advertising on Facebook which reached 129,825 people and generated 3,534 clicks through to the survey. We also saw 27 press articles about the survey which created an 'opportunity to see' figure of 1,329,318.

14.8. The budget consultation launched on December 2<sup>nd</sup> 2021, and was open for four and a half weeks. In total, 3,814 responses were received, with a 90.5% completion rate (3,451 From the total number of 3,814 responses), 3,451 individuals responded to the specific question:

*'The Government is giving Police and Crime Commissioners the flexibility to increase the policing precept in 2022 by £10, for Band D this is 83p per month (increase of 4.4%) and for Band B this is £7.77 per year or 65p per month (increase of 4.4%). Would you be willing to pay this?'*

14.9. **Overall, through this online survey 64% (2,392) said yes they would be willing to pay the £10 increase per Band D property.**

YouGov survey

14.10. An additional survey of 500 respondents was undertaken through YouGov in December 2021 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.

14.11. The responding sample is weighted to ensure responses are fully representative from across the 14 districts.

14.12. The outcome from this survey was that:

- **61% (331) of residents said ‘yes’ they would be willing to pay the 4.4% increase** \*which equates to £10 per annum increase on a Band D property

#### Focus groups

- 14.13. Focus groups this year were online due to the COVID-19 pandemic and social restrictions. Participants were made up of members of the public, members who volunteered from the OPCC Consultation and Focus Group Panel, and members from the Older Persons Reference Group to share their thoughts and views on the precept.
- 14.14. 26 participants took part in six focus groups. Each focus group was for an hour and a half, and half of the focus groups had an independent observer from the Police and Crime Panel.
- 14.15. Participants were shown a short video from the Police and Crime Commissioner introducing the focus group. This was followed by a video from the Chief Constable Olivia Pinkney on the operational case for the precept. The final presentation was from Hampshire and Isle of Wight Constabulary Chief Finance Officer Richard Croucher on behalf of Andy Lowe the OPCC Chief Finance Officer, who outlined where policing receives funding from and how its currently being spent, the precept proposal and covered HMICFRS value for money profiles.
- 14.16. Participants wanted to know what they were getting for their money, and what precept increase would give them.
- 14.17. The majority of participant’s supported the 4.4% increase to the precept. There was reservation from some on how families who are already struggling financially will manage with this increase, alongside other increases that are coming in 2022.
- 14.18. Some participants questioned why Hampshire is so poorly funded from central government compared to other forces.
- 14.19. The full summary of feedback from the focus groups is set out in Appendix J.

## **The operational case for a £10 increase in council tax precept**

### **Chief Constable Olivia Pinkney**

This is the second year that I have, as your chief constable, outlined an operational case in support of increased police funding from local people.

This year, we have a different Police and Crime Commissioner – one with whom the constabulary has already developed a strong working relationship – and a new Police and Crime Plan to deliver against. The public know that their police force helps so many people through their darkest and most difficult days. More Police and Safer Streets. That is good for local people, good for communities, and good for our economy.

We also know from very recent surveying that the majority of people support extra council tax funding to support that objective of More Police and Safer Streets. The amount we are talking about this year is just £10 per year. Less for the majority. When I addressed the Commissioner's budget focus groups I made the point that whilst this could be considered a small amount of money, I am very conscious that it is still money that could be spent elsewhere.

In those sessions, I provided some really tangible examples of why putting money into policing is money well spent. I hope it gives you a sense of the scale of what we do, and an insight into how "The Ask" on policing is continuing to grow.

### **What has your constabulary achieved since April 2021?**

Since April last year your police force in Hampshire and the Isle of Wight has recorded and dealt with almost 120,000 crimes. This is an increase of more than 20,000 crimes compared with the same period in 2020, and this cannot all be accounted for by COVID-19. In 2019 this figure was 110,000. So even when compared to before COVID-19 we are dealing with 10,000 more crimes reported to us. That is a 10% increase in just a nine month period. Put another way, a thousand more crimes a month and every one of these gets recorded and we have to try and respond as best we can. The simple truth is that we need support to do that well.

Since April 2021, we have arrested 2,000 more people than in previous years. Many of these are for high harm crimes.

- 714 more arrests in cases where violence has caused injury
- 165 more arrests for Sexual Offences
- 66 more arrests for Rape
- 2,694 more arrests for offences linked to Domestic Abuse

These kind of offences take meticulous investigation. And we are doing well. The question is whether doing well meets public need and expectation.

When we have concerns that vulnerable people might be caught up in these kind of crimes, we look to safeguard them. Each person is referred to established multi-agency partnerships so that public sector agencies can work together to help them. In just three months, from June to August 2021, we managed an additional 2,281 referrals compared to the year before. This is forecast to keep growing and there are things we need to do in the budget year ahead to respond. This budget helps us to do that.

When the Commissioner has engaged the public - as reflected in her crime plan - there is a focus on neighbourhood crime in communities. Compared to 2019, which again we use with good reason, we have had:

- 128 fewer Robberies
- 2,082 fewer Vehicle Crimes (theft of or theft from vehicles)
- 1,260 fewer Residential Burglaries

So, we are seeing less crime in these areas. That's good. My concern at the moment as your chief constable is not just continuing to do the things that reduce crime further, it is investigating the crime we do see more effectively. This makes our investigative capacity in force a crucial focus in the year ahead. It helps neighbourhood officers to be effective not just in engaging but in fighting crime and holding criminals to account.

Burglary is a particularly important crime. Yes, it is about neighbourhood teams but also about the specialist investigators who work with them, the call handlers who speak to the victims first, those who respond, our forensic teams and those teams who manage prolific offenders. We have a new Deputy Chief Constable, and under his performance leadership we have had a real drive on this. Deployments and intelligence are up. In just three weeks of intense action over Christmas, we identified 92 forensic opportunities from burglaries. We arrested fifty-five suspects and have already achieved a significant number of positive outcomes.

When we investigate crime like this well, we not only secure justice for victims, we also take criminals off the streets. Which in turn further reduces crime in our neighbourhoods. Breaking this cycle of crime is something that we want to do more of. The Police and Crime Commissioner is clear on that in her Crime Plan - and I am clear on that in my operational plans.

### **Police officer growth – a success story, with far more to come.**

In the year since I last appeared before the Police and Crime Panel, Hampshire Constabulary has continued to accelerate the number of police officers it has recruited. The government Uplift programme target is 498 by March 2023 but with Police and Crime Commissioner support it makes a real difference as we are actually on target to deliver 600 extra police officers (all additional not replacing those leaving) for Hampshire and the Isle of Wight by March 2023. Every piece of independent data shows we are ahead of our milestones and on track to deliver this bigger number.

Numbers of officers are important but so is making sure these officers are properly trained, have the right equipment, are as effective as we need them to be, and are part of an organisation that is proactive in its drive to be ethical and inclusive of all. The effort required within police forces which have recruited handfuls each year in austerity, to ramp up and see through this level of training cannot be underestimated. This is a tribute to our training teams and officers in our ranks who have taken on multiple tutoring of new recruits.

What is important is that the measures we have taken mean that more than 400 of the 600 officers are already in and progressing through training. As the year progresses, more and more of them will start to land properly benefitting response, neighbourhood, investigation, safeguarding, and other teams.

### **The year ahead, and what else this budget unlocks**

These budget papers contain a clear list of the specific things this budget will enable, that without Council Tax increases will not be possible. I thought it might be useful to call out just some of these:

- Reducing wait times for 101 as part of improving our channels to contact us
- Improving our interview facilities for vulnerable victims during what can be harrowing times.
- More police officers to monitor and supervise a growing number of the most dangerous offenders.
- New technology, including putting more mobile digital technology in officer's hands so they can be on the streets not in offices.
- Better analyst capability - so we can spot crime trends and intervene early.

These are all enabled by a £10 increase in council tax and have been prioritised from a longer list on which there are many items graded as 'high priority' which remain unaffordable.

The operational case for investing locally is clear. Nearly two-thirds of our public support investment of £10 per household. That is not a figure chosen from within policing. It is the Government's assessment of what is reasonable, taking into account the evidence examined through the Spending Review - a thorough process involving HM Treasury. I would particularly like to put on the record my thanks, and the thanks of all police staff and officers, to the public for their support in such positive terms.

This overview provides a sense of the scale of what we are up against as we head into another year, the fact that we are achieving good results but want to do more for our communities in line with the Police and Crime Plan, and makes clear that the funding we already have is well spent. With your support, we can/ will do even more.



## Inflation and Assumptions

<b>Inflation</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Pay Inflation	2.0%	2.9%	2.2%	2.0%
Default prices inflation	4.0%	2.0%	2.0%	2.0%

Pay awards are effective from 1 Sep each year so contain part-year effects. For example, a 3.5% pay award in Sep22 followed by 2.5% in Sept23, and 2% each Sept thereafter results in a 2% budget increase in the 22/23 financial year followed by a 2.9% increase in 23/24.

Exact inflation used where it is known for certain contracts

<b>Employer Pension Contributions</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Officers	31.0%	31.0%	31.0%*	31.0%*
Staff	16.7%	16.7%	16.7%	16.7%

<b>Funding</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
General Govt grant	6.3%	2.7%	1.7%	0.0%
Council tax benefit & freeze grants	0.0%	0.0%	0.0%	0.0%
Pension grant	0.0%	0.0%	0.0%	0.0%
Precept	4.4%	1.99%	1.99%	1.99%

**\*A review of police officer pension scheme contributions is expected to be undertaken and an announcement made that will impact contributions (expected 24/25 onwards).**

## Appendix C

### Council tax Precept 2022/23

	Council tax at each band							
Band	A	B	C	D	E	F	G	H
£	157.64	183.91	210.19	236.46	289.01	341.55	394.10	472.92

### Estimated

### Collection authority tax bases and share of precept 2022/23

Collection authority	Tax base	Precept
Basingstoke	67,823.40	16,037,521.16
East Hampshire	51,908.73	12,274,338.30
Eastleigh	48,373.35	11,438,362.34
Fareham	44,002.60	10,404,854.80
Gosport	27,095.50	6,407,001.93
Hart	41,815.86	9,887,778.26
Havant	41,771.36	9,877,255.79
New Forest	72,122.10	17,053,991.77
Rushmoor	32,632.18	7,716,205.28
Test Valley	50,816.00	12,015,951.36
Winchester	51,554.09	12,190,480.12
Portsmouth	56,487.90	13,357,128.83
Southampton	66,146.00	15,640,883.16
Isle of Wight	53,987.00	12,765,766.02
<b>Total</b>	<b>706,536.07</b>	<b>167,067,519.11</b>

## Appendix C

### Comparison of Council Tax Precept by PCC 2021/22 Financial Year

2021-22 Council tax (average Band D) and % change on 2020-21: individual local authorities			
	Average council tax for the authority (Band D)		
Local authority	£	% change	£ change
<b>POLICE AND CRIME COMMISSIONERS</b>			
Surrey	285.57	5.54	15.00
Norfolk	278.01	5.68	14.94
Cumbria	272.16	2.47	6.57
North Yorkshire	271.06	1.99	5.29
Gloucestershire	270.08	4.99	12.83
Northamptonshire	268.04	5.10	13.00
Lincolnshire	266.31	5.94	14.94
Cleveland	265.73	1.99	5.19
Dorset	255.58	6.23	15.00
Warwickshire	252.96	6.30	14.99
Leicestershire	248.23	6.43	15.00
Cambridgeshire	247.59	6.42	14.94
Nottinghamshire	244.26	6.51	14.94
Humberside	243.21	6.57	14.99
Derbyshire	241.60	6.62	15.00
Avon & Somerset	241.20	5.88	13.39
West Mercia	240.19	6.66	14.99
Staffordshire	238.57	5.99	13.48
Suffolk	237.69	6.71	14.94
Devon & Cornwall	236.56	6.73	14.92
Thames Valley	231.28	6.94	15.00
Wiltshire	231.27	6.94	15.00
Durham	230.24	6.97	15.00
Bedfordshire	227.09	7.07	15.00
Merseyside	226.97	7.08	15.00
<b>Hampshire Police</b>	<b>226.46</b>	<b>7.09</b>	<b>15.00</b>
Lancashire	226.45	7.09	15.00
Cheshire	225.44	7.13	15.00
Greater Manchester CA - Police Functions	218.30	4.80	10.00
Kent	218.15	7.38	15.00
Sussex	214.91	7.50	15.00
South Yorkshire	213.04	7.57	15.00
Hertfordshire	213.00	7.58	15.00
West Yorkshire	211.28	7.64	15.00
Essex	208.53	4.98	9.90
West Midlands	177.55	9.23	15.00
Northumbria	143.84	4.99	6.84

## Appendix D

### Budget 2022/23 and Medium-Term Financial Strategy

Medium Term Financial Strategy	Starting Budget 2022/23	Inflation	Efficiency Savings	Growth & Budget Pressure	Funding Changes	Forward Budget 2022/23	Forecast Budget 2023/24	Forecast Budget 2024/25	Forecast Budget 2025/26
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Funding:</b>									
Expected amount from General Grants	(210,640)	0	0	0	(12,409)	(223,049)	(229,145)	(233,036)	(233,036)
Council tax freeze and benefit grant	(12,944)	0	0	0	0	(12,944)	(12,944)	(12,944)	(12,944)
Pension Grant	(2,988)	0	0	0	0	(2,988)	(2,988)	(2,988)	(2,988)
Uplift Grant	(2,600)	0	0	0	(902)	(3,502)	0	0	0
Council tax precept	(158,062)	0	0	0	(9,005)	(167,068)	(171,247)	(175,529)	(179,914)
Council tax collection fund surplus	194	0	0	0	(1,189)	(994)	0	0	0
Collection Fund Adjustment Grant	(101)	0	0	0	101	0	0	0	0
<b>Total amount funding expected:</b>	<b>(387,142)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(23,403)</b>	<b>(410,545)</b>	<b>(416,324)</b>	<b>(424,497)</b>	<b>(428,882)</b>
<b>Expenditure owned by the PCC:</b>									
Office of the PCC	2,404	48	0	0	0	2,452	2,518	2,572	2,623
Commissioning	2,519	29	0	1,017	0	3,565	3,488	3,499	3,509
Crime Prevention	1,150	0	0	0	0	1,150	1,150	1,150	1,150
Estates	19,684	626	0	2,061	0	22,372	23,007	23,645	24,299
Capital Financing	5,158	0	0	0	0	5,158	5,158	5,158	5,158
Interest on Balances	(500)	0	0	0	0	(500)	(500)	(500)	(500)
Contributions to / (from) Reserves:	11,665	0	0	6,772	0	18,437	14,796	13,834	12,582
<b>Net Expenditure owned by Office of the PCC</b>	<b>42,081</b>	<b>704</b>	<b>0</b>	<b>9,850</b>	<b>0</b>	<b>52,634</b>	<b>49,616</b>	<b>49,358</b>	<b>48,821</b>
<b>Police Services</b>									
<b>Expenditure:</b>									
Employees	281,286	4,922	0	8,024	0	294,232	309,451	315,200	321,726
Indirect Employee Costs	5,529	25	0	50	0	5,604	5,683	5,758	5,832
Premises	1,037	0	0	16	0	1,053	1,062	1,050	1,156
Transport	6,300	0	0	0	0	6,300	6,483	6,671	6,865
Supplies and Services	21,820	129	(1,341)	554	0	21,161	25,077	30,491	36,191
Third Party Payments	64,522	919	(90)	2,460	0	67,811	68,255	69,058	71,418
Support Services	3,414	0	0	0	0	3,414	3,414	3,414	3,414
<b>Total Expenditure on Police Services:</b>	<b>383,907</b>	<b>5,995</b>	<b>(1,431)</b>	<b>11,104</b>	<b>0</b>	<b>399,574</b>	<b>419,425</b>	<b>431,641</b>	<b>446,601</b>
<b>Income:</b>									
Fees & Charges	(7,316)	0	0	0	0	(7,316)	(7,639)	(7,791)	(7,946)
Grants & Contributions	(31,004)	(85)	0	0	0	(31,089)	(31,665)	(32,241)	(32,825)
Internal Income	(3,259)	0	0	0	0	(3,259)	(3,259)	(3,259)	(3,259)
<b>Total Income on Police Services:</b>	<b>(41,579)</b>	<b>(85)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(41,664)</b>	<b>(42,562)</b>	<b>(43,290)</b>	<b>(44,029)</b>
<b>Net Expenditure on Police Services:</b>	<b>342,328</b>	<b>5,910</b>	<b>(1,431)</b>	<b>11,104</b>	<b>0</b>	<b>357,911</b>	<b>376,863</b>	<b>388,351</b>	<b>402,572</b>
<b>Net Expenditure on PCC and Police Services</b>	<b>384,409</b>	<b>6,614</b>	<b>(1,431)</b>	<b>20,954</b>	<b>0</b>	<b>410,545</b>	<b>426,479</b>	<b>437,709</b>	<b>451,393</b>
<b>Budget (surplus)/ shortfall:</b>	<b>(2,733)</b>	<b>6,614</b>	<b>(1,431)</b>	<b>20,954</b>	<b>(23,403)</b>	<b>0</b>	<b>10,155</b>	<b>13,212</b>	<b>22,512</b>

**Detailed explanation of investment**

- 1.1. As set out in section 5 of the report, the budget pressures and growth for 2022/23 total £20.95m 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.

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
More Frontline	13.163	10.482	10.465	10.635
Right Place, Right Time	5.887	3.821	2.377	2.324
Better Equipped	3.896	1.295	0.788	1.656
Contributions from reserves	(5.946)	(0.574)	(0.067)	(1.049)
Estates	2.936	2.436	2.436	2.436
Commissioning	1.017	1.017	1.017	1.017
Future pressures	-	5.000	10.000	15.000
<b>Net Total</b>	<b>20.954</b>	<b>23.476</b>	<b>27.016</b>	<b>32.020</b>

**Policing services – 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

- 1.2. **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. 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. The allocation for the final year is 207 officers for Hampshire of which 11 will need to go to SEROCU, leaving 196 for Hampshire locally. Over the three years, this represents an increase of 498 police officer posts funded through the Police Uplift Programme.
- 1.3. 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

- 1.4. The 2022/23 budget includes the salaries of officers appointed through Uplift (£4.750m).
- 1.5. **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 with a Scrutiny Panel is in place 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.
- 1.6. The major elements of cost in 2022/23 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 2022/23 is **£6.564m**.
- 1.7. This amount will again be contributed to an Uplift reserve so that the amounts spent can be subject to scrutiny. In 2020/21 and 2021/22, 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 £2.433m from the balance of the existing Uplift Reserve is being applied to assist with funding the 2022/23 costs.
- 1.8. It should be noted that officers who join in the final year of the Police Uplift Programme will be on a PEQF course for 2 or 3 years and therefore there will be ongoing costs directly associated with the Police Uplift Programme for a further 3 years as well as the subsequent ongoing costs for those officers beyond the training phase. The estimated ongoing support cost for uplift officers is £3.958m from 2023/24 onwards.
- 1.9. The funding settlement states that 11 of the 207 Uplift officer allocation for Hampshire in 2022/23 must be given to SEROCU. The funding for those posts will therefore be passed to SEROCU.
- 1.10. **Forensics** – work required to bring the in-house Forensics function up to the new ISO accreditation standards that will apply to Forensics. This will require new software, changes to estate, training and additional staff to meet the new national standards. Activity is being co-ordinated at a national level but must be delivered and funded locally (£0.967m).
- 1.11. **Public Protection (MASH)** – An increase in staff to protect the most vulnerable people in our communities. A Multi Agency Safeguarding Hub approach is used to work with other partners to protect the vulnerable. Demand increases require an additional 12 police staff (£0.356m).
- 1.12. **Offender Management** – 4 more officers to keep pace the number of offenders that require management within the community maintain the recommended ratio of officers to offenders to be managed (£0.195m)
- 1.13. **Criminal Justice Casework Redaction** – one-off funding to provide additional resources to the Investigations function to meet new statutory requirements required for criminal justice casework (£0.154m).

- 1.14. **Armed Response and Firearms Chemical Biological Radiological and Nuclear (CBRN) capability** – 2 officers to ensure that the firearms officers have the capability to deliver CBRN policing tasks as required by a change to the national requirements. Costs are shared with Thames Valley Police (£0.055m).
- 1.15. **Force Solicitor** – the Force Solicitor’s office represents the Chief Constable in court for issues such as prevention orders that are an essential element of keeping vulnerable people and victims safer. The demand for interventions has increased resulting in a need for 2 additional staff (£0.122m).

### **Policing services – 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

- 1.16. **Contact Management** – The budget includes an increase of 20 Contact Management Controllers and 5 Supervisors to keep pace with demand and new capability to better communicate with the public (£0.782m).
- 1.17. **Contact Management Programme Re-platform** – To move the current CMP application to a cloud based platform to futureproof ongoing support and to avoid future costs of change that would otherwise be needed (£0.529m).
- 1.18. **Contact Management Programme Transformation Phase 2** – ongoing embedding and enhancement of CMP solution (£0.237m)
- 1.19. **Microsoft Azure Cloud Migration** – to move further applications to cloud based support. This will be a requirement to access ongoing support and security but will also be a more flexible basis for storage that will avoid significant programmes and costs that have historically been required for server replacements or enhancements (£0.509m).
- 1.20. **Digital Systems Support Team** – creation of a single team that will manage the use and ongoing development of all of the forces key operational systems to ensure that co-ordinated decisions are taken on the use of systems and that enhancements continue to be made to

ascertain maximum benefit from the investment into these systems (£0.561m).

- 1.21. **ICT staffing model** – a one-off cost to facilitate the retention of ICT staff to deliver core infrastructure rather than deploy and charge those staff to projects (£0.293m).
- 1.22. **Identity Access Management Phase 3** – to maintain compliance with National Enabling Programme standards and mitigate data access risks (£0.242m) This provides a saving from 2023/24.
- 1.23. **National Data Quality Improvement System (NDQIS) -** Implementation of a Remote Gateway connection between force RMS instances and the NDQIS environment to enable automated extract of Home Office Data Hub data and automated data quality updates to Hampshire & TVP (£0.118m).
- 1.24. **DCS radio system and Cortex 8 Upgrade** – One-off funding for the upgrade of DCS radio systems to integrate with national systems and maintain security standards (£0.178m).
- 1.25. **Public Access Joint Information Management Unit (JIMU) Uplift-** to meet the demand of freedom of information act requests and data protection compliance with Information Commissioner standards. This unit is shared and hosted by Thames Valley Police (£0.060m)
- 1.26. **Cycfreedom end of life replacement** – essential software used within JIMU for managing data and compliance with regulations. The software is end of life and requires replacement (£0.035m).
- 1.27. **National Enabling Programme Design Revision 3 Alignment** – NEP periodically (usually annually) release accredited Design Refreshes to ensure the security and compliance of force's Windows 10 and O365 align with changes in those systems and deliver optimal security for the data and leverage improved user experience changes. Forces are required to align to this at their earliest opportunity to remain compliant, ensure they deliver the best security practices to their data and devices, ensuring that by extension they also protect other forces they collaborate with (£0.060m).
- 1.28. **Wifi Uplift** – Gov.wifi is the fully managed BT wifi solution that is in 3 pilot sites across the forces and rolling out to another 26 sites across Hampshire and Thames Valley Police. Reliable and consistent wifi will be a key enabler for the future mobility strategy, moving the force forward in terms of locations to work and movement across the force without the need for cabled data points, or to use cellular connection from force mobile device. Gov.wifi is the preferred solution for many government and public sector agencies allowing us to connect in other locations and allowing our partners to connect seamlessly in ours. We will also reduce the impact on our core networks, as teams traffic for example will go directly out to the internet, leaving our core network more capacity for Niche, CMP and other priority systems (£0.218m).
- 1.29. **Video Relay Service (VRS) and Video Remote Interpreting (VRI)** – assist with contact with the public particularly hard of hearing



- (£0.016m). Implementation of the **GoodSAM** technology to support communication with the public (£0.024m).
- 1.30. **Digital 101** - Provision of Technology to enable Contact Management to digital contact option for members of the public (£0.032m).
  - 1.31. **Vetting system** – procurement of police vetting system, currently CoreVet, essential for undertaking vetting (£0.042m).
  - 1.32. **Pronto** extension and ongoing support and future release management – Completion of the roll out and provision of 24/7 support including the ability to test and deploy improvements to Pronto electronic notebook (£0.167m).
  - 1.33. **CMS Corporate Mapping Tool (ESRI)** - Corporate Mapping capability providing on-line and desk top applications for investigative, analytical and specialists teams. It offers integrated, future proof mapping and the rationalisation of other mapping products (£0.118m).
  - 1.34. **iBase Review and upgrade** - i2 is our analytical tool for operational analysis, the system is currently unstable resulting in data quality issues and a significant risk to the accuracy of analytical recommendation and insights supporting our investigations (£0.350m).
  - 1.35. **BT Transform Back Office Voice Replacement** – Our Avaya CS1K telephone switch (central services infrastructure) is end of life and has been supported by BT and Avaya on a best endeavours basis. Contact centre telephony and any telephone services requiring more complex functionality like hunt groups for areas such as Custody are covered by a different Avaya AACC6 contact centre solution which is under contract with BT and being upgraded as part of the BT Transform scope. The cost of using MS Teams for telephone functionality has been discounted on a cost basis (£0.158m).
  - 1.36. **Computer refresh contribution increase** – the amount needed to be contributed to reserves to pay for refresh of devices has been reviewed and requires an increase (£0.348m).
  - 1.37. **ICT Lifecycle and Security Management Projects** – ongoing requirement for Lifecycle updates and Security improvements that need to be managed in ICT (£0.048m).
  - 1.38. **Data Quality** – undertake discovery and audit to work to identify issues and solutions to data differences (£0.156m).
  - 1.39. **Digital Evidence Management Storage (DEMS)** – DEMS is the national solution for storing evidence. An increase in the amount of data stored requires an increase in budget (£0.111m).
  - 1.40. **Esafe monitoring software upgrade** - Esafe is software that monitors devices for Registered Sex Offenders who have a qualifying court order. Improves risk management of offenders (£0.024m).
  - 1.41. **Confide in Us system** – replacement or upgrading of the system used to receive confidential reports into Professional Standards Department (£0.020m)

- 1.42. **Custody Security Systems Lifecycle Refresh** – the security systems at Basingstoke and Portsmouth custody functions are due for refresh at an estimated one-off cost of £0.016m.
- 1.43. **Strategic Higher Analysts** – 3 staff to provide analytical support to senior officers such as district commanders to identify key crime and nuisance patterns and potential solutions (£0.141m).
- 1.44. **Organisational Analysis Manager** – establish the existing post on a permanent basis to manage the provision of analysis across the Force. This is a key role in ensuring officers and staff have the intelligence and briefing they require to make the best use of the resources available (£0.061m).
- 1.45. **Victims Satisfaction Tactical Lead** – an Inspector post to drive the quality of service to victims and ensure compliance with the Victims Code of Practice (£0.081m)
- 1.46. **Business change for IT developments** – a provision for change management support for the introduction of new It developments. Benefits are derivable from changes in behaviours not just the implementation of new hardware or software so change management resource is required to compliment the technology proposals (£0.150m).

#### **Policing services – Better Equipped**

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

- 1.47. **Body Worn Video devices** – BWV is a requirement for a range of policing activity. It provides reassurance to the public, evidence for criminal prosecutions and supports officer safety. The devices require replacement on a 3 year cycle with a significant replacement required in 2022/23. Funding is contributed annually to the ICT Refresh Reserve to provide for these costs so the cost is offset by a matching contribution from the ICT Refresh Reserve (£1.049m).
- 1.48. **Equipment reserve** – a one-off contribution funded from the one-off council tax collection fund surplus to make provision for equipment replacement, particularly the forthcoming taser uplift programme that will gradually roll-out the new T7 taser to all taser trained officers (£0.829m).
- 1.49. **Body Worn Video Software** – separate to the devices, there is a need to update the software used on the devices (£0.053m).
- 1.50. **Marine Unit** – An allocation to assist with the costs of replacing the Force's Commander vessel which is end of life. This will need to be subject to a tendering exercise. Proceeds from the sale of the existing vessel can be used to partially offset the cost of the new vessel (£0.500m).
- 1.51. **Digital Interviewing Recording** – Phase 2 of the rollout of digital interviewing including voluntary attendance rooms and vulnerable victim suites (£0.136m).

- 1.52. **Op Accessible** – one-off funding to facilitate safe working within Force buildings and at home as result of COVID-19 restrictions (£0.401m)
- 1.53. **People Strategy Pay Review** –to implement the changes to pay and conditions as a result of national changes (£0.378m).
- 1.54. **People Strategy Inclusion and Positive Action**– to embed the inclusion team on a permanent basis to create ongoing stronger links across a range of diverse communities (£0.118m).
- 1.55. **Health and Safety post** – to meet the Health and Safety obligations an additional post is required to assist the Health and Safety Adviser (£0.061m).
- 1.56. **Wellbeing Co-ordinator** – permanent establishment of the post (£0.046m).
- 1.57. **Employee Assistance Programme** – the increases in personnel results in the Constabulary moving into a new cost band for the ongoing provision of EAP. This assistance is a key part of the wellbeing arrangements for personnel and is highly regarded (£0.050m).
- 1.58. **Professional Standards Dept** – An increase of 8 police staff is required to meet increases in demand and expectations set for standards within the Force including complaints and misconduct (£0.276m)
- 1.59. **Body Armour** - The essential replacement of body armour was approved as a two-year programme in the 2021/22 budget at £1m per annum.

#### **Estates Investment**

- 1.60. 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. The budget includes £1.897m to support estate improvements.
- 1.61. Vulnerable Victims Suite – An allocation to assist with the review and refurbishment of vulnerable victim suites across the Force that are in requirement of updating (£0.500m).
- 1.62. A revenue contribution to capital of £0.375m per annum is included to offset the ending of the police capital grant.
- 1.63. The budget also includes an additional £0.164m for cleaning costs.

#### **Commissioning**

- The PCC has included an additional £1m to support increased commissioning of services to support two key priorities in the Police and Crime Plan:
  - i) 'improved outcomes for victims'
  - ii) 'preventing young people from committing crime'

1.64. There is a £0.017m increase specifically for Youth Offending Teams.

**Contributions from reserves**

1.65. The budget pressures are offset by contributions from the Uplift Reserve (£2.433m) and one-off savings delivered in the 2021/22 budget (£2.464m) including vacancy savings. The Body Worn Video cost is drawn down from the ICT Refresh Reserve (£1.049m).

## Capital Programme

Capital programme		2021-22	2022-23	2023-24	2024-25
		£000	£000	£000	£000
Capital spend	Estates	4,681	7,164	16,500	23,900
	Vehicles	2,300	2,400	2,400	2,400
	<b>TOTAL</b>	<b>6,981</b>	<b>9,564</b>	<b>18,900</b>	<b>26,300</b>
Funding	Operational buildings receipts	(3,000)	(7,800)	-	-
	Residential buildings receipts	-	(1,100)	-	-
	Vehicles receipts	(300)	(300)	(300)	(300)
	Capital grant	(300)	-	-	-
	RCCO - Estates	(2,883)	(5,900)	(17,417)	(12,125)
	RCCO - Vehicles	(2,300)	(2,400)	(2,400)	(2,400)
	Borrowing	-	-	-	(1,000)
	<b>TOTAL</b>	<b>(8,783)</b>	<b>(17,500)</b>	<b>(20,117)</b>	<b>(15,825)</b>
	<b>In year (surplus) / shortfall</b>	<b>(1,802)</b>	<b>(7,936)</b>	<b>(1,217)</b>	<b>10,475</b>
	<b>Cumulative (surplus) / shortfall</b>	<b>(1,802)</b>	<b>(9,738)</b>	<b>(10,955)</b>	<b>(480)</b>

## Capital and Investment Strategy 2022/23 to 2024/25

### 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 PCC'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 PCC capital expenditure is on the Estates Programme which is monitored and reviewed by the Estates 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 PCC 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 PCC'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 The PCC's revenue budget includes budgetary provision to support borrowing to enable the PCC to progress schemes within the capital programme, but other sources of funding will always be maximised to limit the extent to which borrowing support is required.
- 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**

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Forecast expenditure	7.0	9.6	18.9	26.3
Prudential borrowing	-	-	-	(1.0)
Capital grants	(0.3)	-	-	-
Capital receipts	(3.3)	(9.2)	(0.3)	(0.3)
Revenue contributions to capital	(5.2)	(8.3)	(19.8)	(14.5)
Total resources available	<b>(8.8)</b>	<b>(17.5)</b>	<b>(20.1)</b>	<b>(15.8)</b>
In year (surplus) / shortfall	<b>(1.8)</b>	<b>(7.9)</b>	<b>(1.2)</b>	<b>10.5</b>
Cumulative (surplus) / shortfall	<b>(1.8)</b>	<b>(9.7)</b>	<b>(11.0)</b>	<b>(0.5)</b>

### 4 Prudential Indicators

- 4.1 The PCC is required to set and monitor against Prudential Indicators in accordance with the Prudential Code. These indicators cover capital expenditure, external debt and affordability and are presented in Tables 1, 2, 3 and 4. Further indicators on treasury management are contained within the Treasury Management Strategy.
- 4.2 As the loan repayments and interest charges have to be financed by the PCC from its own resources, it is important that the use of prudential borrowing is very closely controlled and monitored.

- 4.3 The PCC'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 PCC 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 and is shown in Table 2.

**Table 2 – Ensuring borrowing is only for capital purposes**

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>CFR</b>	<b>50.8</b>	<b>87.2</b>	<b>81.7</b>	<b>88.9</b>
<b>Debt</b>				
Borrowing	30.0	29.7	29.7	29.4
Lease liabilities	-	48.5	46.4	44.3
<b>Total Debt</b>	<b>30.0</b>	<b>78.2</b>	<b>76.1</b>	<b>73.7</b>

- 4.4 Total debt is expected to remain below CFR during the forecast period. The estimates for CFR and debt reflect the introduction of IFRS 16 (the new accounting standard for leases) from April 2022.

#### **Affordable borrowing limit**

- 4.5 The PCC 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 PCC's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the PCC'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**

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Authorised Limit:				
Borrowing	83.6	71.5	68.1	77.4
Leases and Other Long-term Liabilities	5.0	53.5	51.4	49.3
<b>Authorised Limit for External Debt</b>	<b>88.6</b>	<b>125.0</b>	<b>119.5</b>	<b>126.7</b>
Operational Boundary:				
Borrowing	67.7	55.6	52.2	61.5
Leases and Other Long-term Liabilities	5.0	53.5	51.4	49.3
<b>Operational Boundary for External Debt</b>	<b>72.7</b>	<b>109.1</b>	<b>103.6</b>	<b>110.8</b>



## Ratio of Financing Costs to Net Revenue Stream

- 4.6 Capital expenditure is not charged directly to the revenue budget, however the interest payable on loans and the annual MRP are charged to revenue (in aggregate known as financing costs). It is important that the revenue implications of capital projects are closely controlled and monitored. Any decision to take out new borrowing to fund capital expenditure is considered and approved by the PCC and includes an assessment of the impact and affordability on the revenue budget.
- 4.7 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.

**Table 4 – Ratio of Financing Costs to Revenue Budget Requirement**

	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>
Ratio	0.87%	1.33%	1.33%	1.31%

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.

## 5 Minimum Revenue Provision (MRP) Statement

- 5.1 Where the PCC finances capital expenditure by debt, statutory guidance requires that funds are set aside from revenue resources to repay that debt in later years, known as Minimum Revenue Provision (MRP). The Local Government Act 2003 requires the PCC to have regard to proper practice issued by Government. The Department for Levelling Up, Housing and Communities is currently consulting on proposed changes to the relevant regulations to ensure that all authorities make adequate revenue provision. Until that is concluded, the relevant guidance is that issued by the (former) Ministry of Housing Communities and Local Government (MHCLG) in 2018.
- 5.2 The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is reasonably commensurate with that over which the capital expenditure provides benefit or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 5.3 The guidance requires the PCC to approve an Annual MRP Statement each year, and whilst it provides a range of options for the calculation of MRP, the guidance also notes that other options are permissible provided that they are fully consistent with the statutory duty to make prudent revenue provision.

5.4 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method (4% of the CFR)
- Option 3: Asset Life Method
- Option 4: Depreciation Method

### **MRP in 2022/23**

- 5.5 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 PCC chooses).
- 5.6 The PCC will continue to apply Option 2 in respect of supported capital expenditure funded from borrowing with an MRP charge equal to 4% of the CFR balance in respect of that expenditure.
- 5.7 The PCC will continue to apply Option 3 in respect of unsupported capital expenditure funded from borrowing by charging MRP over the expected useful life of the relevant asset in equal instalments.
- 5.8 For assets acquired by leases, MRP will be determined to be equal to the element of the rent or charge that goes to write down the balance sheet liability.
- 5.9 The adoption of the accounting standard for leases (IFRS 16) means former operating leases will be brought onto the balance sheet on 1 April 2022. Where this is the case annual MRP charges will be set so that the total charge to revenue remains unaffected by the new accounting standard.
- 5.10 Capital expenditure incurred during 2022/23 will not be subject to a MRP charge until 2023/24.
- 5.11 Based on the PCC's latest estimate of its Capital Financing Requirement on 31st March 2022, the budget for MRP has been set as follows:

	<b>31.03.2022 Estimated CFR £m</b>	<b>2022/23 Estimated MRP £'000</b>
Supported capital expenditure	8.5	321
Unsupported capital expenditure after 31.03.2008	42.3	986
Leases	0	0
Future borrowing	0	2,575*
<b>Total General Fund</b>	<b>50.8</b>	<b>3,882</b>

\*the budget includes £2.575m 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 PCC'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 PCC 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 PCC 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 PCC's treasury management strategy.
- 6.3 The PCC'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 PCC's long-term plans change is a secondary objective.
- 6.4 The PCC'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 PCC'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 Investment strategy**

- 7.1 Given the increasing risk and very low returns from short-term unsecured bank investments, the PCC aims to continue to hold investments that provide diversification through greater security and/or higher yielding asset classes during 2022/23. This is especially the case for the estimated funds that are available for longer-term investment (currently £15m but under review to potentially increase to £20m).
- 7.2 At 31 December 2021 approximately 59% of the PCC's investment balances were invested so that they were not subject to bail-in risk, as they were invested in government investments, strategic pooled funds, and secured bank bonds. Of the 41% of investment balances that were subject to bail-in risk, 50% was held in overnight money market funds which are subject to a reduced risk of bail-in due to the high level of diversification within it, and 23% was held in short-term notice accounts providing a comparatively favourable rate of interest in exchange for a short notice period within the 100-day maximum recommended by Arlingclose. 22% was held in overnight call accounts with banks to allow for liquidity and the remainder was invested in short term certificates of deposit which are saleable.
- 7.3 This diversification will represent a continuation of the strategy adopted in 2015/16.
- 7.4 The PCC 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 PCC'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 PCC 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 PCC's investment objectives are monitored regularly and discussed with Arlingclose.

## **8 Knowledge and skills**

- 8.1 The PCC 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 PCC CFO ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Members of the Joint Audit Committee attended a workshop presented by Arlingclose in November 2021, which gave an update of treasury matters. A further Arlingclose workshop has been planned for November 2022.

### **Investment Advisers**

- 8.4 The PCC 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 PCC 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
  - CIPFA's Treasury Management Code

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

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



# **RESERVES STRATEGY 2022/23**

**SAFER STREETS**

# 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).  
<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 useable reserves by March 2026 to £19.6m (down from £91.1m at the end of March 2021), of which the General Reserve would be £7.8m, which is 1.7% of the forecast 2025/26 revenue budget (£451.4m). 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 practice the PCC and Constabulary CFO work closely together in formulating the reserves strategy.
- 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 have previously 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 deliver the Police and Crime Plan priorities, and 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 and Chief Finance Officers 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 primarily earmarked reserves which will be drawn down over 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) funding the necessary investment to deliver the PCC's ambition in relation to delivery of her Plan and commissioning of services
  - iii) meeting the Chief Constables operational requirements, in support of 'More Police, Safer Streets'
  - iv) the investment required to ensure that the Constabulary remains modern and fit for purpose
  - v) ensuring that the Police estate remains operationally effective, is continually improved, and is a modern and safe environment
  - vi) 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
  - vii) the significant investment required to embrace an ever evolving technology and digital landscape
  - viii) the requirement to continue to fund an increasing share of the annual ongoing costs of Operation Magenta, which is the investigation regarding the historical deaths at Gosport War Memorial Hospital
  - ix) inflationary pressures, including yet to be agreed pay awards
- 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. 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.

2.9. 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 overall level of reserves is appropriate given the known financial pressures and risks faced by the PCC.

2.10. The earmarked reserves have been created to support planned initiatives and also to cover a number of risks, and these will be continually reassessed to ensure that the reserves held are commensurate with the risk.

2.11. 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 deliver the Police and Crime Plan priorities, and to meet both the financial challenge and the necessary investment to ensure that the Constabulary remains a modern, operationally effective Police Service.

3.2. The forecast Reserves position is set out in full in Appendix 1, with a snapshot of the position below which shows the position as at 31 March 2021, the forecast position as at 31 March 2022 and the forecast position through to the end of the medium term financial strategy as at 31 March 2026:

	<b>Actual as at 31 March 2021</b>	<b>Forecast as at 31 March 2022</b>	<b>Forecast as at 31 March 2026</b>
General Reserve	13.1	10.3	7.8
Earmarked Reserves	78.0	82.8	11.8
<b>Total Reserves available for use by the PCC to support delivery of the Police &amp; Crime Plan and to support the Constabulary</b>	<b>91.1</b>	<b>93.1</b>	<b>19.6</b>
Ring fenced Reserves held on behalf of others not available to spend by the PCC	10.3	5.8	5.8
<b>Total Reserves</b>	<b>101.4</b>	<b>98.9</b>	<b>25.5</b>

- 3.3. The table above shows that the reserves available to be used directly by the PCC to support delivery of her Police and Crime Plan and policing have slightly increased since 2020/21.
- 3.4. The General Fund reserve is available to the PCC to fund investment, transformation and unforeseen cost pressures.
- 3.5. The General Reserve balance has reduced slightly since March 2021 and is forecast to remain stable from 2023/24 onwards. There will be a draw from the General Fund in 2022/23 of £2.464m to help balance the base budget.

### **Categorisation of Reserves**

- 3.6. The Reserves Guidance issued on the 31st January 2018 requested 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 2026.
  - 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 2022 is £10.3m)**

- 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 £10.3m at the end of March 2022. This equates to 2.5% of the 2022/23 net budget (£410.5m) which is within the suggested 5% maximum set by the Minister of State for Crime, Policing and Probation.
- 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 2022	10.3	2.5%
Forecast balance as at 31 March 2023	7.8	1.8%
Forecast balance as at 31 March 2024	7.8	1.8%
Forecast balance as at 31 March 2025	7.8	1.7%
Forecast balance as at 31 March 2026	7.8	1.7%

\* the March 2026 balance is shown as a percentage of the 2025/26 forecast net budget as the MTF5 does not include a forecast budget for 2026/27.

## 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 2021 balance, the forecast March 2022 balance and the forecast March 2026 balance, with more detail shown in Appendix 1):

	Actual as at 31 March 2021	Forecast as at 31 March 2022	Forecast as at 31 March 2026
Carry Forward Reserve	0.8	0.0	0.0
Commissioner's Reserve	0.7	1.3	0.0
Council Tax Reserve	0.0	2.1	2.1
Estate Reserve	15.5	25.6	1.1
Grant Equalisation Reserve	6.0	6.0	1.5
Insurance Reserve	1.5	1.5	1.5
IT Services Reserve	22.6	25.2	0.6
Operation Magenta Reserve	5.9	8.0	0.9
Pension Remedy Reserve	3.0	3.0	0.0
Replacement Programme Reserve	4.6	2.6	0.4
Revenue Grants Unapplied Reserve	2.0	0.5	0.0
Trading Reserves	3.7	3.7	3.7
Transformation Reserve	8.4	0.3	0.0

Uplift Reserve	3.3	2.9	0.0
<b>Total Earmarked Reserves</b>	<b>78.0</b>	<b>82.8</b>	<b>11.8</b>

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

**Transformation Reserve (Forecast 31 March 2022 is £0.3m)**

- 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. The Transformation Reserve has supported a number of improvement initiatives over the past few years but is due to close at the end of next year once all approved spends have been drawn down. A number of new specific reserves have been set up since 2020/21 which have replaced the need for a Transformation Reserve and mean the PCC has set aside funds for a number of future pressures in Estates, ICT (including ESMCP), and other operational considerations such as equipment replacement and Op Magenta.

**Other Earmarked Reserves**

5.4. 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** has been set up to hold the one-off Local Council Tax Support grant of £2.1m received in 2021/22 – this reserve will be utilised to manage any ongoing impact from COVID-19 of a Council Tax deficit, and to manage 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 and new capital investment. 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** will be used to offset and manage future uncertainty in the level of Police grant.
- 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** 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 will taper down over incrementally over the next 3 years to 55% of. The costs of the investigation on an annual basis are now significant, and at a reduced contribution rate would equate to a cost to be funded by the PCC of between £3m to £4m per annum over the next 2 years and possibly beyond. This reserve has been set up to ensure that funding is set aside to meet these costs. The reserve, in the sum of £8.0m, has been funded via transfers from the General Fund Reserve and the Transformation Reserve.
- ix) **Pension Remedy Reserve** 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.
- x) **Replacement Programme Reserve** holds funds available to offset the impact of large-scale equipment replacement. In the 2022/23 budget there is a one-off contribution of £829k from the Council Tax surplus to allow for the replacement of vital operational kit such as tasers, body armour and radios.
- 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:

	<b>Actual as at 31 March 2021</b>	<b>Forecast as at 31 March 2022</b>	<b>Forecast as at 31 March 2026</b>
ACRO Surety	2.0	2.0	2.0
AVCIS Surety	1.3	0.3	0.3
ACRO General Reserve	7.0	3.5	3.5
<b>Total</b>	<b>10.3</b>	<b>5.8</b>	<b>5.8</b>

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.
- 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. Over the last few years 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 <sup>st</sup> March 2022 Reserves will be utilised			
	Forecast Balance 31.3.22	Planned Expenditure on projects and programmes over the medium term to 2025/26	Funding for Specific projects and programmes beyond 2025/26	As a general contingency to meet other expenditure needs
	£m	£m	£m	£m
General Reserve	10.3	2.5	0.0	7.8
Council Tax Reserve	2.1	0.0	0.0	2.1
Commissioner's Reserve	1.3	1.3	0.0	0.0
Estates Reserve	25.6	24.5	1.1	0.0
Grant Equalisation Reserve	6.0	4.5	1.5	0.0
Insurance Reserve	1.5	0.0	1.5	0.0
IT Services Reserve	25.2	24.6	0.6	0.0
Operation Magenta Reserve	8.0	7.1	0.9	0.0
Pension Remedy Reserve	3.0	3.0	0.0	0.0
Replacement Programme Reserve	2.6	2.2	0.4	0.0
Revenue Grants Unapplied Reserve	0.5	0.5	0.0	0.0
Trading Reserves	3.7	0.0	3.7	0.0
Transformation Reserve	0.3	0.3	0.0	0.0
Uplift Reserve	2.9	2.9	0.0	0.0
<b>Total Useable Reserves</b>	<b>93.1</b>	<b>73.4</b>	<b>9.7</b>	<b>9.9</b>



## Appendix 2 – Analysis of profile

	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26
<b>General Fund Balance</b>	<b>(13.1)</b>	<b>(10.3)</b>	<b>(7.8)</b>	<b>(7.8)</b>	<b>(7.8)</b>	<b>(7.8)</b>
<b>Fully committed to Existing Spend Programmes</b>						
Carry Forward Reserve	(0.8)	0.0	0.0	0.0	0.0	0.0
Estate Reserve	(15.5)	(25.6)	(26.5)	(11.0)	(1.2)	(1.1)
IT Services Reserve	(22.6)	(25.2)	(16.3)	(15.8)	(1.1)	(0.6)
Replacement Programme Reserve	(4.6)	(2.6)	(3.1)	(1.9)	(0.8)	(0.4)
Revenue Grants Unapplied Reserve	(2.0)	(0.5)	0.0	0.0	0.0	0.0
Uplift Reserve	(3.3)	(2.9)	0.0	0.0	0.0	0.0
<b>Trading Reserves</b>						
HC Trading Reserves	(3.7)	(3.7)	(3.7)	(3.7)	(3.7)	(3.7)
<b>Risk Reserves</b>						
Council Tax Reserve	0.0	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)
Grant Equalisation Reserve	(6.0)	(6.0)	(6.0)	(4.5)	(3.0)	(1.5)
Insurance Reserve	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Operation Magenta Reserve	(5.9)	(8.0)	(5.1)	(0.9)	(0.9)	(0.9)
Pension Remedy Reserve	(3.0)	(3.0)	(1.5)	0.0	0.0	0.0
<b>Corporate Reserves</b>						
Commissioner's Reserve	(0.7)	(1.3)	(1.0)	(0.7)	(0.3)	(0.0)
Transformation Reserve	(8.4)	(0.3)	0.0	0.0	0.0	0.0
<b>Total Earmarked</b>	<b>(78.0)</b>	<b>(82.8)</b>	<b>(66.7)</b>	<b>(42.0)</b>	<b>(14.7)</b>	<b>(11.8)</b>
<b>Other Reserves</b>						
AVCIS Surety	(1.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
ACRO General Reserve	(7.0)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)
ACRO Surety	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
<b>Total Revenue Reserves</b>	<b>(101.4)</b>	<b>(98.9)</b>	<b>(80.4)</b>	<b>(55.7)</b>	<b>(28.4)</b>	<b>(25.5)</b>

## **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 2022/23 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, and adjustments have been made to the budgets to reflect the savings of £1.431m that have been implemented in order to help balance the budget.

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; for 2022/23 provision has been included to fund pay inflation of 3.5%, and general inflation of 4%. In the absence of an agreed pay award, there remains a risk that the pay award could be higher, but based on all the available evidence 3.5% is seen as a realistic allowance for the pay award.

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 Hampshire's grant funding for the 2022/23 financial year; increases in total Police Grant have been announced for 2023/24 and 2024/25 but with no detail as to Hampshire's specific allocation. The MTFS therefore includes an assumption that Hampshire will receive its proportionate share of the overall increase in Police Grant in these later years.

The settlement announcement confirmed that Precept rises of £10 would be permitted in each of the next 3 years; at this stage the MTFS is based on a £10 precept increase for 2022/23, but for later years the precept increase has been included at 1.99% (which equates to for example a precept increase of £4.71 in 2023/24). This is therefore below the allowable £10 increase, so is a prudent assumption.

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 with Joint Chief Officer Group with Thames Valley Police for collaborated initiatives, and then are 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; for 2021/22 the Constabulary are forecasting an underspend which will be utilised in support of the 2022/23 budget (in the sum of £2.464m).

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 2022/23 and the MTFs**

- a) **Government Funding** - The Police Spending Settlement announced in December 2021 has only provided Hampshire's specific information on government grant for 2022/23. For later years, whilst the increase in national police grant has been announced, grant allocations at an individual PCC level have not been announced. This is a key risk as the funding position beyond 2022/23 is not known, and has therefore required that an estimated grant level has been included for the remaining years of the settlement period (2023/24 & 2024/25) within the MTFs.

For the final year within the MTFs period (2025/26), there is no announcement on the level of grant available. The risk mitigation here has been to include a very prudent estimate of 'flat cash' for Police Grant in 2025/26, i.e. no increase in grant in comparison to 2024/25.

To manage the risk of having to estimate the overall level of government grant for the period 2023/24 – 2025/26, a Grant Equalisation reserve is available which can be utilised to offset and manage any fluctuations in government grant over the medium term.

- b) **Council Tax** – In announcing the settlement for the next 3 year period, the Government have effectively assumed that the total available increase in resource available to PCC's to cover for example pay rises, inflation, NI increase and unavoidable growth is predicated on precept rises of £10 in each of the next 3 years.

This presents a risk to the overall funding position, as it will be a local decision for the PCC as to level of precept increase up to £10 which they feel able to recommend. The current MTFs is predicated on precept increases of 1.99% for the period 2023/24 – 2025/26 (which for example in 2023/24 would equate to

£4.71). This is felt to be a prudent approach, and leaves flexibility for the PCC to determine the actual precept rise each year.

- c) **Council Tax Collection** – Whilst COVID-19 impacted the collection of Council Tax, particularly during 2020/21, it does appear that over the past financial year 2021/22, collection levels have improved.

In recognition of the impact COVID-19 had on collection in 2020/21, the government confirmed as part of the 2021/22 settlement announcement that they would put in place a Local Tax Income guarantee which would:

- 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 would pay a Section 31 grant to the PCC during the 2021-22 financial year to fund this.

This additional support from government mitigated the impact of the 2020/21 collection fund deficit on the 2021/22 budget, allowing the position to be managed over 3 years.

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 Inflation Risk** – The MTFs contains provision as follows for annual pay awards for increases in Police Officer and Police staff pay:

22/23 - 3.5%

23/24 - 2.5%

24/25 - 2%

Whilst the level of actual pay awards will be determined by the Home Secretary following recommendations from the Police Pay Review Body, the percentage increases shown above do reflect the ask from the Employer side in terms of the level of pay increase they are seeking. In that sense the estimates for pay awards are seen to realistic prudent and appropriate.

- e) **General Inflation Risk** - the impact of price inflation is a risk which could impact the overall budget and is a risk which will need to be managed.

There is concern that inflation pressures may not be short term in nature. The current budget includes an allowance for general inflation at 4%, although the latest available CPI figure published in December 2021 shows that inflation is now running at 5.1%.

However, in the round my assessment is that it would take a sustained and significant increase in inflation beyond the current 4% assumption to create a financial problem that could not be dealt with in year from reserves.

- f) **Treasury Risk** – The Authority has limited exposure to interest rate risk as current long-term borrowing is undertaken on a fixed rate. If the PCC were to approve significant future investment in support of the key emerging capital issues across the police estate (e.g. Uplift), this is likely to require to be supported through 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 recurrent funding has been set aside in the 2022/23 budget 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 change in the government grant announced for future years
- the Precept proposed by the PCC is less than the assumed 1.99% increase included in each year of the MTFS 2023/24 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 3.5% pay award would lead to a full year cost pressure of £2.8m)
- the COVID-19 pandemic continues and impacts Constabulary resilience leading to additional cost
- 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
- 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
- costs for implementing pension remedy exceeds the available funding set aside
- any cost increase arising as a result of the Police Pension Scheme valuation is not funded in full by central government
- 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; the level of Government Special Grant support for Op Magenta continues to decrease
- Special Grant available to support Operation Magenta 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
- 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;
- the MTFS includes prudent assumptions as to the level of future precept increases
- the PCC together with the Chief Executive and CFO 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 have previously warned that the use of reserves to deal with shortfalls in day-to-day spending would be a “recipe for significant financial problems.

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.

The PCC has in place earmarked Reserves to recognise specific risk issues to funded over the medium term, which include:

- 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
- ii) **Council Tax reserve** – this reserve will be utilised to manage any ongoing impact from COVID-19 and any ongoing impact on council tax collection in 2022/23, and to manage and any ongoing impact (slow recovery/reduced growth) on the Council Tax Base

- iii) **Operation Magenta Reserve** – this reserve has been set up to ensure that funding is set aside to meet the costs of the reinvestigation of the historic events at Gosport War Memorial Hospital which is an investigation of national interest.
- iv) **Pension Remedy Reserve** – this reserve, in the sum of £3m 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 11 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 12 of the budget report, the minimum general fund balance has been set at £5.5m. The actual balance of the reserve is forecast to be £10.3 m (which is 1.6% of the 2022/23 net budget) at the end of March 2023, and then reducing to £7.8m over the MTFS for the period through until March 2026.

For the medium-term the general fund balance is therefore anticipated to be maintained at a level in excess of the minimum required which provides further coverage to support emerging risks or cost pressures.

The Earmarked reserves which are held are deemed to be appropriate, and their purpose has been set out in the Reserves Strategy. Earmarked reserves are forecast to reduce from £82.8m on 31<sup>st</sup> March 2022 to £11.8m by 31<sup>st</sup> March 2026.

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 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 managed in year as necessary and where appropriate over the course of the MTFS timeline.

Whilst COVID-19 has been and remains a potential ongoing risk to managed, the impact on the Constabulary has so far been manageable, and the financial impact not significant.

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

### **Budget 2022/23 – 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 2022/23.

### **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 2023. 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 £27.3m, 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 PCC keeps sufficient but not excessive cash available to meet the PCC'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 2022/23**

Given the announcement of only a firm one-year settlement 2022/23, the PCC is still in the position of not knowing what the actual grant funding position is beyond a one-year planning horizon.

At this stage, in response to this position, the MTFS has 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 2022/23. 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**



See separate document