

REQUEST FOR DECISION – PCCML/000403/2018

Title of decision: Budget 2018/19

Executive Summary: The attached report sets out the Budget 2018/19 including the council tax precept, revenue budget, medium term financial strategy, capital programme, reserves strategy and reserves profile.

Recommendations:

It is recommended that:

- 1.1. The Police and Crime Commissioner agrees the proposed precept increase of £12 per annum for Band D properties, which is the equivalent of £1 per month, or 23p per week.
- 1.2. The Police and Crime Commissioner notes that 61% of households across Hampshire and the IOW are in properties in council tax bands A-C, and would therefore see a precept increase of less than £12 per annum if the above recommendation is supported.
- 1.3. The Police and Crime Commissioner notes that at the two public consultation events (which were demographically representative), in excess of 80% of those in attendance were supportive of a precept increase of £12. In addition, in the PCC's online budget consultation survey (which was statistically relevant), 75.3% of respondents would pay £10 or more, and nearly half (46%) would pay sums above £10 up to £75.
- 1.4. The Police and Crime Commissioner notes that the Police and Crime Panel decided not to veto the proposed £12 per annum Band D increase at the meeting on 26 January 2018.
- 1.5. The 2018/19 revenue budget and MTFs is agreed as set out in appendix D, the 2018/19 capital programme is agreed as set out in appendix E, and the 2018/19 Reserves Strategy is approved as set out in this report and in appendix F. This recommendation takes account of the fact that the policing elements of the budget were agreed in full consultation with the Chief Constable and based on her assessment of the requirements to deliver the most effective operational policing, efficiently within budget.

- 1.6. The Police and Crime Commissioner's basic Council Tax for the year beginning 1 April 2018 will be £177.46 per annum at Band D
- 1.7. The Police and Crime Commissioner's basic Council Tax for the year beginning 1 April 2018 for each band will be as set out in appendix C of the attached budget report.
- 1.8. The Council Tax requirement for the Police and Crime Commissioner for Hampshire, Isle of Wight, Portsmouth and Southampton for the year beginning 1 April 2018 will be £120,644,195.22 as per appendix C.
- 1.9. Precepts are issued totalling £120,644,195.22 on the billing authorities in Hampshire, the Isle of Wight, Portsmouth & Southampton requiring payment, in such instalments and on such dates set by them and previously notified to the Police and Crime Commissioner for Hampshire, Isle of Wight, Portsmouth and Southampton, in proportion to the tax base of each billing authority's areas as determined by them and set out in appendix C of the attached budget report.

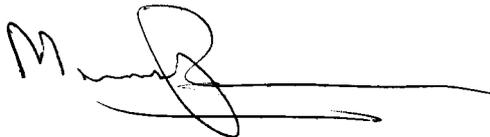
Delete as appropriate

Police and Crime Commissioner

I hereby approve/~~reject~~ the recommendation above.

Signature

Date



23/2/2018.

(Michael Lane)

Comments on the decision taken:

HAMPSHIRE POLICE AND CRIME COMMISSIONER

Title:	Council Tax Precept 2018/19, Budget 2018/19 and Medium Term Financial Strategy 2019/2020 to 2021/22
Contact name:	Andy Lowe, PCC Chief Finance Officer Richard Croucher, Force Chief Finance Officer
Email:	andrew.lowe@hants.gov.uk richard.croucher@hampshire.pnn.police.uk

1. Recommendations

It is recommended that:

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2. Executive Summary

2.1. The updated Police and Crime Plan was launched on 7 December 2016.

2.2. The budget proposed is designed to support the priorities of the Plan to help ensure that Hampshire, the Isle of Wight, Portsmouth and Southampton are amongst the safest places to live, work and visit, so that people are empowered to realise their life opportunities.

2.3. The Police and Crime Plan starts with and has its foundation in our communities. The four priorities of the plan contribute to the outcome sought, that of keeping people safer. These priorities are:

- Championing Community Needs
- Strengthen Partnerships
- Enabling Operationally Effective Policing
- Reduce Offending

2.4. Within the Police and Crime Plan, the Police and Crime Commissioner (PCC) has highlighted the need to ensure that sufficient funding is in place to deliver operationally effective and added-value outcomes that support people and cover the whole range of responsibilities of a PCC, including the significant investments for both policing and commissioning objectives.

2.5. The precept decision for 2018/19 needs to take into account both the immediate and medium term resourcing requirements that enable Hampshire, the Isle of Wight, Portsmouth and Southampton to be safer now and in the future.

2.6. In setting the precept and budget, the PCC will be seeking to ensure that:

- i) working closely with the Chief Constable, going forward the Constabulary budget continues to enable the delivery of modern, operationally effective policing, that includes capacity for innovation, and
- ii) sufficient resources are available to the PCC to support 'beyond policing' including commissioning, to allow meaningful impact to be made on the PCC's wider agenda in support of his Police and Crime Plan, including outcomes that reduce demand on policing itself.

2.7. Prior to the announcement of the Police Grant Settlement on 19th December 2017, the draft Medium Term Financial Strategy (MTFS) for

2018/19 – 2021/22 (which was shared with the Police and Crime Panel Finance working group) had assumed a continued reduction in Police Grant (a 1.3% reduction in line with previous announcements) and a maximum precept increase without recourse to a referendum of 1.99%.

- 2.8. In announcing the Police Grant settlement for 2018/19, Nick Hurd MP, the Minister of State for Policing and the Fire Service said:

'Given the increasing demands on you.....we are protecting Government grant. This means in 2018/19, each PCC will receive the same amount of core Government grant funding as they did 2017/18.

We received representations from a number of PCCs asking for more precept flexibility. In 2018/19 PCCs will be able to increase their council tax precept levels by £12 before the need to call a local referendum. This gives PCCs the flexibility to make the right choices for their local area to protect frontline services.'

- 2.9. The Police Grant settlement therefore confirmed that for 2018/19:

- there would be no reduction to the Police Grant for PCCs in England i.e. the grant payable would be the same as the grant received in 2017/18
- that the cap on the maximum increase in precept would be set at £12 per year for a Band D property

- 2.10. In addition, the Minister set out that:

'in order to assist more efficient financial planning, we want to give PCCs and Chief Constables greater visibility on plans for 2019/20. Our intention is to maintain a broadly flat police grant in 2019/20 and repeat the same precept flexibility to allow PCCs to raise an additional £1 a month of local precept in 2019/20. However this is dependent on the police delivering clear progress against agreed milestones on productivity and efficiency in 2018'.

- 2.11. Whilst this further flexibility is welcomed, there is no guarantee beyond 2018/19 on the level of Police Grant nor on the maximum precept increase; in considering setting his budget and precept for 2018/19, and in setting out his MTFs to 2021/22, the PCC can only base his decisions and forecasts on the certainty presented by the 2018/19 settlement, which is a 'flat cash' settlement (i.e. the same level of Police Grant as received in 2017/18) and the ability to increase the council tax precept (Band D) by up to £12 per annum in 2018/19.

- 2.12. The Minister of State for Policing and Fire Service also set out that: *'We will revisit the funding formula at the next Spending Review'.*

- 2.13. This is disappointing as it effectively puts the fairer national funding formula review for Policing on hold, with the resultant increase in the risk of greater funding pressure for those PCCs and forces who do not currently receive a fair allocation of the funding, a situation that applies to the Hampshire Policing area.

- 2.14. This report presents the projected revenue and capital budgets for the five year period 2017/18 to 2021/22 based upon current guidance and assumptions.
- 2.15. The PCC's proposal is for a £12 increase in his council tax precept for 2018/19 (for a Band D property), as set out in section 6. It should be noted that 61% of households across Hampshire and the IOW are in Bands A – C, and so will see an increase of less than £12 per annum (see paragraph 6.9)
- 2.16. On the assumption of a £12 precept increase (Band D), this report sets out that the PCC can:
- set a balanced budget for 2018/19; in delivering a balanced budget section 8 sets out that savings of circa £8.15m will still be required in 2018/19.
 - fund the significant one off costs of £12.768m to deliver the critical pressures/growth items which enable the Constabulary to continue to be a modern, operationally effective Police Service, to keep ahead of those criminals who wish us harm (see paragraphs 7.13 – 7.42).
 - fund the associated recurrent revenue costs of £4.6m per annum for the above growth items, as set out in paragraphs 7.13 – 7.42.
 - accommodate the impact of a national pay award of up to 2% (see paragraphs 7.5 – 7.9), which is an additional £2.5m incremental each year from September 2018 compared with a 1% pay award (1% was the pay assumption included in the draft MTFs). This has a significant impact on the budget in the medium term.
- 2.17. This report also sets out that on the assumption of a £12 precept increase (Band D) for 2018/19, followed by precept increases of 1.99% in each of the following 2 years (2019/20 – 2020/21), that a balanced budget can be achieved over the 3 year period; to deliver the balanced budget, total savings of £18.8m will still be required over the 3 years 2018/19 – 2020/21, and these are set out in section 8.
- 2.18. In the final year of the MTFs (2021/22), after allowing for the precept increases set out above, and a further 1.99% precept increase in 2021/22, further savings of £5.97m will still need to be achieved to deliver a balanced budget (total savings of £24.75m over the 4 year period); indicative savings of £5.5m from local policing have been targeted in 2021/22 to contribute to this (see paragraph 2.24).
- 2.19. In considering whether or not to use his new flexibility, to increase the precept by up to £12, the PCC has given due consideration to the views of the public, the Police and Crime Panel and also the consequences of setting a lower precept; the original planning assumption had been for a 1.99% increase.
- 2.20. If the PCC only increases the precept by 1.99%, instead of by the proposed £12, it is clear that:

- significant further savings would be required to balance the budget over the next 3 years; specifically £5.5m reductions to local policing (the equivalent of 120-150 less people¹ policing in our communities) would have to be brought forward by one year for delivery in year 3 (2020/21), with the resultant impact of reducing the Chief Constable's ability to support the Commissioner in the delivery of his plan which is to keep people safer.
- the significant and essential investment of £12m required over the next 3 years in technology, IT infrastructure and digital, in order to ensure that the Constabulary remains a modern, operationally effective police service, would have led to further difficult choices and additional savings having to be made, as the current unallocated funds available within the Transformation Reserve (£7m) are insufficient to meet the investment required. A £12 precept increase allows this one-off investment of £12m and associated ongoing revenue costs of £4.6m to be fully funded from within the revenue budget, thereby reducing the impact on reserves.

2.21. In proposing a £12 precept increase, the PCC has taken account of the feedback to date from the communities he serves, partners and his precept consultation events. Overall these have shown significant recognition of the financial pressures, increasing levels of demand on policing and public support for a precept increase.

2.22. The public consultation exercise has had two distinct elements:

- **an online survey/questionnaire** which has been open and promoted to the public since 6 December 2017, and closed on the 22nd January. In total 4,306 residents from across the Hampshire Policing area have fed back their views by completing the online survey.

The survey asked whether individuals would support precept increases at differing levels from 'up to £5 per annum' to 'up to £75 per annum'; the results are shown in the table below. This shows that (excluding those who chose 'other') 75% would pay £10 or more, and nearly half (46%) would pay sums above £10 up to £75. In considering the headline precept for Band D, it is key to recognise that 61% of households being in Band A-C (as seen in paragraph 6.9), means a significant number of households would have an actual annual precept increase of less than £12 (as the £12 increase is only for a Band D property).

¹ Source: Hampshire Constabulary

The figure residents would be willing to contribute	Number of respondents	% of respondents	% without 'other' category
Up to £5 per year	681	21.44%	24.66%
Up to £10 per year	799	25.16%	28.94%
Up to £20 per year	454	14.29%	16.44%
Up to £25 per year	349	10.99%	12.64%
Up to £50 per year	343	10.80%	12.42%
Up to £75 per year	135	4.25%	4.90%
Other	415	13.07%	
Total	3,176	100.00%	100.00%

- **face to face consultation events** - two separate face to face consultation events were also held on Saturday 13 January 2018, one in the south of Hampshire (Netley) and one in the north of Hampshire (Basingstoke). In total 119 people attended the two events. The attendees were selected to be demographically representative across the area the PCC represents, including geographically, economic activity, ethnicity, and disability. Being demographically representative is a key part of the events' value and gives them credibility in informing the precept setting.

These events allowed residents to be given a briefing on how the budget is spent, the budget shortfall, and the operational impact of savings, so that they could give an informed opinion on the precept increase.

From the feedback responses (based on 113 responses using the interactive voting) an overwhelming number (86%) were in favour of a precept increase of £12 per annum.

- 2.23. Further detail on the consultation exercise and feedback is provided in section 12.
- 2.24. In summary, implementing the £12 increase for 2018/19 will still require difficult choices to be made and significant savings to be delivered, but compared with setting a lower precept will allow some breathing space to continue to transform the Hampshire Policing service into one that is not just fit for the immediate years ahead but one that can keep developing and investing to meet the challenges of 2035. This includes allowing time to fully consider the best way to reconfigure local policing within the reduced resources available, as the proposed £5.5m reductions to local policing are now pushed back a year to 2021/22.
- 2.25. In considering the PCC's proposed precept increase of £12, the Police and Crime Panel, whilst not vetoing the proposed £12 increase, proposed a re-worded recommendation as they were not content that an element of the overall budget proposal included increasing the revenue spend of the Office of the OPCC and Commissioning (for expenditure

which had for the most part previously been funded by a draw from reserves). Their recommendation was as follows:

‘that the Panel do not support the recommendation, as outlined in the paper before us, and ask (that) our concerns and those of the public are taken into account, and that any increase in funding is put directly and only into retaining and enhancing (the service provided by) police officers and staff’

- 2.26. The PCC will continue to consider the Panel’s revised recommendation made at its meeting on 26 January and follow on clarifications by the Panel as to their intent, but to allow timely progress with the precept setting, given the overall approval given to the budget and the increase of £12 for the coming year, the sum of £1.140m, which had been proposed to be included in the budget for the Office of the Police and Crime Commissioner (£440k) and for Commissioning (£700k), will now be shown as a contribution to reserves. This report has been updated (compared to the report published for Police and Crime Panel) to reflect this change.

3. Context and Current Financial Situation

- 3.1. The funding situation in Hampshire remains critical, principally from the absence of a fair national funding formula, a point which was made to the Minister of State for Policing and Fire Services in a joint letter from the PCC and the Chief Constable in January 2017.
- 3.2. Based on this assessment, the PCC implemented the maximum permitted Council Tax precept increase (without recourse to a referendum) of £5 to sustain services in 2017-18.
- 3.3. In their joint letter, the PCC and Chief Constable set out their view that the current funding formula is not fair, and does not deliver sufficient funding for the policing and commissioning needs of the Hampshire Policing area.
- 3.4. There is recognition from the Home Office, and significant agreement amongst PCCs and forces that the current funding formula for distributing general government grant is not currently fit for purpose and hence unfair.
- 3.5. The joint letter set out that whilst confident that a further £10m of efficiency savings could be delivered towards the medium term budget gap (which at that time was £23m), that unless addressed by a national funding increase and a revised national funding formula, that to deliver further savings beyond the £10m the force would have to embark on further reductions in policing that would potentially increase risk to the public.
- 3.6. To provide the context for looking forward and the scale of the challenge, the table below shows the extent of savings already delivered in recent years; reductions in grant and additional financial pressures such as inflation have required planned savings of £82m to be achieved during the period 2011/12 to 2017/18.

Annual and Cumulative Savings

Savings	11/12	12/13	13/14	14/15	15/16	16/17	17/18
	£m						
In year	16	20	6	12	13	13	2
Cumulative	16	36	42	54	67	80	82

- 3.7. The context is that for the most part efficiency savings which do not have an operational impact have already been identified and delivered.
- 3.8. Even though the Constabulary has made significant savings, against a backdrop of being underfunded, Her Majesty's Inspectorate of Constabulary and Fire and Rescue Service (HMICFRS) annual PEEL Efficiency Assessment of the Force continued to provide an overall rating for efficiency of 'Good' when it undertook its latest inspection in 2016. However, without increased funding and continued investment, the Chief Constable's assessment is that it will become increasingly harder for her to meet the PCC's desire to keep the residents of Hampshire, IOW, Portsmouth and Southampton safer.
- 3.9. HMICFRS recognises that the force faces a challenging financial position, and set out in their latest Value for Money profile for the Hampshire Constabulary that the force spends £47.8m less than the average force (based on cost per head of population, and taking account of the police grant and precept income) due to its under-funding.
- 3.10. The PCC and Chief Constable have lobbied government and the PCC continues to lobby government on behalf of the residents of the Hampshire Policing Area, as to the adverse impacts of the current police funding formula on people now and the risk to their future needs being met, and further comment is set out in section 4 below.
- 3.11. As set out in section 4, Hampshire suffers from negative damping of circa £10m per annum; this represents additional funding which the existing funding formula would deliver to Hampshire if damping was not being applied. This is a significant sum and represents over a third of the projected recurrent funding shortfall of £24.75m by 2021/22.
- 3.12. Hampshire's position is further impacted as it has a relatively low police precept compared to other PCC areas; in 2016/17 Hampshire had the 10th lowest precept and in 2017/18 has the 12th lowest precept. The 1.99% precept cap has been a limiting factor for Hampshire as proportionately raising the precept by the maximum allowable within the cap in cash terms allows for a lower increase than in those areas with a higher precept; this was arbitrary and did not provide a level playing field.
- 3.13. Whilst the PCC welcomes the new flexibility for 2018/19 to allow a precept increase of up to £12 (Band D), as this flexibility is available to all PCCs, the inequity set out above remains.

- 3.14. The combination to date of reduced funding, damping, the constraint on council tax increase and the increasing demands placed on the PCC and Chief Constable, mean that the funding situation in Hampshire remains significantly stressed, requiring longer term careful planning to minimise risk and maximise effectiveness through strategic action – including investment.
- 3.15. The financial risk should be seen alongside the PCC’s determination, supported by the Chief Constable in those areas under her control:
- to continue to deliver change necessary to defeat criminals and those who wish us harm, staying ahead of their intentions;
 - to find efficiencies wherever possible to absorb financial pressure and increases in demand;
 - to be innovative, reflecting good and best practice for the future and in a way that can be scalable and shared with others, as we would seek to learn from others;
 - to recognise that without the necessary investment in skills, innovation and change, people will be less safe.
- 3.16. In summary, whilst the overall funding position remains critical, the Police Grant Settlement of ‘Flat cash’ for 2018/19 is welcomed, as is the flexibility to increase the precept by up to £12, as both measures together allow some easement to the immediate pressure which the PCC, supported by the operational advice from the Chief Constable, faced in setting a balanced budget both for 2018/19 and for the medium term through until 2021/22.
- 3.17. However, significant savings of £24.75m are still required over the next 4 years to balance the budget in the medium term, with £8.15m of those savings required next year (2018/19). In addition, further savings of £16.6m have been identified over the period 2019/20 through to 2021/22, which would deliver a balanced budget in 2021/22:

	£M
MTFS budget shortfall 18/19 – 21/22	24.75
Savings identified 2018/19	(8.15)
Savings identified 19/20 – 21/22	(16.6)
MTFS Budget shortfall 2021/22	0

- 3.18. The easement in the overall position can only be achieved through raising taxation locally, and the fundamental issue of the PCC being underfunded through the national funding formula remains, with no immediate prospect of this being resolved in the timescale of the MTFS.

4. The Funding Formula & Damping

- 4.1. As set out above, the PCC, Chief Constable and many other respected bodies and individuals, are of the view that the current national funding formula is not fit for purpose, and specifically in the local context that the

funding formula does not deliver a fair funding allocation to the Hampshire Policing Area.

- 4.2. Successive Ministers have committed to address this inequality, with the debate on the police funding formula dating back to 2009. Two previous reviews have failed to land a new formula, including the 2015 review which was withdrawn as deemed not valid for consideration. The current review, now stalled, was widely agreed to have a better evidence base, and was supported by detailed evidence from our area.
- 4.3. The current share of police grant received today by the PCC is still based on the outdated and unfair funding formula that remains in place, and Damping (see para 4.9 – 4.14) continues to have a further adverse effect.
- 4.4. The Minister of State for Policing and Fire Service set out in his letter to PCCs on the Police Settlement, that there are no immediate plans to conclude and implement a review of the funding formula; the Minister's letter was clear that the funding formula will not be revisited until the next Comprehensive Spending Review (CSR).
- 4.5. In the absence of a new national fairer funding formula, the Hampshire Policing area continues to be underfunded compared to other PCC areas.
- 4.6. As a result, even with a precept increase of £12 in 2018/19, the level of savings required in the medium term are £24.75m by 2021/22; in response to the requirement to create a balanced budget in 2018/19 and in the medium term, the Chief Constable is proposing to the PCC reductions and changes in policing that in her professional judgement have the potential to increase risk to the public, recognising that just sustaining Business As Usual (BAU) is no longer an option as new and developed approaches are required to respond to the changing risks and technologies. The PCC recognises that the future safety of our communities requires necessary change and innovation, delivered by a self-reforming and transforming police service, to enable Hampshire Constabulary to be at the forefront of professional policing, alongside the PCC's activity beyond policing that together will serve the community and keep people safer.
- 4.7. The PCC will continue to lobby Government on the basis that the existing funding formula is nationally unfair overall and should be updated as soon as possible. Without the introduction of a new fairer funding formula the existing formula will continue to add pressure to the budget and operational delivery will be higher risk for the Hampshire Constabulary area.
- 4.8. In addition to the joint letter the PCC and Chief Constable sent to the Minister of State for Policing and Fire Service in January 2017, a further submission was made in September 2017 which continued to highlight the funding inequity and focused in on the increasing casework complexity, increased demand (as well as reporting) and increasing spectrum of risks facing the Constabulary in the day to day operational environment.

Damping

- 4.9. The current formula has never actually been fully applied as ‘floors and ceilings’ have been used to damp any changes to individual forces.
- 4.10. The damping process further exacerbates the already under-funded position for the Hampshire Policing Area, as it has the effect of reducing the amount of funding that should be received according to the current funding formula.
- 4.11. The amount of funding ‘lost’ through damping when the formula was last run in 2013/14 was £10m per annum (Appendix B). This is the fourth highest negative damping amount across the 37 PCCs in England, and this has a significant impact on the overall funding position, equating to over a third of the current £24.75m projected shortfall by 2021/22 (without the impact of damping, the budget would be balanced for 2018/19 without the need for immediate savings).
- 4.12. Appendix B sets out how damping impacts PCCs across the country; it cannot be equitable that the largest positive damping amount per annum is £21.6m whilst Hampshire has to take a damping reduction of £10m.
- 4.13. The Home Office has indicated that it will not be re-running the formula or reducing the impact of damping until a new formula is introduced; instead all PCCs will receive either the same percentage reduction in government grant each year, or as for 2018/19 receive the same level of ‘flat cash’ each year, which although welcome:
- does not take into account any relative changes in the factors that create additional demand and cost.
 - ignores the current impact of damping, which reduces the funding due under the current formula; the damping ‘loss’ for Hampshire for 2018/19 will be around £9m, having adjusted for the overall grant reductions since 2013/14.
- 4.14. The result of the decision to put the formula review on hold until the next spending review is that the Hampshire PCC will continue to receive lower than average grant funding for the period that this necessary updating of the formula is kept in abeyance; the current damping will continue to exacerbate the adverse effect on Hampshire’s funding position.

5. Provisional Grant Settlement 2018/19 - Flat cash

- 5.1. Since 2010/11, government Police Grant has reduced by 24%.

Annual and Cumulative Government Grant Reductions

Savings	11/12	12/13	13/14	14/15	15/16	16/17	17/18
Cash cut %	6%	6%	2%	5%	4%	1%	1%
Cash cut £m	14.1	14.4	3.2	10.1	10.1	1.1	2.5
Cumulative £m	14.1	28.5	31.7	41.9	52.0	53.1	55.6
Cumulative %	6%	12%	13%	18%	22%	23%	24%

- 5.2. The previous Chancellor of the Exchequer, announced in the Spending Review and Autumn Statement on 25 November 2015 that there would be no cuts to policing in real terms.
- 5.3. The then Home Secretary clarified in her letter to PCCs and Chief Constables on 25 November 2015 that:
- ‘The Chancellor and I have agreed a fair deal for the police. This settlement gives Chief Constables and Police and Crime Commissioners immediate certainty that police spending will be protected in real terms over the Spending Review period, when local precept income is taken into account.....total central Government resource funding to policing, including funding for counter terrorism, will be reduced by 1.3% in real terms over four years. Taking into account the scope that you have to raise local council tax, this means a flat real settlement for policing as a whole.’*
- 5.4. That letter went on to say that ‘ You should plan on the basis that the overall referendum limit for police precept will be maintained at 2% over the Spending Review period for Police and Crime Commissioners in England ’.
- 5.5. There was a clear intention set out in 2015 by the then Chancellor of the Exchequer and Home Secretary (now Prime Minister) that police funding overall should be protected over the Spending Review period at 2015 ‘Flat Cash Rates’ as the baseline for this protection. In order to achieve this, precept increases would be necessary at a capped level to sustain this protection including a rebalancing of the national and local tax.
- 5.6. Therefore the achievement of ‘flat cash’ in 2016/17 and 2017/18 was only achieved through a combination of a cut in the Police Grant, offset by a required increase in the council tax precept.
- 5.7. The position as announced in the Police Grant settlement on the 19th December represented a substantial shift in the funding position such that the Police Grant for 2018/19 is an actual ‘flat cash’ settlement i.e. the Police Grant received by the PCC for 2018/19 will be exactly the same as that received in 2017/18.
- 5.8. The Minister of State for Policing and Fire set out the following in his letter to PCCs on the 19 December 2017:
- ‘In the last two years, the Government maintained broadly flat cash force budgets by reducing Government grant as precept increased. Had we taken that approach to the 2018/19 settlement, Government grant would have reduced by over £60m. Given the increasing demands on you, I have decided not to take that approach. **Instead, we are protecting Government grant. This means in 2018/19, each PCC will receive the same amount of core Government grant funding as they did 2017/18.**’*
- 5.9. Whilst the preference remains for a new national fairer funding formula to be implemented as a priority, this shift in the grant settlement to a true ‘flat cash’ position is welcome, and is recognition of the extensive lobbying by the PCC and colleagues as to the serious risks facing the

delivery of policing as a result of continuous grant settlement reductions and restrictions on the level of precept which could be raised without recourse to a referendum.

- 5.10. It should also be noted that whilst welcome, the 'flat cash' position for 2018/19 still represents a real reduction in spending power, as 'flat cash' ignores the impact of inflation, pay awards, and the demand pressures experienced by and needing to be absorbed within the overall budget.

Police Grant Beyond 2018/19

- 5.11. The Minister of State for Policing and Fire Services set out in his letter to PCCs on the settlement on the 19th December that:

*'In order to assist more efficient financial planning, we want to give PCCs and Chief Constables greater visibility on plans for 2019/20. **Our intention is to maintain a broadly flat police grant in 2019/20 and repeat the same precept flexibility to allow PCCs to raise an additional £1 a month of local precept in 2019/20. However this is dependent on the police delivering clear progress against agreed milestones on productivity and efficiency in 2018.**'*

- 5.12. Whilst the Minister has indicated that the 'flat cash' settlement position **may** be repeated for 2019/20, at this stage this is a caveated offer requiring progress against agreed milestones for the delivery of efficiencies and transformation in Policing. As a result, welcome though the potential might be, it cannot be guaranteed.

- 5.13. The MTFs does not therefore include an assumption around continued 'flat cash' Police Grant in 2019/20; the assumption remains in line with previous forecasts, which is a 1.3% per annum reduction to the Police Grant.

Capital Grant

- 5.14. Capital grant has been included within this budget report.

Ministry of Justice Grant

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

Council tax Freeze Grant

- 5.16. In the current year the PCC is in receipt of Council tax Freeze Grant relating to 2011/12 of £2.520m. The continuation of this grant has been confirmed for 2018/19, and has been assumed to be continued for the duration of the MTFs.

Council tax Support Grant

- 5.17. The PCC will continue to receive council tax support grant in 2018/19 of £10.424m, which is equivalent to 10% of the council tax precept in 2012/13, to reduce the impact of the loss of council tax precept expected from lower council tax bases as a result of the changes to council tax support made in 2013/14. Decisions taken by local billing authorities regarding council tax support has a direct impact on the council tax base, and therefore on the amount of precept that the PCC will receive.

6. Council tax Precept

- 6.1. Each year the Government sets a referendum limit; the limit in recent years for most PCCs has been a maximum 1.99% increase
- 6.2. In a significant shift in policy, the Minister of State for Policing and the Fire Service announced that:
‘we received representations from a number of PCCs asking for more precept flexibility. In 2018/19 PCCs will be able to increase their council tax precept levels by £12 before the need to call a local referendum. This gives PCCs the flexibility to make the right choices for their local area to protect frontline services.’
- 6.3. Whilst the PCC welcomes the flexibility provided through the settlement to allow a precept increase of up to £12 per annum for a Band D property, and recognises that a £12 precept increase would allow a significant easement to the overall financial position, he is acutely aware that this easement can only be achieved through raising taxation locally; the fundamental issue of the PCC being underfunded through the national funding formula remains, with no remedy via a fairer national funding formula seemingly any closer to being achieved.
- 6.4. Any precept increase above the referendum limit of £12 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 £12.
- 6.5. As the referendum limit is an increase of £12, this means that PCCs with precepts that are already high will be able to put their precept up by the same cash increase as PCCs with a lower precept. This is perverse and serves to maintain the funding inequality gap between PCCs.
- 6.6. Since 2013/14, precept increases in Hampshire have been approved at the maximum amount permitted within the referendum limit, which is in line with Government policy. This has partially mitigated the impact of the grant reductions, although significant savings have still been required and delivered.
- 6.7. The PCC’s proposal is for a £12 increase in his council tax precept for 2018/19 (for a Band D property).
- 6.8. The current Band D council tax precept for Hampshire Constabulary is £165.46, which is the 12th lowest in the country. If the PCC was to increase the Band D precept by £12 per annum, and all other PCCs maintained their precept at their existing level (i.e. implement no increase to the precept from 2017/18), the Hampshire precept would still be less than the average for PCCs across England.
- 6.9. 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 £12 per annum, as shown below:

2018/19		Increase			Number of Households	%	Number of Households Bands A - C	
		Per Year	Per Month	Per Week				
Band:	A	£118.31	£8.00	£0.67	£0.15	105,864	12.74%	12.74%
	B	£138.02	£9.33	£0.78	£0.18	180,336	21.71%	21.71%
	C	£157.74	£10.66	£0.89	£0.20	217,573	26.19%	26.19%
	D	£177.46	£12.00	£1.00	£0.23	141,368	17.02%	
	E	£216.90	£14.67	£1.22	£0.28	96,228	11.58%	
	F	£256.33	£17.33	£1.44	£0.33	54,271	6.53%	
	G	£295.77	£20.00	£1.67	£0.38	31,587	3.80%	
	H	£354.92	£24.00	£2.00	£0.46	3,405	0.41%	
Total						830,632	100.00%	60.65%

6.10. The breakdown of the Hampshire precept by council tax band is shown in further detail in Appendix C, including how the precept in the current year compares with those of other PCC areas. The table below shows for a range of precept increases (up to the maximum of £12) the level of precept income which can be raised.

Comparison of Band D precept increase options

Precept increase	18/19 Band D precept (£)	Total precept (£)
Band D zero%	165.46	112,486,100
Band D 1.99%*	168.75	114,722,800
Band D £12	177.46	120,644,200

* the planning assumption in the draft MTFs shared with the PCP Finance working group was 1.99%

6.11. In considering the precept options available, and whether or not to use the new flexibility allowing a £12 precept increase, the PCC has given consideration to the extent to which the final proposed precept increase enables the delivery of the priorities in his Police and Crime Plan to keep people safer, and enables the four priorities of the plan which include ensuring that the Chief Constable is able to deliver modern operationally effective policing.

6.12. The PCC has also given due consideration to the consequences of setting a lower precept; the original planning assumption had been for a 1.99% increase.

6.13. If the PCC only increases the precept by 1.99%, instead of by the proposed £12, it is clear that:

- significant further savings would be required to balance the budget over the next 3 years; specifically £5.5m reductions to local policing (potentially the equivalent of up to 120-150 less people² policing in

² Source: Hampshire Constabulary

our communities – subject to further development of the exact criteria and a balancing of people costs with equipment and support cost measures) would have been required to be brought forward for delivery in year 3 (2020/21), with the resultant impact of reducing the Chief Constable's ability to support the Commissioner in the delivery of his plan which is to keep people safer.

- the significant and essential investment of £12m required over the next 3 years in technology, IT infrastructure and digital, in order to ensure that the Constabulary remains a modern, operationally effective police service, would have led to further difficult choices and additional savings having to be made, as the current unallocated funds available within the Transformation Reserve (£7m) are insufficient to meet the investment required. Importantly, a £12 increase in 2018/19 enables this one off investment of £12m and associated ongoing revenue costs of £4.6m to be fully funded from within the revenue budget and applied to the necessary modernisation of IT systems.

6.14. In proposing a £12 precept increase, the PCC has also taken account of the feedback to date from his Precept consultation, which has shown significant support for a precept increase.

6.15. The PCC has concluded, following consultation with the Chief Constable, and having due regard to her recommendations on options for the delivery of modern, operationally effective policing, which best sustain keeping residents safer, that increasing the Band D precept by £12 per annum provides the best opportunity to ensure that the residents of Hampshire and the IOW are kept as safe as possible.

Council tax Precept increase beyond 2018/19

6.16. In addition to announcing precept flexibility for 2018/19, Nick Hurd MP, Minister of State for Policing and the Fire Service, set out as part of the settlement that:

*'in order to assist more efficient financial planning, we want to give PCCs and Chief Constables greater visibility on plans for 2019/20. Our intention is to maintain a broadly flat police grant in 2019/20 **and repeat the same precept flexibility to allow PCCs to raise an additional £1 a month of local precept in 2019/20. However this is dependent on the police delivering clear progress against agreed milestones on productivity and efficiency in 2018**'.*

6.17. Whilst this further flexibility is welcomed, there is no guarantee beyond 2018/19 on the level of the maximum Precept increase; in considering setting his budget and Precept for 2018/19, and in setting out his MTFS to 2021/22, the PCC can only base his decisions and forecasts on the certainty presented by the 2018/19 settlement.

6.18. This MTFS is therefore based on an assumed precept increase of £12 per annum in 2018/19, and increases of 1.99% per annum from 2019/20 to 2021/22.

7. The MTFS 2018/19 – 2021/22: Other Assumptions

7.1. The MTFS for 2017/18 to 2021/22 is shown at Appendix D of this report. It provides a forecast of the financial position over the next four years, plus a firm indication of the position for the 2018/19 budget. The future years' forecast can be used to assist in the decision making for the 2018/19 budget and other processes during the year.

Government Grant

7.2. No firm information is currently available on the budget settlement for 2019/20 or beyond; estimates have therefore been included within the projections based on previous Government statements and proposed allocations to the Home Office by the Treasury, and assume a continued 1.3% reduction in Police Grant per annum.

There is an indication that the Government may continue with a further 'flat cash' settlement in 2019/20, which would mean that the Police Grant would not reduce but be maintained at its 2018/19 level; however, as set out earlier in this report, there are caveats attached which mean that 'flat cash' is not guaranteed for 2019/20. For this reason, for planning purposes, the MTFS still reflects a 1.3% reduction in Police Grant.

The position will of course continue to be reviewed, and the MTFS updated accordingly should the position firm up around a continued 'flat cash' Police Grant and Precept flexibility for 2019/20.

Inflation and Pay

7.3. Inflation has been included where necessary. The budget includes provision for inflation for contract spend and other areas where inflationary increases are expected to be unavoidable.

7.4. The inflation assumptions applied are shown in Appendix A. In some cases such as cleaning, inflation factors will be known as they are included within multi-year contracts. In most cases inflation is unknown. A default rate of 2.0% has been used where inflation is unknown, in line with the Bank of England target rate.

7.5. The most significant inflation value is the pay award. The Chancellor's budget in November 2017 removed the public sector pay cap of 1%.

7.6. In December 2017, local government employers offered a 2 year pay award for local government staff of 2% per annum.

7.7. Discussions have taken place nationally within policing and it has been agreed that it is sensible to provide for a 2% increase in pay for police personnel. Pay awards in policing are implemented with effect from 1 September each year so the first 2% per year pay award would be from 1 September 2018.

- 7.8. The full year cost of a 2% pay award for all personnel is £5m, and the extra 1% assumption (compared with the MTFS assumption of a 1% pay award) has therefore added an additional incremental cost to pay of £2.5m per annum.
- 7.9. In addition to the above, the 2018/19 budget must absorb the second half of the 2017 pay award that awarded officers a 1% pay increase with an additional 1% unconsolidated (non-pensionable) payment.
- 7.10. The value of sterling does have the potential to increase inflation for items procured from foreign countries, most notably technology solutions from the USA and building supplies. Therefore, additional budgetary pressure could be caused by inflation.

Pension Costs

- 7.11. There continues to be some uncertainty over future pension costs. The Police staff scheme contributions were increased as part of the 2017/18 budget and further increases have been built into the MTFS. Increased contributions for the Police Officer schemes are also expected, but no information is currently available. An amount of £1m has therefore been estimated and added to the budget for 2019/20 onwards.

MTFS Position

- 7.12. The MTFS at Appendix D includes a significant assumption that savings of £24.75m are delivered, which enables the budget to be balanced over the 4 year period, based on the assumption of council tax precept increases of £12 per annum for 2018/19, and 1.99% per annum for 2019/20 onwards.

Cost Pressures, Growth and Contribution to Reserves

- 7.13. 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.
- 7.14. There are significant pressures/growth items included in the 2018/19 budget and later years, which are predominantly technology costs required to replace existing, outdated and increasingly unsupported, technology or to introduce new technology being implemented nationally in order to move toward the Policing Vision 2025.
- 7.15. The budget pressures and contribution to reserves for 2018/19 shown in the summary at Appendix D total £11.664m. The table below breaks these costs down to enable further description of the nature of the expenditure and to show the ongoing costs:

	2018/19	2019/20	2020/21
Capital/one-off	£m	£m	£m
ICT & Digital Strategy	5.312	4.112	2.642
Tasers	0.232	0.000	0.000
People Strategy	0.425	0.042	0.004
Sub-total capital/one-off	5.969	4.154	2.646
ICT & Digital Strategy	1.159	2.057	2.434
ANPR	0.513	0.513	0.513
Ill health retirements	0.500	0.500	0.500
Commissioner's Reserve	1.140	1.140	1.140
Sub-total revenue	3.312	4.210	4.587
Contributions to reserves	2.383	0.250	-1.245
Total	11.664	8.614	5.989

OPCC

- 7.16. In the original Budget and Precept report recommended to the Police and Crime Panel on 26th January 2018, the report set out that the budget included an additional £0.440m for the Office of the Police and Crime Commissioner to pay for essential staff; a significant element of this figure (£280k) was to fund the ongoing delivery of the PCC's Police and Crime Plan (PCP). In previous years the PCP has been funded by a draw from reserves on an annual basis. As reserves reduce to fund necessary investment, it is no longer feasible or desirable to fund the delivery of the PCP from reserves, and hence an allocation had been provided for within the revenue budget.
- 7.17. The remaining increase in the budget was to ensure that sufficient resources are in place to fund the necessary support to the Commissioner (e.g. provision for a Deputy or Assistant PCC, and Executive Office).
- 7.18. Given the Panel's revised recommendation (as set out in para 2.25), the Police and Crime Commissioner is now reviewing how best to proceed (as much of the proposed spend is a continuation of funding previously drawn down from reserves and funds existing staff resource), and has therefore determined that he will not include the £440k within the OPCC revenue budget for 2018/19, and that the sum of £440k will be added to reserves pending further deliberation by the PCC.

Commissioning

- 7.19. In the original Budget and Precept report recommended to the Police and Crime Panel on 26th January 2018, the report set out that the budget included a sum of £700k for Commissioning, as set out in the paragraphs below.
- 7.20. When the Office of the Police and Crime Commissioner was created in 2012, funding was received through the Safer Communities Fund to deliver commissioning. The funding was transferred from existing grants from central government that were already sustaining local organisations, but was top-sliced by 25%.

- 7.21. Consequently, the Police and Crime Commissioner created a fund within reserves to pay for the additional 25% (£0.5m pa) to avoid disinvesting in the commissioning of local services. That reserve is now fully committed and there remains an ongoing need for the Police and Crime Commissioner to commission services.
- 7.22. The report to the Police and Crime Panel set out that £0.7m was proposed to be provided for within the revenue budget to support commissioning on a sustainable and visible basis, enhancing transparency and appropriate debate. This amount will now go to reserves pending the outcome of the review of commissioning begun immediately on completion of the most recent Police & Crime Panel meeting.
- 7.23. Given the Panel's revised recommendation (as set out in para 2.25), the Police and Crime Commissioner is now reviewing how best to proceed (as much of the proposed spend is a continuation of funding previously drawn down from reserves to fund existing Commissioning commitments), and has therefore determined that he will not include the £700k within the OPCC Commissioning budget for 2018/19, and that the sum of £700k will be added to reserves pending further deliberation by the PCC.

Technology and ICT

- 7.24. The Police and Crime Commissioner and Chief Constable are committed to making the best use of technology to provide better quality services to the public and to take advantage of the efficiencies that are available.
- 7.25. A total of £6.472m is provided for the ICT Roadmap and Digital Strategy.
- 7.26. In the Police Grant Report the Minister specifically references the investment that has already taken place in technology and also the need to continue to invest in new technology. One of the three clear priorities to achieve that the Minister sets out in the report is:
- “A modern digitally enabled workforce that allows frontline officers to spend less time dealing with bureaucracy and more time preventing and fighting crime and protecting the public. If all forces could deliver the same one hour per officer per day of productivity benefits from mobile working as the best in a recent sample with eight forces, that has the potential to free up the equivalent of 11,000 extra officers nationally to provide the proactive policing that committed police officers want to deliver.*
- We will work with policing to set up a specialist team to make sure all police forces have access to, and make use of, the best mobile working apps to enable forces to free up extra hours to spend at the frontline.”*
- 7.27. Therefore, there is a requirement to provide funding within the budget to maintain existing technology that is already delivering more effective and efficient ways of working, as well as new funding to meet the need to keep pace with new technology becoming available as part of the

nationally co-ordinated efforts to roll out more digital solutions to free up officer time.

- 7.28. The PCC and Chief Constable recognise the importance of technology and have prioritised investment in order to reap the benefits that will improve the service to the public, make processes simpler for personnel, meet the Minister's strategic priorities, and continue to drive efficiency and, importantly deliver increased effectiveness in protecting communities.
- 7.29. **ICT** - the ICT Roadmap (sub-total £4.116m) sets out additional funding required to be built into the budget for essential replacements. The technology must be replaced in order to keep up to date, but the newer versions of technology also offer more opportunities that can be exploited for further efficiencies.
- 7.30. For example, the replacement of mobile devices (laptops, phones, body worn video) that are now used to deliver core services requires £1.346m funding in 2018/19. There is £0.678m included for the upgrade of operating systems to Windows 10 to ensure that security remains up to date and that access to the police national systems can continue. There is a further £0.678m included for the introduction of Office 365 as part of the National Police Technology Council roll-out, which will require all forces to use Office 365 in order to share information better. The refresh of servers and infrastructure is budgeted at £0.516m. There is £0.450m to provide for additional storage for the High Tech Crime Unit due to the increase in data that must be examined and stored for evidential purposes. Provision for additional storage for the wider force is included at £0.200m.
- 7.31. **Digital** - the Digital Strategy (sub-total £2.356m) seeks ways of introducing new technology to deliver benefits in the way that services are delivered. For example, £0.683m is budgeted for the introduction of Digital Evidence which is a national strategy that will allow evidence to be stored and exchanged with partner agencies.
- 7.32. A further £0.584m is provided for digital contact, including piloting the new national digital online services which will deliver an enhanced customer service and create efficiencies in future years as some transactional services can be moved to make greater use of digital capability. This investment will allow more convenient methods of communication with the public including social media.
- 7.33. There is £0.315m for digital architecture and governance to adopt, create and manage rules that will define common data standards, how data is held and how data is used. The allocation includes £0.310m for the "Two Way Interface" known as TWI that will be required to send and receive data held in the crime recording system (Niche RMS) to and from courts.
- 7.34. The strategy includes £0.176m for a single instance of gazetteer. This will mean that all systems will use the same gazetteer to record and plot addresses (e.g. incident locations). A further £0.156m is included for the technology elements of introducing the new National ANPR System

(NAS). The ANPR (auto number plate recognition) technology can be used to identify vehicles that should not be on the road and provide vital intelligence.

ANPR

- 7.35. A further £0.513m is included to provide for more ANPR cameras across the road network and to set up joint working practices with Thames Valley Police to increase the range of capability and sharing of assets.

Ill Health Retirements

- 7.36. The annual revenue budget of £0.500m for ill health retirements has been consistently overspent in recent years. The number of ill health retirements is inherently difficult to predict but the spend in 2017/18 is again over budget. In recognition, an increase of £0.5m to the budget is required, as a minimum. Should the budget be underspent in 2018/19, any underspend can be used to create a sinking fund that may assist costs in future years.

Taser

- 7.37. The current Taser device (X66) is being replaced by the manufacturer so all Tasers will need to be replaced and all Taser users will need to be retrained to use the new device (X2). The estimated cost is £0.232m in 2018/19.

People Strategy

- 7.38. As part of the transformation of policing services the PCC and the Constabulary recognise the vital importance of the workforce and the need to invest in the workforce to ensure it remains modern and operationally effective.
- 7.39. Recognising this need, the budget includes funding for an updated People Strategy which sets out how people could be recruited, trained and assisted to be the policing personnel required for the future. Three elements of the strategy that have been prioritised for investment. They are matching resources to demand (£0.069m), developing professional skills (£0.099m) and planning for the introduction of the new qualification framework being developed by the College of Policing (£0.007m). Profiling this continued work across the MTFS will be a continuing & developing programme to connect the local initiatives with national strategic programmes.
- 7.40. In addition £0.250m is included under this heading for the Human Resources support costs to deliver the efficiency savings in 2018/19.

Funding Growth through Reserves

- 7.41. A contribution to reserves of £2.383m is provided for in 2018/19, to be drawn down over the next 2 years to fund the future costs of the budget pressures outlined above. So for example, the roll-out of Windows 10 is estimated to cost £0.678m in 2018/19 but a further £1.356m in 2019/20 to complete the task. The roll-out of Office 365 as part of the national programme is estimated to cost a further £0.339m in 2019/20. There are other commitments associated with device replacement and the digital

strategy which will require funding beyond 2018/19 which will also be a draw on the £2.383m contribution.

- 7.42. In addition to the £2.383m outlined above, a total sum of £1.140m (£0.700m provisionally earmarked for commissioning and £0.440m provisionally allocated for essential costs within the Office of the PCC) will be contributed to reserves pending a review of the best use of those funds.

Future Cost Pressures and Growth Items

- 7.43. The MTFs at Appendix D allows within the budget for a recurrent £2m to fund cost pressures and growth per annum (incremental each year from 2019/20, so an additional £6m by 2021/22).

8. Savings

- 8.1. The proposed increase in precept of £12 for a Band D property for 2018/19, followed by precept increases of 1.99% each year 2019/20 – 2021/22, will still leave a requirement for budget reductions to be made in order to balance the budget.
- 8.2. The summary MTFs at Appendix D shows that significant savings of £24.75m are required over the next 4 years to balance the budget in the medium term, with £8.15m of those savings required next year (2018/19). In addition, further indicative savings of £16.6m have been identified over the period 2019/20 through to 2021/22, which would deliver a balanced budget each year through to 2021/22:

	£M
MTFS budget shortfall 18/19 – 21/22	24.75
Savings identified 2018/19	(8.15)
Savings identified 19/20 – 21/22	(16.6)
MTFS Budget shortfall to 2021/22	0

- 8.3. The proposed savings take account of the fact that the policing elements of the budget were agreed in full consultation with the Chief Constable and based on her assessment of the requirements to deliver the most effective operational policing, efficiently within budget.
- 8.4. It should be noted that a precept increase lower than £12 per annum would require additional savings to be delivered in 2018/19 over and above the £8.15m; an increase of 1.99% would require an additional £6m of savings, whilst a 0% precept increase would require an additional £8m of savings in 2018/19.

8.5. A summary of the 2018/19 savings is shown below:

Saving	£m
Operational Business Review	6.250
Forensics	0.500
Estates	0.307
Zero Based Budgeting Review	1.093
Total 2018/19 Savings	8.150

Operational Business Review

- 8.6. The Force Development Programme was set up to identify and deliver the changes necessary to make efficiencies over the years to 2020/21.
- 8.7. This programme of work continues to identify opportunities for efficiencies and savings across the Force to fill the funding gap and also to improve services and reinvest in priority areas where possible.
- 8.8. The Constabulary has undertaken a comprehensive review of all expenditure with the assistance of external partners such as Deloitte and Process Evolution to identify opportunities for more efficient practices and budget reductions. The work with Process Evolution has created a demand forecasting model which means that the Constabulary is able to predict demand and arrange supply to meet that demand in the most efficient manner.
- 8.9. The work with Deloitte created a long list of over 200 savings opportunities which have been explored. The savings included for 2018/19 are deemed by the Chief Constable to be those that have the lowest operational impact on risk to the public and relatively low complexity so that they can be delivered during 2018/19. However, it must be recognised that the extent of the budget reductions will reduce personnel numbers which will reduce capacity and resilience. This is mitigated by the investment in greater use of technology to allow personnel to be both better supported and more efficient.
- 8.10. This work has been subject to detailed scrutiny and oversight by the Police and Crime Commissioner jointly with the Chief Constable and her senior team.
- 8.11. Most of the budget is spent on employee related cost and non-pay budgets have been subject to great scrutiny and regular market testing since 2010. Therefore, with most non-pay options taken, the majority of budget reductions relate to pay budgets. Total budget reductions of £6.250m in 2018/19 are planned to be delivered from the Operational Business Review, but are subject to due process and consultation before final implementation.
- 8.12. This requires budget reductions to be made to service areas as set out below. The total full year effect of the savings outlined is £6.962m but because of the time required for meaningful consultation, training

requirements and the potential for changes to be made during consultation, the budget reduction for 2018/19 is included as £6.250m.

The full year effect of the savings included from the Operational Business Review are included from 2019/20 onwards, and are shown in the table below. Any significant changes made to savings through the consultation and delivery period will impact on the 2018/19 financial year and beyond:

Initiatives	Savings £m	Police officer reduction	Police Staff reduction
Crime Reporting Bureau	0.421	0	15
Forensic Resource Management Unit (FRMU)	0.164	0	5
Marine Unit – vacancies only	0.086	2	0
Roads Policing Unit	1.000	20	0
Roads Policing Unit Intelligence	0.089	0	2
Dog Unit	0.368	15	0
Force Support Unit	1.515	27	0
Firearms Cadre	0.264	4	0
Dedicated Source Unit	0.439	7	1
Hampshire Surveillance Unit	0.506	12	1
Intelligence functions	1.009	16	4
Force Custody	0.549	5.5	7
Evidence Management	0.339	0	10.5
ID Suite Team	0.213	0	7
Totals	6.962	109.5	52.5

8.13. The risks and impacts of each of the proposed changes have been documented within the Operational Business Review. In some cases, the reductions are to a greater extent already in operation due to the carrying of vacancies so there is a reduction in the budgeted establishment but a much lower (or nil) reduction in actual personnel so the risks, impacts and mitigations are well understood.

8.14. The Chief Constable, supported by her team, will ensure that mitigations are in place to reduce the impact of these changes and investment in new technology will greatly assist with delivering some services differently so that services can be enhanced, for example in the way that intelligence is gathered, analysed and reported. The budget for 2017/18 included an uplift for Armed Response Vehicles which can assist to mitigate some of the reductions, most notably in relation to Roads Policing Unit which has been operating with vacancy levels close to the value of the budget reduction since the uplift to Armed Response Vehicles.

Other Savings 2018/19

8.15. **Forensics** - A project undertaken to re-tender outsourced forensic examination costs will result in efficiency savings of £0.500m with no expected detrimental impact on service levels.

- 8.16. **Estates** - The Estates Strategy approved by the Police and Crime Commissioner will contribute a revenue budget saving of £0.307m in 2018/19 as a result of reducing the estate (rising to circa £2m by 2021/22).
- 8.17. **Zero Based Budgeting** - Savings of £1.093m have been achieved through a comprehensive Zero Based Budgeting exercise that makes relatively small individual changes to a high number of individual budget lines, where analysis of expenditure during the financial year indicates the small efficiencies are deliverable.

Later Year Savings

- 8.18. Further indicative savings have been identified in order to balance the budgets in future years. The figures include further savings in 2019/20 of £5.638m and £4.991m in 2020/21. That equates to further savings of £10.629m over the two financial years and would require further reductions in personnel to deliver. The Force Development Programme is developing outline plans as to how those savings would be delivered.
- 8.19. The 2021/22 forecast assumes a further £5.971m of potential savings will be delivered to achieve a balanced budget in 2021/22 (of which indicative savings of £5.5m are currently proposed in local policing; total savings over these later 3 years amounts to £16.6m).
- 8.20. The PCC will continue to work with the Chief Constable to ensure all available options to reduce expenditure and increase income are considered; but he has set his clear intention that Operational Effectiveness is an essential goal and risk to this and necessary future change and innovation programmes should be articulated alongside the actions needed to stay within cash limits and produce a balanced budget.

Staff Impact

- 8.21. Where the savings potentially involve reductions in staff and officer numbers, work will be undertaken by HR and Finance, in line with the People Strategy, to ensure that timescales are realistic and target establishment levels are built into the forecast for future years.

9. Capital Programme including Estate Development Programme

- 9.1. The Capital Programme is set out in Appendix E, and includes approved capital schemes.
- 9.2. The cost of financing the approved capital expenditure is included within the revenue budget calculations for capital financing for approved items.
- 9.3. The Estates Change Programme (ECP) is subject to regular review to ensure that the Estate is fit for purpose. The PCC has recently published the latest approved update to the ECP which now includes a forecast revenue saving of £2m per annum by 2021/22. Savings have been included in future year forecasts based on the current Estates Strategy. They fluctuate across years as some buildings are decommissioned and new accommodation is built or leased.

- 9.4. The PCC and Chief Constable are seeking to ensure that officers, staff and the public are served by modern technology that maximises effectiveness and efficiency. The capital programme includes a number of technology projects as part of the ICT and Digital Transformation Programme, including the ICT Roadmap and Digital Strategy.
- 9.5. In addition, RMS upgrade and the Emergency Services Mobile Communications Programme (ESMCP) have been included in the capital programme, funded from the Transformation Reserve. These key projects with operational and financial impact beyond the Constabulary area are major funding obligations that carry not insignificant risk of increased cost in delivery and potential delay in implementation from the original planned timescales.

10. Reserves and Financial Stability

- 10.1. The PCC continues to use reserves to pay for the cost of change that is required to meet both the financial challenge and the necessary investment to ensure that the Constabulary remains a modern, operationally effective Police Service, innovating and changing for the future, to meet the PCC's requirement to reduce crime and protect our communities.
- 10.2. The level of reserves continues to be reviewed by the PCC, Chief Finance Officers and auditors to ensure that suitable reserves are in place to mitigate and manage the risk of the financial challenges faced, and to ensure that reserves are not unnecessarily held to the extent that is detrimental to current service delivery. The level of reserves required and the intended use of those reserves is reviewed on a regular basis.
- 10.3. Whilst there is much noise in the system that, nationally, PCC's are sat on significant reserves, the reality is that reserves are necessarily and appropriately held as part of good strategic financial management and are a key element in supporting the PCC's medium term planning and Medium Term Financial Strategy. Reserves held by the PCC are reducing, and are likely to reduce further in the medium term.
- 10.4. Reserves are also a one off resource, which unless replenished, can rapidly diminish.
- 10.5. In the medium term there is significant financial stress in the system to be managed, including:
 - i) managing the impact of declining government funding against a back drop of increasing demand
 - ii) funding necessary investment to deliver the PCC's ambition in relation to delivery of the Police and Crime Plan and commissioning of services
 - iii) the consequences of national programmes (e.g. ESMCP) which require a local funding stream for delivery of its outcomes as well as being subject to growing needs for top sliced contributions to deliver the national infrastructure.

- iv) the significant investment required to embrace an ever evolving technology and digital landscape.
 - v) the investment required to ensure that the Constabulary remains modern and fit for purpose, ahead of those who wish us harm and are engaged in criminal activities using technology as the vehicle.
- 10.6. In view of the cost pressures faced by the PCC and the Constabulary, in the medium term there is likely to be a significant call on reserves to fund one off pressures, initiatives and investment.
- 10.7. The two main reserves available to the PCC to fund these cost pressures are the General Reserve and the Transformation Reserve.
- 10.8. **General Reserve** – this is the main reserve held to manage unidentified and unforeseen risk. The PCC CFO is required to set a minimum level for the General Reserve, and this is currently set on a risk basis at £5.5m. This reserve is currently £3.5m above the minimum level.
- 10.9. **Transformation Reserve** – this reserve was specifically set up to recognise the significant investment required to deliver transformational change, support the significant investment requirements linked to technology development and digital initiatives, and to provide a buffer to help manage the budget in the medium term at a time when the PCC’s funding is being significantly reduced.
- 10.10. These programmes generally impact over more than one financial year, and allocating funds to ensure reliable delivery of the programmes and their outcomes makes prudent sense in a time when budgets continue to be based on annual settlements.
- 10.11. The Transformation Reserve has a current balance of £20m which, net of known earmarked funding for specific initiatives, has circa £7m available to fund future cost pressures, initiatives and investment. This is illustrated below:

Transformation Reserve

	£m
Current notional* unallocated balance	20
Known Initiatives which will require funding:	
ESMCP	(7)
Force Development	(5)
RMS Upgrade	(1)
Remaining Balance	7

*notional unallocated balance as there are known initiatives – as shown - which will require funding but for which the PCC has yet to make a formal decision to allocate funding from the Transformation Fund.

- 10.12. In recommending a precept increase for Band D of £12 per annum, the PCC has been able to fund the current priority growth/pressure items from within the revenue budget over the next 4 years.

- 10.13. This allows the draw on reserves to be reduced, and the current level of the Transformation Reserve to be protected (net of the earmarked projects already agreed), with the remaining balance available for future utilisation to fund the required ongoing change and transformation which the Constabulary will be required to deliver in later years of the MTFS; there is already a significant pipeline of projects which due to funding constraints have not been prioritised for inclusion in the current budget/MTFS, but will need to be continually reassessed and prioritised for future investment.
- 10.14. 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 continue to be needed to deliver the PCC's outcomes to keep people safer; in his letter to PCCs the Minister of State for Policing and Fire and Rescue set out that:
- 'the protection offered by this settlement must be matched by a serious commitment for PCCs and Chief Constables to reform and improve productivity and efficiency to deliver a better, more transparent service to the public, that can meet the demands it faces today and in the future.....I expect police leaders to deliver clear and substantial progress on productivity and efficiency.....we also need to take advantage of the opportunities offered by mobile technology'*
- 10.15. It is clear that to meet the Minister's aspirations, and no less importantly those of the PCC and Chief Constable, which is to ensure that the Constabulary continues to be a modern, operationally effective Police service, that ongoing investment to support transformation and keeping up to date with technology will be required.
- 10.16. The CFO's assessment is therefore that, for the Hampshire Constabulary Area, far from being sat on significant unwarranted reserves, that the level of transformation reserve available will potentially be insufficient to meet the ongoing requirement for one off expenditure to meet future cost pressures, initiatives and investment in the medium term.
- 10.17. There will be a contribution to the Commissioner's Reserve of £1.140m in 2018/19 onwards pending the review of how those funds are best used to support the priorities set out in the Police and Crime Plan.
- 10.18. The Reserves Strategy is set out in Appendix F.

11. Partnerships

- 11.1. A number of partnerships are supported across the Force. These include the ACPO Criminal Records Office (ACRO) which is funded by the Home Office, NPCC, fees and European funding. Staff at ACRO are officially employed by the Chief Constable. The costs of supporting ACRO are recharged. In addition, a surety is held in reserves to guard against any liabilities.

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

12. Consultation

12.1. Public consultation is undertaken on an ongoing basis by the Police and Crime Commissioner. In addition, and specifically in relation to the council tax precept, consultation is undertaken via an independently facilitated event and through an online survey on the PCC's website. The results of the consultation are considered by the Police and Crime Commissioner before deciding the proposed council tax precept.

Online consultation

12.2. A total of 4,306 people completed the online survey.

12.3. The online survey asked whether individuals would support precept increases at differing levels from 'up to £5 per annum' to 'up to £75 per annum'. This shows that (excluding those who chose 'other') 75% of respondents would pay £10 or more, and nearly half (46%) would pay more than £10 up to £75.

12.4. This is further complicated as 61% of households are in Band A-C (as seen in 6.9), as this means that a significant number of households would have an actual annual precept increase of less than £12 under the proposals (as the £12 increase is only for a Band D property).

The figure residents would be willing to contribute	Number of respondents	% of respondents	% without 'other' category
Up to £5 per year	681	21.44%	24.66%
Up to £10 per year	799	25.16%	28.94%
Up to £20 per year	454	14.29%	16.44%
Up to £25 per year	349	10.99%	12.64%
Up to £50 per year	343	10.80%	12.42%
Up to £75 per year	135	4.25%	4.90%
Other	415	13.07%	
Total	3,176	100.00%	100.00%

The online survey closed on Monday 22 January.

Public Consultation Events

12.5. The independently facilitated public consultation exercise was undertaken on 13 January 2018. The Office of the Police and Crime Commissioner selected consultation company Westco to deliver the facilitated groups through a Marketing and Advertising Framework Agreement established by Hampshire County Council in 2016. The framework which the OPCC have full access to use, provided a

compliant and efficient route to obtaining the required service. Westco were selected in accordance with the mechanisms and best value terms of use set out in the Framework Agreement.

- 12.6. Two consultation events were held on 13 January 2018, one in Basingstoke and one in Netley for residents across the Hampshire Constabulary Policing area. 119 participants attended across both events, representing a full demographic cross section of Hampshire, Isle of Wight, Portsmouth and Southampton residents. The attendees were selected to be demographically representative across the area the PCC represents, including geographically, economic activity, ethnicity, and disability. Being demographically representative is a key part of the events' value and gives them credibility in informing the precept setting.
- 12.7. Both events followed the same format. Participants received presentations by the Police and Crime Commissioner, Chief Constable and Chief Finance Officers for the Police and Crime Commissioner and for the Constabulary on the budget. These presentations set the context around the proposed increase in policing precept giving a detailed background to the budget, how the budget is spent and the impact of a £12 increase in the precept per year in council tax for a Band D household.
- 12.8. The presentations were followed by independently facilitated focus groups, to allow attendees to give more detailed thoughts on the proposals.
- 12.9. During each event, two polls were conducted, the first to gauge the attendees' initial thoughts (which was held on arrival and before hearing the presentations), with the second one held following the presentations to gauge more informed views. The question and the initial response is shown below:

Initial response to “The Commissioner is proposing to increase the amount of council tax precept by £12 per year, £1 per month. Would you be willing to pay £12 increase per year?”

Responses From Netley Event		
	Percent	Count
YES	79%	52
NO	9%	6
DON'T KNOW	12%	8
Totals	100%	67

Responses From Basingstoke Event		
	Percent	Count
YES	78%	36
NO	20%	9
DON'T KNOW	2%	1
Totals	100%	46

12.10. Having understood the context as a result of the presentations, the public were more accepting of the planned £12 increase as can be seen from their updated second response below:

Considered response to “The Commissioner is proposing to increase the amount of council tax precept by £12 per year, £1 per month. Would you be willing to pay £12 increase per year?”

Responses From Netley Event – Considered Response		
	Percent	Count
YES	88%	59
NO	9%	6
DON'T KNOW	3%	2
Totals	100%	67

Responses From Basingstoke Event - Considered Response		
	Percent	Count
YES	82%	38
NO	9%	4
DON'T KNOW	9%	4
Totals	100%	46

13. Risks

- 13.1. There is a risk that increases in top-slices, reductions in grant, inflation or new additional expenditure will be greater than forecast, hence further savings could be required. The position will continue to be closely monitored.
- 13.2. There is a risk that partner agencies could reduce or withdraw their services which puts additional financial pressure on the police service.
- 13.3. There is also a risk that some activities and funding could be moved to a regional or national basis that would remove funding for the Hampshire Policing Area. No adjustments have been made to reflect that risk, so it is currently assumed that any loss of funding will be matched by a reduction in responsibilities that would also be transferred elsewhere. However, there could be a risk that the removal of funding causes a financial difficulty that needs to be managed locally.
- 13.4. 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.
- 13.5. There are insufficient reserves to fund the scale of one-off funding required to meet short term budget shortfalls, cost pressures, initiatives and investment.

14. Recommendations

It is recommended that:

- 14.1. The Police and Crime Commissioner agrees the proposed precept increase of £12 per annum for Band D properties, which is the equivalent of £1 per month, or 23p per week.
- 14.2. The Police and Crime Commissioner notes that 61% of households across Hampshire and the IOW are in properties in council tax bands A-C, and would therefore see a precept increase of less than £12 per annum if the above recommendation is supported.
- 14.3. The Police and Crime Commissioner notes that at the two public consultation events (which were demographically representative), in excess of 80% of those in attendance were supportive of a precept increase of £12. In addition, in the PCC's online budget consultation survey (which was statistically relevant), 75% of respondents would pay £10 or more, and nearly half (46%) would pay sums above £10 up to £75.
- 14.4. The Police and Crime Commissioner notes that the Police and Crime Panel decided not to veto the proposed £12 per annum Band D increase at the meeting on 26 January 2018.
- 14.5. The 2018/19 revenue budget and MTFs is agreed as set out in appendix D, the 2018/19 capital programme is agreed as set out in appendix E, and the 2018/19 Reserves Strategy is approved as set out in this report and in appendix F. This recommendation takes account of the fact that the policing elements of the budget were agreed in full consultation with

the Chief Constable and based on her assessment of the requirements to deliver the most effective operational policing, efficiently within budget.

- 14.6. The Police and Crime Commissioner's basic Council Tax for the year beginning 1 April 2018 will be £177.46 per annum at Band D
- 14.7. The Police and Crime Commissioner's basic Council Tax for the year beginning 1 April 2018 for each band will be as set out in appendix C of the attached budget report.
- 14.8. The Council Tax requirement for the Police and Crime Commissioner for Hampshire, Isle of Wight, Portsmouth and Southampton for the year beginning 1 April 2018 will be £120,644,195.22 as per appendix C
- 14.9. Precepts are issued totalling £120,644,195.22 on the billing authorities in Hampshire, the Isle of Wight, Portsmouth & Southampton requiring payment, in such instalments and on such dates set by them and previously notified to the Police and Crime Commissioner for Hampshire, Isle of Wight, Portsmouth and Southampton, in proportion to the tax base of each billing authority's areas as determined by them and set out in appendix C of the attached budget report.

Inflation and Assumptions

Employees (FTEs)	2018/19	2019/20	2020/21	2021/22
Officers	2,782.71	2,662.71	2,612.71	2,612.71
Staff	1,758.98	1,728.98	1,718.98	1,718.98
PCSOs	337.99	337.99	337.99	337.99
Total	4,879.67	4,729.67	4,669.67	4,669.67

Basic Pay	Sept 2018	Sept 2019	Sept 2020	Sept 2020
Officer pay	2.00%	2.00%	2.00%	2.00%
Staff pay	2.00%	2.00%	2.00%	2.00%

Basic Pay	2018/19	2019/20	2020/21	2020/21
Officer pay	101.17%	102.00%	102.00%	102.00%
Staff pay	101.17%	102.00%	102.00%	102.00%

National Insurance	2018/19	2019/20	2020/21	2020/21
Secondary Threshold	£8,275	£8,358	£8,441	£8,526
Upper Accrual Point (UAP)	£43,864	£44,303	£44,746	£45,193
Upper Earnings Level	£43,864	£44,303	£44,746	£45,193
Below ST	0.00%	0.00%	0.00%	0.00%
Below UAP	13.80%	13.80%	13.80%	13.80%
Above UAP	13.80%	13.80%	13.80%	13.80%

Pensions	2018/19	2019/20	2020/21	2020/21
Actual rate if in scheme:				
Officers	21.30%	21.30%	21.30%	21.30%
Staff	15.10%	16.10%	16.10%	16.10%
Budgeted rate (based on scheme membership)				
Officers	20.16%	20.16%	20.16%	20.16%
Staff	13.79%	14.70%	14.70%	14.70%
Police staff lump sum (£m)	5.625	6.418	6.418	6.418

Government Grant	2018/19	2019/20	2020/21	2020/21
Grant Reduction	0.00%	-1.30%	-1.30%	-1.30%

Non-pay	2018/19	2019/20	2020/21	2020/21
Gas	2.50%	2.50%	2.50%	2.50%
Electricity	2.50%	2.50%	2.50%	2.50%
Cleaning	3.00%	3.00%	3.00%	3.00%
Vehicle fuel	5.00%	5.00%	5.00%	5.00%
Grants	0%	0%	0%	0%
Other	2.00%	2.00%	2.00%	2.00%

Damping adjustments for policing bodies 2013/14

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

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Council tax Precept 2018/19

Council tax precept at each band								
Band	A	B	C	D	E	F	G	H
17/18 £	110.31	128.69	147.08	165.46	202.23	239.00	275.77	330.92
18/19 £	118.31	138.02	157.74	177.46	216.90	256.33	295.77	354.92
Increase	8.00	9.33	10.66	12.00	14.67	17.33	20.00	24.00

Council tax at each band								
Band	A	B	C	D	E	F	G	H
£	118.31	138.02	157.74	177.46	216.90	256.33	295.77	354.92

Collection authority tax bases and share of precept 2016/17

Collection authority	Tax base	Precept (£)
Basingstoke and Deane	64,085.00	11,372,524.10
East Hampshire	49,459.56	8,777,093.52
Eastleigh	44,805.97	7,951,267.44
Fareham	42,605.30	7,560,736.54
Gosport	26,524.90	4,707,108.75
Hart	40,392.40	7,168,035.30
Havant	40,704.00	7,223,331.84
Isle of Wight	52,998.00	9,405,025.08
New Forest	70,621.00	12,532,402.66
Portsmouth	55,857.40	9,912,454.20
Rushmoor	30,971.38	5,496,181.10
Southampton	64,345.00	11,418,663.70
Test Valley	48,079.00	8,532,099.34
Winchester	48,389.90	8,587,271.65
Total	679,838.81	120,644,195.22

2017-18 council tax precept (average Band D) and % change on 2016-17: individual police and crime commissioners

Local authority	Average council tax for the authority (Band D)	
1 Northumbria	98.33	5.36
2 West Midlands	116.55	4.48
3 West Yorkshire	150.95	3.43
4 Hertfordshire	152.00	3.40
5 Sussex	153.91	3.36
6 Essex	157.05	3.25
7 Kent	157.15	3.29
8 South Yorkshire	158.16	3.26
9 Greater Manchester	162.30	3.18
10 Cheshire	164.44	1.99
11 Lancashire	165.45	1.99
12 Hampshire Police	165.46	3.12
13 Merseyside	165.97	1.95
14 Bedfordshire	166.09	1.99
15 Durham	169.24	1.98
16 Wiltshire	170.27	1.90
17 Thames Valley	170.28	1.99
18 Devon & Cornwall	176.28	1.99
19 Suffolk	176.85	1.97
20 Derbyshire	180.60	1.99
21 Staffordshire	181.16	2.00
22 Avon & Somerset	181.81	1.99
23 Nottinghamshire	183.42	1.95
24 Cambridgeshire	186.75	1.97
25 Leicestershire	187.23	1.99
26 Humberside	187.33	1.99
27 West Mercia	189.60	0.00
28 Warwickshire	191.98	0.00
29 Dorset	194.58	1.98
30 Lincolnshire	205.47	1.97
31 Northamptonshire	209.04	1.99
32 Gloucestershire	214.49	1.99
33 Cleveland	214.54	1.99
34 Norfolk	217.17	1.99
35 Cumbria	220.77	1.91
36 North Yorkshire	221.32	1.99
37 Surrey	224.57	1.99

Source: CTR forms

Appendix D

Budget 2016/18 and Medium Term Financial Strategy

Medium Term Financial Strategy	Revised Budget 2017/18	Efficiency Savings	Growth & Budget Pressure	Conts To/From Reserves	Other changes	Inflation	Forward Budget 2018/19	Forecast Budget 2019/20	Forecast Budget 2020/21	Forecast Budget 2021/22
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Funding:										
Expected amount from General Grants	(180,600)	0	0	0	0	0	(180,600)	(178,252)	(175,935)	(173,648)
Council tax freeze and benefit grant	(12,944)	0	0	0	0	0	(12,944)	(12,944)	(12,944)	(12,944)
Council tax precept	(110,960)	0	0	0	(9,684)	0	(120,644)	(123,659)	(126,750)	(129,916)
Council tax collection fund surplus	(1,497)	0	0	0	646	0	(852)	(617)	(617)	(617)
Total amount funding expected:	(306,001)	0	0	0	(9,039)	0	(315,040)	(315,472)	(316,245)	(317,124)
Expenditure owned by the PCC:										
Office of the PCC	1,524	(1)	0	0	48	13	1,585	1,626	1,668	1,710
Commissioning	1,259	0	0	0	0	25	1,284	1,284	1,284	1,284
Estates	14,507	(307)	0	0	126	437	14,763	16,073	14,231	14,098
Capital Financing	3,095	0	5,312	0	(590)	0	7,817	6,982	5,652	3,093
Interest on Balances	(500)	0	0	0	0	0	(500)	(500)	(500)	(500)
Contributions to / (from) Reserves:	(9,337)	0	3,523	0	8,166	0	2,352	384	(594)	1,032
Net Expenditure owned by Office of the PCC	10,548	(307)	8,835	0	7,750	475	27,301	25,848	21,741	20,717
Police Services										
Expenditure:										
Employees	247,552	(6,750)	500	0	764	3,414	245,481	244,149	245,629	244,383
Transport	6,533	(112)	0	0	85	0	6,506	6,707	6,916	7,133
Supplies and Services	75,483	(512)	2,329	0	(9,563)	54	67,791	71,384	75,168	78,705
Premises	1,303	(101)	0	0	(75)	1	1,129	1,160	1,188	1,217
National Levies	2,734	0	0	0	0	0	2,734	2,789	2,845	2,902
Grants Paid	281	2	0	0	0	0	283	283	283	283
Total Expenditure on Police Services:	333,886	(7,472)	2,829	0	(8,789)	3,469	323,923	326,472	332,029	334,622
Income:										
Service Income	(34,680)	(371)	0	0	1,757	0	(33,294)	(33,958)	(34,634)	(35,325)
Specific Grants	(3,752)	0	0	0	862	0	(2,890)	(2,890)	(2,890)	(2,890)
Total Income on Police Services:	(38,432)	(371)	0	0	2,619	0	(36,184)	(36,848)	(37,524)	(38,215)
Net Expenditure on Police Services:	295,454	(7,843)	2,829	0	(6,169)	3,469	287,739	289,624	294,505	296,408
Amount from General Grants and Taxation:	306,001	(8,150)	11,664	0	1,580	3,945	315,040	315,472	316,245	317,124
Budget (surplus)/ shortfall:	0	(8,150)	11,664	0	(7,458)	3,945	0	0	0	0
Cumulative savings included above:							(8,150)	(13,788)	(18,779)	(24,750)

Appendix E

Capital Programme

Capital Programme 2018-19 - Approved Items Only						
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 any later years
Estate						
Estate Change Programme	12,573	27,596	14,381	310		
VWIs Upgrade Programme	400	400				
Covert Partner Estate	505	300				
Capital Minor Estates Works Programme	500	500	1,000	1,000	1,000	1,000
Estate:	13,978	28,796	15,381	1,310	1,000	1,000
Technology						
Annual ICT Capitalisation Programme (£1m)						
- Desktop Hardware Refresh	405	400	250			
- Mobile Asset Refresh - Laptops	136	136	136	136	136	136
- Mobile Asset Refresh - Tablets	199	102	102	102	102	102
- Mobile Asset Refresh - Phones	100	50	50	50	50	50
- Print Server Upgrades	68	23				
- Q Pulse	19					
- Vfire	45					
- REC	14					
- Events	14					
- Livescan	19					
Network Infrastructure						
- Network Infrastructure Refresh (2014-15 MTFS ICTD)	283					
- SEPSNA South East Police Shared Network Service Agreement	290					
Data Centre						
- Data Centre Migration (inc EAS & Refresh) (Decision 165)	101					
Replacement of desktop XP operating systems	308					
PSN	875	36				
Digital Policing Programme						
- Mobile Information	90					
- Body Worn Video	174	113				
ICT 2020						
- ICT Rationalisation	814	758	226	45		
- Infrastructure Enabler	200					
- Technical Debt	490					
ANPR						
- Automatic Number Plate Recognition	133					
- ANPR Phase 2	790					
Digital Transformation Programme		1,600				
RMS v5.04 Upgrade		916				
Emergency Services Mobile Communications Programme		2,500	4,500			
ICT Roadmap		1,895	257	313		
Digital Strategy		3,418	3,855	2,328		
Other ICT Capital Programmes						
- Service Desk CoSourcing	211					
- Sharepoint	809					
- Network Monitoring & Alerting	104					
Technology:	6,691	11,947	9,376	2,974	288	288
Transport						
Vehicle Replacement Programme	3,227	2,400	2,300	2,300	2,300	2,300
Grand Totals:	23,896	43,143	27,057	6,584	3,588	3,588
Capital Receipts:						
Capital receipts reserve balance carried forward	0	0	0	(5,087)	(2,847)	(917)
Operational Buildings	(15,460)	(6,100)	(17,700)			
Residential Properties		(1,417)	(1,198)			
Vehicles and fleet	(300)	(300)	(300)	(300)	(300)	(300)
Total Capital Receipts:	(15,760)	(7,817)	(19,198)	(5,387)	(3,147)	(1,217)
Capital Grant & Reserves:						
Capital Grant	(1,158)	(1,158)	(1,158)	(1,158)	(1,158)	(1,158)
Revenue Contributions to Capital Outlay	(1,390)	(5,513)	(4,312)	(2,841)	(200)	(200)
Funded by Transformation Reserve	(2,326)	(5,935)	(4,726)	(45)		
Funded by Performance Reserve	(790)					
Funded by Estates Carry Forward Reserve	(400)	(400)				
Landlord Contribution for Eastern PIC Construction		(10,000)				
Funded by Estate Risk Reserve			(2,750)			
Total Capital Grant & Reserves:	(6,064)	(23,006)	(12,946)	(4,044)	(1,358)	(1,358)
Approved (Surplus)/Shortfall to be funded by borrowing	2,072	12,320	(5,087)	(2,847)	(917)	1,013

Reserves Strategy**Reserves Position as at March 2022**

The Reserves Profile shows that existing planned commitments will result in a forecast reduction of reserves by March 2022 to £14m (down from £66m at the end of March 2017), of which the General Reserve would be £8m which is just under 3% of the annual revenue budget at that point. This assumes that there are no adverse issues that impact on the General Reserve.

The use and level of reserves held will be kept under continual review.

Background

The Chief Finance Officers have a responsibility to ensure that the level of reserves maintained is sufficient. The Police Reform and Social Responsibility Act 2011 states that only the PCC, and not the Chief Constable, is permitted to hold reserves. In Hampshire, it was agreed that this would continue to be the case after the Stage 2 transfer in May 2014.

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

Reserves required for accounting purposes only are not covered by this strategy as they are not optional and follow proper accounting practices.

The level of reserves held is audited annually by the external auditors, currently Ernst & Young LLP.

Matters for consideration in assessing the level of reserves

The current financial climate has resulted in the Government introducing a programme of austerity measures that has reduced the amount of funding made available to many public sector organisations, including the police service. Other Government fiscal policy decisions such as the increase in employers’ national insurance contributions have had a significant impact on costs. Some of the changes made have to be implemented at relatively short notice. Therefore, the austerity programme and the resulting changes create an increased risk to financial stability which will naturally require an increase in reserves to reflect this risk. Reserves will also be required to support the significant investment required to reform policing and achieve the Policing Vision 2025.

The Home Secretary has confirmed that local PCCs will still need to deliver savings each year as funding for policing will be top-sliced for national initiatives. The level of reserves required to be retained due to risk will be reviewed as these issues are clarified.

Current reserves and levels

General Reserve

The current levels are shown in the Reserves Profile table. The General Reserve has been set at a minimum target balance of £4.500m, with an additional £1.000m added to the target (to make £5.500m) due to inherent risks associated with the austerity period. The guideline figure from CIPFA is 3% of the revenue budget which would be £9m.

Transformation Reserve

The financial challenges are requiring transformational change. These changes require additional investment to cover significant one-off costs such as the cost of redundancies, investment in infrastructure, investment in technology and project costs. The Transformation Reserve was created to fund the costs required.

The criteria for accessing the Transformation Reserve ensure that the funding is used to deliver efficiency savings and/or improve performance. This reserve will be the major source of funding that will facilitate investments that will enable services to be enhanced despite the reduction in ongoing funding.

The available balance on the Transformation Reserve net of funding for earmarked projects, is £7m.

Commissioner's Reserve

An Estate Risk Reserve was created in 2015/16 to provide funding towards the contingency element of the Estate Change Programme. This has been closed along with the Commissioning Reserve and the balances transferred to a single Commissioner's Reserve. A contribution to the reserve of £1.140m will be made in 2018/19. The amount is expected to be released for spending during 2018/19 so the net movement in respect of the £1.140m amount is nil.

Other Reserves

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

- **Equipment Reserve** available to offset the impact of large scale equipment replacement such as the need to replace body armour when the warranty for body armour expires. This reserve will be used when needed and then replenished as the financial position allows.

- **Performance Reserve** used to pay for specific targeted medium term operations such as Cyber Crime.
- **Insurance Reserve** 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. This reserve is expected to be maintained at a similar level.
- **Laboratory Reserve** available to pay for renewal of equipment as part of a joint scheme with Hampshire County Council. This reserve will be used periodically and replenished in between.
- **Capital (Revenue Contributions) Reserve** holds funds that have been set aside from within the annual revenue budget to pay for capital schemes. This reserve will collect funds on a temporary basis as the funds will usually then be paid out in the next one or two years to cover the cost of a capital scheme.

HMIC View

Her Majesty's Inspectorate of Constabulary has reviewed the Constabulary's preparedness for austerity and commented favourably on the approach, judging the financial planning and position of the Force to be good with some outstanding elements.

Reserves Held on Behalf of Other Organisations

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 other use. These include:

- **ACRO Surety** (£4m) and **AVCIS Surety** (£0.346m) held to cover any potential costs to the Chief Constable or PCC should ACRO cease to trade on its current basis.
- other balances held **on behalf of ACRO**.
- **Safer Roads Unit** balances ring-fenced to be used on safer roads initiatives. This funding is planned to be used to replace existing safety cameras with digital cameras.
- **Repairs and Maintenance** ring-fenced for essential repairs and maintenance agreed.

Reserves Profile

Reserves	As at 31/03/17	17/18	As at 31/03/18	18/19	As at 31/03/19	19/20	As at 31/03/20	20/21	As at 31/03/21	21/22	As at 31/03/22
£000											
General Reserve:											
Other movements		(387)		(387)		(387)		(387)		(387)	
Balance	9,979		9,592		9,205		8,818		8,431		8,044
Transformation Reserve											
Contributions to Transformation Reserve				2,383		250					
Use of reserve		(16,084)		(14,753)		(8,204)		(3,245)		(2,000)	
Balance	45,852		29,768		17,398		9,444		6,199		4,199
Commissioner's Reserve											
Movement		(2,750)		2,750		0		0		0	
Balance	0		(2,750)		0		0		0		0
Estate Risk Reserve											
Movement		(2,750)		0		0		0		0	
Balance	2,750		0		0		0		0		0
Commissioning											
Movement		(596)		0		0		0		0	
Balance	596		0		0		0		0		0
Equipment Reserve:											
Movement		0		0		0		0		0	
Balance	1,000		1,000		1,000		1,000		1,000		1,000
Performance Reserve:											
Movement		(1,000)		(393)		(300)		0		0	
Balance	1,693		693		300		0		0		0
Insurance Reserve:											
Movement		(477)		0		0		0		0	
Balance	1,477		1,000		1,000		1,000		1,000		1,000
Laboratory Reserve:											
Used to replace equipment		(153)		(50)		(50)		(50)		(50)	
Contributed for future costs		50		50		50		50		50	
Balance	153		50		50		50		50		50
Capital (Revenue Contributions) Reserve:											
Contribution from revenue account		200		200		200		200		200	
Used to support capital programme		(2,992)		(200)		(200)		(200)		(200)	
Balance	2,792		0		0		0		0		0
Sub-total of Reserves available to use	66,292	(26,939)	39,353	(10,400)	28,953	(8,641)	20,312	(3,632)	16,680	(2,387)	14,293
% of Total Net Expenditure Budget	22.6%		13.6%		10.1%		7.1%		5.8%		5.0%
Earmarked Reserves:											
ACRO surety	4,000	0	4,000	0	4,000	0	4,000	0	4,000	0	4,000
AVCIS surety	346	0	346	0	346	0	346	0	346	0	346
ACRO general reserves	6,553	0	6,553	0	6,553	0	6,553	0	6,553	0	6,553
Netley Business Plan	239	0	239	0	239	0	239	0	239	0	239
Other funds on the balance sheet but ring-fenced (e.g. Driver Training balances)	7,021	0	7,021	0	7,021	0	7,021	0	7,021	0	7,021
Balance on earmarked reserves	18,159		18,159		18,159		18,159		18,159		18,159
Revenue Grants Unapplied											
Balance	1,200	(1,200)	0		0		0		0		0
Total Revenue Reserves:	85,651	(28,139)	57,512	(10,400)	47,112	(8,641)	38,471	(3,632)	34,839	(2,387)	32,452