

HAMPSHIRE POLICE AND CRIME COMMISSIONER

Report

Date Considered:	7th February 2019	Item:	
Title:	Council tax Precept 2019/20, Budget 2019/20 and Medium Term Financial Strategy 2020/21 to 2022/23		
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1. Recommendations

- 1.1. The Police and Crime Commissioner sets a precept increase of £24 per annum for Band D properties, which is the equivalent of £2 per month, or 46p per week.
- 1.2. The full precept increase will be utilised in support of local policing.
- 1.3. The Police and Crime Commissioner notes that the Police and Crime Panel unanimously supported his proposal to increase the precept by £24 per annum (Band D property).
- 1.4. To note that 61% of households across Hampshire and the IOW are in properties in council tax bands A-C (see paragraph 6.11), and will therefore see a precept increase of less than £24 per annum as a result of the band D precept increase of £24.
- 1.5. To note that results from the public consultation identify overall public support for the £24 precept increase at 76.38% with further endorsements from the Chief Constable, the Police Federation, UNISON and Neighbourhood Watch.
- 1.6. To note the precept 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.
- 1.7. The Police and Crime Commissioner agrees the 2019/20 revenue budget and MTFs (2019/20 – 2022/23) as set out in appendix D, and notes that the budget has been updated from the budget which was presented to the Police and Crime Panel as set out in paragraph 2.3 of this report, to take account of the final council tax base, final Collection Fund surplus and confirmation of the final Police ICT levy.
- 1.8. That the additional funding of £624k which is available following confirmation of the final council tax base, Collection Fund surplus and Police ICT levy, be earmarked on a one off basis to support welfare initiatives within the Constabulary as part of the Wellbeing Strategy, the

expenditure for which will be agreed in consultation with the Police & Crime Commissioner and subject to a separate decision

- 1.9. The 2019/20 capital programme is agreed as set out in appendix E.
- 1.10. The Capital Strategy is approved as set out in appendix F.
- 1.11. The 2019/20 Reserves Strategy is approved as set in appendix G.
- 1.12. The Police and Crime Commissioner's basic Council Tax for the year beginning 1 April 2019 will be £201.46 per annum at Band D.
- 1.13. The Police and Crime Commissioner's basic Council Tax for the year beginning 1 April 2019 for each band will be as set out in appendix C.
- 1.14. The Council Tax requirement for the Police and Crime Commissioner for Hampshire, Isle of Wight, Portsmouth and Southampton for the year beginning 1 April 2019 will be £138,927,823.30 as per appendix C.
- 1.15. Precepts are issued for the year beginning 1 April 2019 totalling £138,927,823.30 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.

2. Executive Summary

- 2.1. This budget report sets out the final proposed budget for 2019/20, the MTFs 2019/20 – 2022/23, and sets the precept increase at £24 for a band D property.
- 2.2. The Commissioner recommended a £24 precept increase in his budget and precept report to the Police and Crime Panel on the 25th January, and the Panel unanimously supported this proposed increase.
- 2.3. The budget has been updated from the report which went to the Police and Crime Panel (25 January) to reflect the receipt of the final council tax base and confirmation of the final collection fund surplus from all billing authorities, and the confirmation of the Police ICT levy; the resultant small budget increase of £624k will be earmarked on a one off basis to support welfare initiatives within the Constabulary as part of the Wellbeing Strategy, the expenditure for which will be agreed in consultation with the Police & Crime Commissioner and subject to a separate decision.
- 2.4. The budget has been developed to support the priorities of the current Police and Crime Plan (PCP) to help ensure that Hampshire, the Isle of Wight, Portsmouth and Southampton are amongst the safest places to live, work and visit, so that people are empowered to realise their life opportunities.

- 2.5. The current PCP starts with and has its foundation in our communities. The four priorities of the PCP contribute to the outcome sought, that of keeping people safer. These priorities are:
- i) Championing Community Needs
 - ii) Strengthen Partnerships
 - iii) Enabling Operationally Effective Policing
 - iv) Reduce Offending
- 2.6. Within the PCP, the PCC has highlighted the need to ensure that sufficient funding is in place to deliver operationally effective and added-value outcomes that support people and cover the whole range of responsibilities of a PCC.
- 2.7. The precept decision for 2019/20 needs to take into account both the immediate and medium term resourcing requirements that enable Hampshire, the Isle of Wight, Southampton and Portsmouth to be safer now and in the future.
- 2.8. In setting the precept and budget, the PCC continues to ensure that:
- i) working closely with the Chief Constable, going forward the Constabulary budget will enable the delivery of modern, operationally effective policing, that includes capacity for innovation, and
 - ii) to a much lesser extent resources are available to the PCC to support 'beyond policing' including commissioning, to seek to allow meaningful impact to be made on the PCC's wider agenda in support of his PCP, including outcomes that reduce demand on policing itself.
- 2.9. The Police grant settlement was announced on the 13th December and confirmed that for 2019/20:
- i) There would be an increase in Hampshire's Police Grant of £3.79m.
 - ii) In addition, Hampshire would receive £2.99m to specifically partially offset increased pension costs of £7.5m (see para 5.10 – 5.12 below); it has however not been confirmed that this funding will definitely be available in 2020/21
 - iii) That the cap on the maximum increase in precept would be set at £24 per year for a Band D property (and it is important to note that the Home Secretary's assumptions are very much based on PCCs implementing the maximum £24 increase). This is an uplift from the current year where the maximum precept increase was capped at £12 per Band D property.
- 2.10. Beyond 2019/20, other than the quote below there was no further detail on future settlements, nor any indication on the level of future precept increases for 2020/21 and beyond.
- 2.11. The Home Secretary, Sajid Javid MP, said

“this settlement is the last before the next Spending Review, which will set long term police budgets and look at how resources are allocated fairly across police forces. The Home Office is grateful to the police for the good work they are doing to build the evidence base to support that work, and we will also want to see evidence that this year’s investment is being well spent. In addition to working together to understand demand, we will be working with the police to present an ambitious plan to drive improved efficiency, productivity and effectiveness through the next Spending Review period.”

- 2.12. The Home Secretary and Minister conduct extensive research and analysis before taking a view on the level of precept increase that would be deemed to be proportionate for the current policing position.
- 2.13. Whilst the PCC welcomes the increase in Police Grant for 2019/20, the additional one off grant to recognise the increase in pension costs, and the flexibility to increase the Band D council tax precept by £24, he is conscious that there is no guarantee beyond 2019/20 on the level of Police Grant (including whether the pensions grant will be added to the baseline) nor on the future maximum precept increase.
- 2.14. The PCC is however concerned that an underlying funding weakness remains. Whilst every effort will be made in the coming year to focus on frontline policing, the settlement for 2019/20 combined with the lack of clarity on future years funding does not allow for the necessary level of investment required to deliver the responses which increases in demand and complexity need; which if addressed would deliver substantial further improvements to efficiency, productivity and effectiveness that would keep people SAFER.
- 2.15. In considering setting his budget and precept for 2019/20, and in setting out his MTFS to 2022/23, the PCC can only base his decisions and forecasts on the certainty presented by the 2019/20 settlement.
- 2.16. The Minister of State for Policing and Fire Service has previously set out that: *‘We will revisit the funding formula at the next Spending Review’*; we understand that a review of the funding formula is not likely to be implemented before 2021/22 at the earliest.
- 2.17. 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.
- 2.18. The independent inspectorate, HMICFRS, continues to report that Hampshire is one of the lowest funded forces (5th lowest cost per head of population out of 43 forces in England and Wales).
- 2.19. The reality of this low funding position is that Hampshire has a very low ratio of officer numbers per 1,000 of population, and as a consequence has a very high investigative caseload per officer compared to other Forces.

- 2.20. This is partly because the Band D rate of council tax precept paid by local residents continues to be below the national average, but predominantly because the current distribution of general grant from Government is not fit for purpose, which according to HMICFRS results in the PCC for Hampshire receiving £41.6m pa less to spend than the national average. That has a direct impact on the service that can be delivered to make the Hampshire Policing Area safer.
- 2.21. This report presents the projected revenue and capital budgets for the four year period 2019/20 to 2022/23 based upon current guidance and assumptions.
- 2.22. The PCC's proposal is for a £24 increase in his council tax precept for 2019/20 (for a Band D property), as set out in section 6.
- 2.23. However, it should be noted that 61% of households across Hampshire and the IOW are in Bands A – C, and so will see an increase of less than £24 per annum (see paragraph 6.11)
- 2.24. On the assumption of a £24 precept increase (Band D), this report sets out that the PCC can:
- i) Set a balanced budget for 2019/20; in delivering a balanced budget section 8 sets out that savings of circa £7m will be re-invested in front line policing in Neighbourhood and Response and Patrol teams (£6m) and in Investigation of Crimes (£1m)
 - ii) Enable the Constabulary to proceed with the recruitment of circa 200 officers
 - iii) Meet the in-year pension increase for 2019/20 of £7.5m
 - iv) Fund the significant costs to deliver the critical pressures and investment which enable the Constabulary to continue to be a modern, operationally effective Police Service (see section 7).
 - v) Accommodate the impact of an assumed national pay award over the MTFs period of 2% per annum for all officers and staff (see paragraphs 7.5 – 7.6), which is an additional £2.5m each year from September 2019.
- 2.25. This report also sets out that on the assumption of a £24 precept increase (Band D) for 2019/20, followed by precept increases of 1.99% in each of the following 3 years (2020/21 – 2022/23) that to deliver a balanced budget, total savings of £9.6m will be required over this period to balance the budget.
- 2.26. Prior to the announcement of the Police Grant Settlement on 13th December 2018, the draft Medium Term Financial Strategy (MTFS) for 2019/20 – 2021/22 (which was shared with the Police and Crime Panel Finance working group) had assumed a 'flat cash' Police Grant settlement for 2019/20 (so the same grant funding in 19/20 as was received for 18/19) and a maximum Band D precept increase without recourse to a referendum of £12 for 2019/20.

- 2.27. Based on those pre-settlement assumptions, significant savings would have been required in 2019/20 (£7.8m) and beyond (£9.7m for the period to 2021/22).
- 2.28. The proposals in this report to set the precept at £24 for Band D, together with an increase in government grant, ensure that for 2019/20 there will be some investment in Policing next year, and more importantly no reduction in policing numbers; the proposed precept increase will allow the Constabulary to now proceed with recruiting circa 200 officers.
- 2.29. To ensure all of the additional funding raised through the council tax in 2019/20 goes to policing, there will be no increase in the budget for the Office of the PCC (the cost of the Office will reduce in real terms).
- 2.30. There will be a small increase in the monies allocated to the commissioning of services and this increase is specifically targeted at Out of Court Disposals, which enables more efficient and effective policing, and builds on the work of Project Cara, the responsibility for which will transfer from the Constabulary to the PCC.
- 2.31. In considering whether or not to use his new flexibility to increase the precept, the PCC has given due consideration to the views of the public and also to the consequences of setting a precept lower than £24.
- 2.32. If the PCC only increased the Band D precept by £12 instead of by the proposed £24, it is clear that significant further savings would have been required to balance the budget over the next 3 years, and it would have been difficult to have delivered the essential investment required; inevitably there would have been a reduction in police numbers.
- 2.33. In proposing a £24 precept increase, the PCC has taken account of the feedback to date from his precept consultation events, which has shown significant support for a precept increase.
- 2.34. The public consultation exercise on the precept increase has had three distinct elements:
- i) An online consultation, which saw 5,961 people submit responses (the largest number of responses ever received by the Office to a consultation).
 - ii) A YouGov survey of 500 demographically weighted respondents across Hampshire and the Isle of Wight.
 - iii) Face to face consultation events held on the 12th January; there were two events, one in Basingstoke and one in Netley. These were attended by 98 demographically representative individuals.
- 2.35. The outcome from each individual element of the consultation, and the overall collective outcome shows that there is significant support for a precept increase of up to £24 or more.
- 2.36. The overall survey results are statistically relevant and show that 76.38% of respondents to the question on the level of precept increase

supported an increase of up to or more than £24. Further details are set out in section 12.

- 2.37. In summary, implementing the £24 increase for 2019/20 in line with the expectations of Government will allow some breathing space to continue to transform the Hampshire Policing service in 2019/20.
- 2.38. However, without any funding certainly beyond 2019/20, and until a new fairer funding formula is in place which recognises the pressures within Hampshire, it remains the case that Policing in Hampshire is constrained by a lack of appropriate funding, and the funding uncertainty reduces the PCC's and Chief Constable's ability to forward plan with confidence.

3. Context and Current Financial Situation

- 3.1. The funding situation in Hampshire remains critical, a point which was made to the Minister of State for Policing and Fire Service in a joint letter from the PCC and the Chief Constable in January 2017, and in ongoing meetings between the PCC and the Police and Fire Minister.
- 3.2. Based on this assessment of critical, the PCC implemented the maximum permitted Council Tax precept increase (without recourse to a referendum) of £12 to sustain services in 2018-19.
- 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 universal 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. 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 £90m to be achieved during the period 2011/12 to 2018/19, and have seen the budgeted establishment reduce by 1,893 posts (a 29% reduction).

Annual and Cumulative Savings

Savings	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
	£m	£m	£m	£m	£m	£m	£m	£m
In year	16	20	6	12	13	13	2	8
Cumulative	16	36	42	54	67	80	82	90

- 3.6. The context is that for the most part efficiency savings which have little or no operational impact have already been identified and delivered. In 2019/20 and beyond any additional savings would lead to a further reduction in the Constabulary's operational capability and headcount.

- 3.7. 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, effectiveness and legitimacy of 'Good' when it undertook its latest inspection in November 2017.
- 3.8. However, without increased funding and continued investment, it will become increasingly difficult for the Chief Constable to meet the PCC's commitment to keep the residents of Hampshire, IOW, Portsmouth and Southampton safer.
- 3.9. HMICFRS recognise that the force faces a challenging financial position. Their latest Value for Money profile for Hampshire Constabulary highlights that the force spends £41.6m 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 continue 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 (for comparative purposes a £12 precept increase would raise £8m).
- 3.12. Hampshire's position is further impacted as it has a relatively low police council tax precept compared to other PCC areas; in 2017/18 and 2018/19 Hampshire had the 12th lowest precept.
- 3.13. The precept cap of 1.99% which was in place up to and including the 2016/17 budget, and the cap of £5 for the 2017/18 budget, has been a limiting factor for Hampshire as proportionately raising the precept by the maximum allowable has delivered significantly less in cash terms than in some PCC areas where the precept is higher; this was arbitrary and did not provide a level playing field.
- 3.14. Whilst the PCC welcomed the new flexibility for 2018/19 to allow a precept increase of up to £12 (Band D), and the further flexibility for 2019/20 to raise the precept by up to £24 for a Band D property, as this flexibility is available to all PCCs, there remains inequity as PCCs with a higher tax base will raise more income through a £24 increase than PCCs with a lower tax base.
- 3.15. 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 critical.
- 3.16. The financial risk should be seen alongside the PCC's and Chief Constable's determination:

- i) To continue to deliver the necessary service level and changes to defeat criminals and those who wish us harm, staying ahead of their intentions;
- ii) To find efficiencies wherever possible to absorb financial pressure and increases in demand;
- iii) 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;
- iv) To recognise that without the necessary investment in skills, innovation and change, people will be less safe.

3.17. However, whilst the funding position remains critical, the increase in the Police Grant Settlement of £3.79m for 2019/20 is positively welcomed by the PCC, as is the additional £2.99m grant to meet the increase in pension costs and the flexibility to increase the precept by up to £24, as these measures together allow some easement to the immediate pressure to make further savings which the PCC and Chief Constable were facing in setting a balanced budget both for 2019/20 and for the medium term through until 2022/23.

3.18. The proposed increase in precept of £24, together with the additional Police grant funding and pensions grant will ensure that for 2019/20 there will be no reduction in overall police numbers, and will also ensure that the pensions cost pressure can be absorbed, whilst also allowing investment to be made in support of policing across the Hampshire Constabulary, including the recruitment of circa 200 officers.

3.19. The PCC recognises that this positive position can only be achieved through raising additional taxation locally; the fundamental issue that the PCC is underfunded through the national funding formula remains, with any remedy via a fairer national funding formula, still unexpected before 2021, and set to follow a Spending Review to be conducted in 2019/20.

3.20. If his budget was more fairly funded, even if only restored to the average national Force funding (acknowledging that Hampshire Constabulary is one of the largest Constabularies) the PCC's view is that the necessity to maximise precept increases in future would be less acute.

3.21. His position is that this year the need to protect and enhance options for local policing makes taking advantage of increasing the Band D precept to £24 appropriate. However, fairer funding is an essential enabler of any further rebalancing of national settlement and local funding, via council tax. Nevertheless, some rebalancing may become necessary in the future and it is the case that council taxpayers in the Hampshire Policing Area continue to pay a police precept below the national average in 2018/19.

3.22. Based on the following prudent assumptions:

- Precept/Council Tax increase assumed at 1.99% per annum 2020/21 – 2022/23
- a flat cash Police Grant per annum over the period to 2022/23

- the pensions grant not being assumed beyond the current year

Savings of £9.6m would still be required over the next 4 years to balance the budget in the medium term.

- 3.23. The lack of clarity beyond 2019/20 makes it extremely difficult to plan with any certainty, and the PCC will continue to lobby on Hampshire's behalf both in terms of the unfairness of the existing funding formula but also in terms of seeking more clarity on future year funding including the likely precept cap.
- 3.24. The realistic position to ensure that Hampshire remains a modern, operationally effective police force, assuming no significant increase in the police grant in 2020/21, is that as a minimum the precept increase would need to be at least £12 in 2020/21. This would sustain the level of policing enabled by the current budget and precept increase, and enable additional essential future investment required to meet ever changing policing requirements and the implementation of new technology as recommended by the Chief Constable, both of which would contribute to defeating criminals and those who wish us harm.
- 3.25. It is difficult to plan on this basis without any indication from Government on the level of precept cap beyond 2019/20.

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 funding formula is not fit for purpose, and specifically in the local context the PCC and Chief Constable are clear in their view 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.
- 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. It is also worth noting that the total government grant received for 2019/20 is £200.34m, which is less than the total government grant funding received in 2011/12, which was £213.01m.
- 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. The PCC and Chief Constable will continue to lobby Government on the basis that the existing funding formula is nationally unfair overall, that the existing formula does not deliver a fair allocation of Government funding to Hampshire, and that the introduction of a new fairer funding formula

should be implemented at the earliest opportunity as part of the next spending review .

- 4.7. The PCC notes that the Home Secretary has outlined that as part of the next spending review, he will *'look at how resources are fairly allocated across police forces'* (see para 5.7).
- 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 faced by the Chief Constable and acknowledged by the PCC.

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 exacerbates the 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 agreed 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.
- 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 or increase in government grant each year which:
 - will 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 2019/20 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 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. Final Grant Settlement 2019/20

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

Annual and Cumulative Government Grant Reductions

Savings	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Cash cut %	6%	6%	2%	5%	4%	1%	1%	0%
Cash cut £m	14.1	14.4	3.2	10.1	10.1	1.1	2.5	0
Cumulative £m	14.1	28.5	31.7	41.9	52.0	53.1	55.6	55.6
Cumulative %	6%	12%	13%	18%	22%	23%	24%	24%

- 5.2. The Home Secretary set out the following in his letter to Yvette Cooper MP on the 13 December 2018:

'We are increasing the general Government grants to Police and Crime Commissioners by.....a £146m increase in core grant funding. Each PCC will see their Government grant funding protected in real terms.'

- 5.3. Given the annual reduction in Police Grant since 2011/12 (the exception being a flat cash settlement in 2018/19), the PCC positively welcomes the announcement in the Police Grant settlement on the 13th December that Hampshire is to receive an additional £3.79m in police grant for 2019/20.
- 5.4. In addition, the settlement announcement also set out that Hampshire would receive an additional £2.99m in Pension Grant to partly offset the increased pension costs faced by all Constabularies due to changes in actuarial assumptions.
- 5.5. The final Police Grant settlement was announced on the 24th January and confirmed the figures as set out in the provisional settlement on 13th December. All grant figures therefore remain unchanged from the report which went to the Police and Crime Panel
- 5.6. Whilst the preference remains for a new national fairer funding formula to be implemented as a priority, this increase in the grant settlement for 2019/20 is welcome, and is recognition of the extensive lobbying by the PCC and his colleagues as to the serious risks facing the delivery of policing as a result of continuous grant settlement reductions, and restrictions on the level of precept which could be raised without recourse to a referendum.

Police Grant Beyond 2019/20

- 5.7. Beyond 2019/20, other than the quote below there was no further detail on future settlements, nor any indication on the level of future precept increases for 2020/21 and beyond.
- 5.8. The Home Secretary, Sajid Javid MP, said

“this settlement is the last before the next Spending Review, which will set long term police budgets and look at how resources are allocated fairly across police forces. The Home Office is grateful to the police for the good work they are doing to build the evidence base to support that work, and we will also want to see evidence that this year’s investment is being well spent. In addition to working together to understand demand, we will be working with the police to present an ambitious plan to drive improved efficiency, productivity and effectiveness through the next Spending Review period.’

- 5.9. The MTFs does not therefore include an assumption around any further increase in Police Grant. The prudent assumption remains flat cash Police Grant beyond 2019/20.
- 5.10. Whilst the PCC and Chief Constable firmly believe the current funding formula does not adequately recognise or fund policing need within Hampshire, and continue to lobby for a fairer funding formula, a note of caution is that there is no guarantee that a new funding formula would address this underfunding.

Pension Grant

- 5.11. As part of the settlement, Hampshire will receive a specific grant of £2.99m to contribute towards the additional pension costs which the Constabulary will face for Police Officer pensions.
- 5.12. This is in recognition that HM Treasury announced changes to the discount rate for unfunded public sector pensions on 6 September 2018. This, combined with the earlier announcement at Budget 2016 of a change to the discount rate, has resulted in a reduction to the discount rate from 3% to 2.4%, and has the effect of increasing the employer contributions (including ill-health costs of 0.8%) by 6.8% from April 2019.
- 5.13. The full year costs in 2019/20 of the pensions increase as a result of the change in discount rate is £7.5m (which is a recurrent cost).

Capital Grant

- 5.14. Capital grant of £1.2m 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. The continuation of this grant has been confirmed for 2019/20 and has been assumed to be continued at £2.520m for the duration of the MTFs.

Council Tax Support Grant

- 5.17. The PCC will continue to receive council tax support grant in 2019/20 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 up to and including the 2016/17 budget was 1.99% and in the 2017/18 budget the cap was £5 on a Band D.

6.2. Last year saw a shift in policy with the Government recognising the increasing pressure on police budgets, and allowing PCCs to increase the precept by up to £12, an option which the PCC in Hampshire implemented.

6.3. In a further significant shift in policy the Home Secretary set out in his letter to Yvette Cooper MP:

'We are also proposing to double the precept flexibility for locally accountable PCCs. Last year, we provided an additional £12 precept flexibility. This year, we propose giving PCCs the freedom to ask for an additional £2 a month in 2019/20, to increase their Band D precept by £24 in 2019/20 without the need to call a local referendum.'

It will be for locally accountable PCCs to take decisions on local precept and explain to their electorate how this additional investment will help deliver a better police service. We cannot say today how much the additional precept flexibility will raise. Last year, the vast majority of PCCs used their flexibility. If all PCCs use their flexibility in full in 2019/20, based on the latest Office of Budget Responsibility tax base forecasts, it will mean around an additional £509m public investment in our police system.'

6.4. It should be noted that all national figures quoted by Government assume that all PCCs increase the Band D precept by £24.

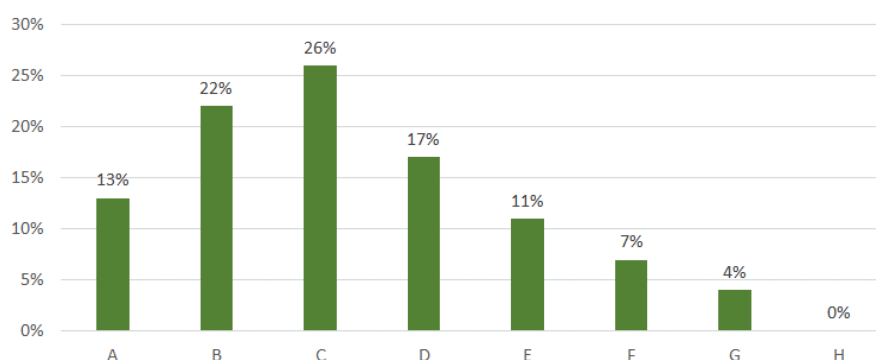
6.5. Whilst the PCC welcomes the flexibility provided through the settlement to allow a precept increase of up to £24 per annum for a Band D property, and recognises that this would allow a significant easement to the overall financial position, he is acutely aware that this easement can only be achieved 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 in prospect before 2021.

6.6. Any precept increase above the referendum limit of £24 will be deemed by the Government to be excessive and therefore a public referendum vote, within the area covered by the proposed increase, would be required to take place to gain approval for an increase in excess of this amount.

6.7. As the referendum limit is an increase of £24, this means that PCCs with precepts that are already high will be able to put their precept up by the same cash increase as PCCs with a lower precept. This is not equitable and serves to maintain the funding inequality gap between PCCs.

- 6.8. 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.
- 6.9. The PCC's proposal is for a £24 increase in his council tax precept for 2019/20 (for a Band D property).
- 6.10. The current Band D council tax precept for Hampshire Constabulary is £177.46, which is the 12th lowest in the country. The proposed precept increase would make the Band D council tax precept £201.46 in 2019/20. The current intelligence is that the majority of PCCs across England will increase their Band D precept by £24, so it is unlikely that Hampshire's position of 12th lowest precept will alter much if at all.
- 6.11. It is also important to note that a significant number (61%) of households across Hampshire and the IOW are in properties in Bands A – C, and so the increase for those households will be less than £24 per annum, as shown overleaf:

Percentage of Households by Council Tax Band



Impact of a £24 Council Tax Increase By Council Tax Band 2019/20

Band	Monthly Increase	Annual increase
A	£1.33	£16.00
B	£1.56	£18.67
C	£1.78	£21.34
D	£2.00	£24.00
E	£2.44	£29.33
F	£2.89	£34.67
G	£3.33	£40.00
H	£4.00	£48.00

- 6.12. The breakdown of the Hampshire precept by council tax band is shown in further detail in Appendix C, including how the precept in the current year compares with those of other PCC areas.
- 6.13. Whilst the government expectation is that PCCs will take up the opportunity to raise the council tax precept by £24, the PCC still has the option to not raise the precept at all, or to raise the precept by any amount up to £24.
- 6.14. The table below shows for a range of precept increases (up to the maximum of £24) 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 (£m)	Additional precept income** (£m)
Band D zero%	177.46	£122m	0
Band D £12*	189.46	£130m	£8m
Band D £24	201.46	£138m	£16m

* The planning assumption in the draft MTFs shared with the PCP Finance working group was £12.

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

- 6.15. The table shows the additional income which is raised across the various options; the option of £24 compared to the original planning assumption of £12 allows the PCC to raise an additional £8m (before taking account of any increase in the council tax base).
- 6.16. In considering the precept options available, and whether or not to use the new flexibility allowing a £24 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 PCP 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.
- 6.17. The PCC has also listened to the specific professional and operational advice of the Chief Constable and her leadership team as to the operational policing requirements to adequately meet the increasing demand across Hampshire, and the detrimental impact on operational policing within Hampshire which would occur if a precept increase of less than £24 was implemented.
- 6.18. The Chief Constable is clear in her assessment that the public of Hampshire would be less safe if a lower than £24 precept increase was implemented, and she is fully supportive of the PCC's proposal to increase the precept by the full amount permissible and welcomes the PCC's commitment that the additional funding raised through the precept will be directed in full to support local policing.

- 6.19. The PCC has also given due consideration to the consequences of setting a lower precept.
- 6.20. For example, if the precept increased by £12, instead of by the proposed £24, it is clear that significant further savings would be required to balance the budget; specifically the £8m reduction (being the difference between precept income at £12 compared with £24) in 2019/20 to local policing (the equivalent of at least 150 less people¹ policing in our communities) with further savings required in future years, 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.
- 6.21. In proposing a £24 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.
- 6.22. The PCC has concluded, following consultation with the Chief Constable, and having due regard to her recommendations on options for the delivery of modern, operationally effective policing, that increasing the Band D precept by £24 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 2019/20

- 6.23. In addition to announcing precept flexibility for 2019/20, Nick Hurd MP, Minister of State for Policing and the Fire Service, set out as part of the settlement that:
- 'We are personally committed to ensuring our police have the resources they need.....we are enabling Police and Crime Commissioners to increase precept by up to £24 for a Band D equivalent property.'*
- 6.24. Whilst this further flexibility is welcomed, there is no guarantee beyond 2019/20 on the level of the maximum Precept increase; in considering setting his budget and Precept for 2019/20, and in setting out his MTFS to 2022/23, the PCC can only base his decisions and forecasts on the certainty presented by the 2019/20 settlement.
- 6.25. This MTFS is therefore based on an assumed precept increase of £24 per annum in 2019/20, and increases of 1.99% per annum from 2020/21 – 2022/23.

7. The MTFS 2019/20– 2022/23: Other Assumptions

- 7.1. The MTFS for 2019/20 to 2022/23 is shown at Appendix D of this report. It provides a forecast of the financial position over the next four years, including a firm position for the 2019/20 budget.

Government Grant

¹ Source: Hampshire Constabulary

- 7.2. No firm information is currently available on the budget settlement for 2020/21 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. That results in an assumed continued flat cash Police Grant per annum.

The position will of course continue to be reviewed.

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 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%. Pay awards of 2% have been agreed for officers and staff for September 2018. The MTFS assumes annual pay awards of 2% per annum each September for both officers and staff.
- 7.6. If there is any variation to that pay award assumption of 2% then, for example, an extra 1% would equate to an extra £2.5m of cost per annum.
- 7.7. 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. The Brexit position also remains unclear, but currently no additional costs are assumed.

Pension Costs

- 7.8. The police officer pension cost is now known for 2019/20 and included within the budget along with the expected increase in local government pension scheme increases for police staff pensions.

MTFS Position

- 7.9. The MTFS at Appendix D includes a significant assumption that savings of £9.6m are delivered, which enables the budget to be balanced over the 4 year period, based on the recommended council tax precept increase of £24 Band D for 2019/20, and a 1.99% per annum precept increase and flat cash government grant for 2020/21 onwards.

Cost Pressures and Growth

- 7.10. 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.

- 7.11. There are significant cost pressures and growth items included in the 2019/20 budget and later years. The additional cost of police pensions as a result of the change to the discount factor applied by the Government Actuaries Department (GAD) is estimated to cost an additional £7.5m in police officer pensions from 2019/20.
- 7.12. The budget includes investment and reinvestment of reforms to the delivery model for frontline policing both in terms of visible local policing and dealing with high harm offences.
- 7.13. The other budget pressures are predominantly unavoidable costs as a result of changes in requirements and technology costs required to replace existing technology or to introduce new technology being implemented nationally in order to move toward the Policing Vision 2025.
- 7.14. The budget pressures for 2019/20 shown in the summary at Appendix D total £12.766m. They include the rolling forward of the three-year plans for investment that were set out in the Budget report last year. The table below summarises the budget pressures with further detail given for each of those headings in the following paragraphs:

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Estate running costs	2.763	2.763	2.763	2.763
Estate dilapidations (reserves)	0.300	0.500	0.500	0.500
Estate sinking fund (reserves)	0.300	0.500	0.500	0.500
Out of court disposals commissioning	0.064	0.064	0.064	0.064
Local visible policing net investment	1.122	0.369	0.369	1.081
High harm offences	3.417	1.901	1.901	1.901
Technology and ICT related	1.922	0.727	0.664	0.564
Forensics	0.983	0.400	0.400	0.400
Statutory or mandatory costs	1.440	2.420	2.355	2.355
Wellbeing Strategy	0.624			
Other	0.456	2.456	4.456	6.456
Total	13.390	11.698	13.570	16.183

Estates

- 7.15. The estate continues to be modernised in order to provide fit for purpose accommodation. The most significant change is the planned 'go live' for the Eastern Police Investigation Centre (PIC) in 2019. This will result in an initial uplift to the estate revenue budget of £2.763m to pay for running costs, but the subsequent sale of existing buildings will deliver future efficiencies.
- 7.16. The Eastern PIC will complete a set of three modern PICs that will serve as investigations and custody hubs. The new accommodation will create a better working environment that can service the modern day needs for technology and mobile working. It will also allow functions to be co-located to improve effectiveness and efficiency.

7.17. An additional £0.300m has been added to the estates budget to pay for dilapidations on buildings. These payments are paid to landlords when premises are vacated. It is also necessary to create an ongoing budget for the future costs of maintaining the new estate and a separate sinking fund of £0.300m per annum has been set up for this purpose. These amounts will initially be contributed to reserves.

Commissioned Services

7.18. There is a modest increase of £0.064m to the Commissioning budget for additional out of court disposal services to be commissioned. These services are targeted at providing solutions that avoid the time and cost of utilising the courts and instead use methods that are more likely to result in a change in behaviour that reduces the risk of reoccurrence in the future. This provides a more effective outcome and frees up court time for those cases that need it most and reduces the time which police officers spend away from the front line.

7.19. It is also worth noting that there will be a transfer of funds in the sum of £57k from the Constabulary to the Commissioning as responsibility for the delivery of project CARA will move to the Commissioning team in the PCCs office.

Policing services – Local visible policing

7.20. The Constabulary is reviewing the current delivery of visible policing in communities to ensure that it is able to meet the type of demand being experienced both in communities and on-line. The review will allow all savings to be reinvested in visible local policing plus a net increase of £0.410m. Proposals will be subject to further consultation, but budget is provided to enable the Constabulary to best meet the demands, pending the outcome of that consultation.

7.21. Devices will be rolled out for officers and staff working in Neighbourhood Policing to allow them to spend more time in the communities they serve. A funding provision of £0.713m is made in 2019/20 with a replacement budget of the same value in 2022/23.

Policing services – High harm offences

7.22. The efficiency savings deliverable as a result of the new Eastern Police Investigation Centre (PIC) are to be reinvested in the Investigations command with a specific focus on high harm sexual offences at a cost of £1m pa. There is also one-off provision of £1.5m in 2019/20 as a contribution to the cost of a building to house the regional resources that disrupt the highest harm organised crime groups along with a revenue budget increase of £0.345m pa for dealing with serious organised crime groups.

7.23. The budget also includes funding for the Communications Intelligence function that was delivered through collaboration but has had to be provided in-house pending the creation of a new collaborated function, at a cost of £0.290m in 2019/20 and £0.274m pa thereafter until a new arrangement is in place.

7.24. The Force Solicitor's office requires two additional staff in relation to essential activity required to meet new disclosure obligations in relation to child protection and domestic violence at a cost of £0.098m pa. The Crown Court review team pilot is also established at a cost of £0.097m pa to manage serious offenders at crown court. Offender Management resources are required to be increased by £0.087m in order to maintain the ratio of personnel to offenders being managed within the community.

Policing services - Technology and ICT

7.25. 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.

7.26. 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 priorities, and continue to drive efficiency and effectiveness.

7.29. The Constabulary's primary crime recording and management system (RMS) must be moved to new servers to remain compliant with current supported software and security at a one-off cost of £0.427m in 2019/20.

7.30. Licensing costs for systems increase by £0.357m per annum. There is a one-off cost for upgrading the Child Abuse Investigation CAID system to be able to cope with the increasing levels of data and complexity, costing £0.339m in 2019/20 only.

7.31. The introduction of the Office 365 package as part of the national Policing Vision platform will cost an additional one-off £0.271m in

2019/20. Similarly, the introduction of Sharepoint, as part of the Policing Vision methods for sharing data across partners, will cost an extra £0.169m in 2019/20 and £0.032m per annum thereafter. The extension of the national PSN programme is budgeted to cost an additional one-off £0.156m in 2019/20.

- 7.32. There are minor budgets included for Roads Policing hardware £0.037m (one-off in 2019/20) and maintenance of £0.031m per annum. There are future provisional budgets included for Citrix migration (£0.100m in 2020/21 and 2021/22) and ICT health checking (£0.072m in 200/21, £0.009m thereafter) which will be subject to confirmation in the budget for the following year.

Policing services - Forensics

- 7.33. An annual budget uplift of £0.400m is included due to the renegotiated costs of forensic provision exercise undertaken nationally. This has increased the price to be paid for forensic submissions in order for the market to be sustainable. A one-off £0.300m is included for replacement of ACESO devices used to exam mobile phones for evidence. A one-off sum of £0.283m is included for essential changes to Scientific Services buildings in order to retain the ISO accreditation necessary to undertake forensic examinations

Policing services – Statutory or mandatory

- 7.34. The cost of ill health retirements continues to be significantly above the budget on a year on year basis. The budget was increased in 2018/19 to £1m but forecast expenditure is again over £2m. There is very limited flexibility on ill health retirements as independent registered medical examiners have to be used to assess the conditions of each individual case. The decision to ill health retire or not is based upon the medical findings and recommendations. Therefore, it is necessary to increase the budget by a further £1m to £2m to avoid continuing with an ongoing financial risk.
- 7.35. Plans are in place for the coming year to invest in preventative work to address the rising leave of ill health retirements.
- 7.36. An uplift of £0.140m pa is included for Professional Standards to comply with expected standards. An extra £0.063m is included for Joint Information Management Unit to cope with the additional requirements of the General Data Protection Regulations (GDPR). Essential equality and inclusion training will be provided at a cost of £0.085m in 2019/20 and £0.065m in 2020/21. A new Health & Safety Assistant post will be introduced at a cost of £0.034m pa to provide resilience as currently the Force has only one Health & Safety Manager in post.
- 7.37. A further £0.060m pa is included for a portfolio tool that will be required to comply with the requirements of the new Police Education Qualification Framework (PEQF). This is a new mandatory process for recruiting police officers that will be enforced by the College of Policing from January 2020. The full costs of PEQF when live are not fully understood so a provision of £1m pa is included in projections for 2020/21 onwards for planning purposes only. That amount is not

approved or even requested to be approved due to the level of uncertainty, but indications are that there will be additional cost that will need to be allowed for.

- 7.38. A sum of £0.058m pa is included as the Hampshire share of joint Counter Terrorism Security Co-ordinator posts with Thames Valley Police. These posts are necessary to undertake planning and checks for operational events.

Constabulary Wellbeing Strategy

- 7.39. As set out in paragraph 2.3, the confirmation of the final council tax base, Collection Fund surplus and Police ICT levy means that there is an additional funding of £624k available when compared with the budget and MTFs presented to the Police & Crime Panel on the 25th January.
- 7.40. The Police and Crime Commissioner has been in discussion with the Chief Constable on the emerging Wellbeing Strategy for the Constabulary, and has earmarked this additional funding to directly support implementation of the strategy in 2019/20.
- 7.41. The Wellbeing strategy is being finalised, and is subject to final consultation and agreement with the Police and Crime Commissioner; once agreed, a Decision notice will be published which will then release the funds from reserves in support of the strategy.
- 7.42. The Wellbeing Strategy will specifically target the extension of psychological screening, more effective management of exposure to trauma, suicide prevention training, enhanced occupational health response, more effective management of long term absences, improving access to rehabilitation services and expanding outreach health screening.
- 7.43. Research from the College of Policing has found that the additional value of productivity generated through wellbeing strategies more than pays back the cost of delivering the wellbeing strategies. Therefore, the investment is not just beneficial to the welfare of personnel but it will also reduce absences and allow people at work to be more effective.

Policing services – Other

- 7.44. The Out of Court Disposal Team pilot will be established at a cost of £0.196m pa. This will provide more effective solutions for resolving incidents and changing behaviour aimed at reducing reoffending. It also frees up court time for the most serious cases.
- 7.45. There is £0.160m pa included to pay for security posts to ensure that access to buildings is appropriate. These posts need to be established pending review. An allocation of £0.100m is included to assist with the management of trauma for police personnel as part of the People Strategy

Future Cost Pressures and Growth Items

- 7.46. 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 2020/21, so an additional £6m by 2022/23).

- 7.47. In addition to the budget pressures and growth column in Appendix D, there is an inflation column that sets out the additional costs attributable to inflation for pay and prices and a column headed 'other changes'.
- 7.48. Other changes includes the expected increases in police officer pension costs (£7.500m) as well as the increase in the police staff pension scheme lump sum (£0.793m) and increments. There is a net reduction in supplies & services costs due to the removal from the budget of one-off expenditure due to a reduction in the overall cost of the Joint Operations Unit, hosted by Hampshire, that were agreed in the budget last year.
- 7.49. The increase in capital financing costs (£0.581m) is based on the increase in payments for borrowing as planned through the capital programme and Prudential Code framework.

8. Savings

- 8.1. The budget includes savings of £2.9m in 2019/20 which have been identified through the annual Zero Based Budget exercise that makes relatively small changes to individual budget allocations where efficiency measures can be introduced. These include reductions in demand and prices that when added together result in a significant overall saving.
- 8.2. The MTFS does assume that more significant savings will be delivered through changes to the estate, particularly when buildings can be sold as a result of the new Eastern PIC. The timing and value of these savings will of course be dependent on re-provision, movements of people and disposal of assets which will need to be subject to ongoing review.
- 8.3. The proposals also include the reinvestment of savings relating to visible local policing in Response & Patrol and Prevention & Neighbourhoods (£7m) in order to enhance the service delivery and better meet the demand. These are not shown as savings in Appendix D as they are internal reorganisations. Similarly, reforms within the Investigations function will reinvest £1m into a new workforce mix that will provide enhanced investigative capacity.
- 8.4. A reduction in the cost of the Office of the Police and Crime Commissioner (including absorbing inflation) is planned in the coming year. The overall cost of the Office will continue to be reviewed during the year with further changes to the current staffing being assessed.
- 8.5. Further savings will be necessary in future years to balance the budget beyond 2019/20.

9. Capital Programme including Estate Development Programme

- 9.1. The Capital Programme for the period 2019/20 to 2022/23 (and later years) is set out in Appendix E, and the Capital Strategy is set out in Appendix F.
- 9.2. The Capital Strategy provides a 'high-level' overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the services within the PCC's remit

including policing, and provide an overview of how associated risk is managed and the implications for future financial sustainability.

- 9.3. The cost of financing the approved capital expenditure is included within the revenue budget calculations for capital financing for approved items.
- 9.4. The Estates Change Programme (ECP) is subject to regular review to ensure that the estate is fit for purpose. Savings have been included in future year forecasts based on the current Estates Strategy. They fluctuate across years as some buildings are decommissioned and new accommodation is built or leased.
- 9.5. The PCC and Chief Constable are seeking to ensure that officers, staff and the public are served by modern technology that maximises effectiveness and efficiency. The capital programme includes a number of technology projects as part of the ICT and Digital Transformation Programme.
- 9.6. In addition, RMS upgrade and the Emergency Services Mobile Communications Programme (ESMCP) have been included in the capital programme, funded from the Transformation Reserve.

10. Reserves and Financial Stability

- 10.1. Reserves are necessarily and appropriately held as part of good strategic financial management and are a key element in supporting the PCC's medium term planning and Medium Term Financial Strategy.
- 10.2. Reserves held by the PCC are reducing and are likely to reduce further in the medium term.
- 10.3. 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.
- 10.4. It is now recognised by the Home Office that it is prudent to hold appropriate reserves to both manage risk and to avoid cliff edges caused by reductions in funding, and to also be able to continue to deliver efficient and effective operational policing.
- 10.5. For the 2019/20 budget, two new earmarked reserves have been created to manage the ongoing needs of the police estate. These earmarked reserves are:
 - i) **Estate Sinking fund** - this reserve will specifically set funding aside (£300k in 2019/20) to meet the future costs of maintaining the police estate to an appropriate standard. This will ensure that there will be no significant build up of unaffordable backlog maintenance costs in particular for those new buildings delivered within the Estates Change Programme (for example, the Northern PIC, Eastern PIC).

- ii) **Dilapidations Reserve** – a key element of the Estates Change programme was the move to leased premises to provide flexibility in accommodation which could respond to changes in the policing model and headcount. This reserve sets aside funding (£300k in 2019/20) to meet the dilapidation costs which arise when the PCC working with Constabulary determine not to renew a lease.
- 10.6. The PCC continues to use reserves to pay for the cost of change and the transformation that is required to meet both the financial challenge and the necessary investment to ensure that the Constabulary remains a modern, operationally effective Police Service.
- 10.7. In 2018/19 £11.4m will have been drawn down from reserves to fund transformation and other one off initiatives. For example, the Commissioner invested £0.8m to enhance and increase the Taser capability within the Constabulary, £1.5m on ICT investment and £4.1m on the Contact Management Platform project.
- 10.8. Reserves are also a one off resource, which unless replenished, can rapidly diminish.
- 10.9. In the medium term there is likely to remain significant financial stress in the system to be managed, including:
- i) Managing the overall financial position against a back drop of increasing demand
 - ii) 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 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
 - iv) 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
 - v) The significant investment required to embrace an ever evolving technology and digital landscape
- 10.10. In view of the cost pressures faced by the PCC and the Constabulary, in the medium term there is likely to be a significant call on reserves to fund one off pressures, initiatives and investment.
- 10.11. The two main reserves available to the PCC to fund these cost pressures are the General Reserve and the Transformation Reserve.
- 10.12. **General Reserve** – this is the main reserve held to manage unidentified and unforeseen risk. The PCC CFO is required to set a minimum level for the General Reserve, and this is currently set on a risk basis at £5.5m. This reserve is currently £2.3m above the minimum

level, however, the cost of re-investigating historic cases such as the Gosport War Memorial Hospital may impact this reserve.

- 10.13. **Transformation Reserve** – this reserve was specifically set up to recognise the significant investment required to deliver transformational change, support the significant investment requirements linked to technology development and digital initiatives, and to provide a buffer to help manage the budget in the medium term given the ongoing uncertainty around the level of Police grant and the precept referendum cap.
- 10.14. Transformational change investment and programmes generally impact over more than one financial year and ensuring funds are allocated to enable delivery of the key change programmes and their outcomes makes prudent sense at a time when budgets continue to be based on annual settlements.
- 10.15. The Transformation Reserve has a current unallocated balance of £18.5m which, net of known earmarked funding for specific initiatives, has £14.7m available to fund future cost pressures, initiatives and investment. This is illustrated below:

Transformation Reserve

	£m
Current unallocated balance	18.4
Force Development*	(3.8)
Remaining Balance	14.6

*will require funding but the PCC has yet to make a formal decision to allocate funding from the Transformation Fund.

- 10.16. In recommending a precept increase for Band D of £24 per annum, the PCC will be able to fund the currently identified priority growth/pressure items from within the revenue budget over the next 4 years.
- 10.17. 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
- 10.18. 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.
- 10.19. For example, projects in the pipeline would include:
- Investment in artificial intelligence
 - Enhanced public contact

- Resilience and productivity in high trauma environments
 - Implementation of national technology projects and further local enabling projects
 - Enhanced policing requirements if necessary to support strategic network infrastructure post in the event of a no deal Brexit
 - Ongoing improvements to the police estate including potential redesign at Netley and on the Isle of Wight
- 10.20. There therefore remains a significant number of potential calls for one off investment for consideration by the PCC, and we know that change and transformation will be continual.
- 10.21. It is clear that to meet the Minister's aspirations, and more 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.
- 10.22. The CFO's assessment is that the level of the General Fund reserve is reflective of the overall risk environment in which the PCC operates, and that the level of Transformation Reserve is prudent and necessary to meet the ongoing requirement for one off expenditure to meet the transformation required to ensure that in the years ahead the Constabulary remains a modern operationally effective police force.
- 10.23. The Reserves Strategy is set out in Appendix G.

11. Partnerships

- 11.1. Hampshire continues to play its part supporting national policing.
- 11.2. A number of partnerships are supported across the Force. These include the ACPO Criminal Records Office (ACRO) which is funded by the Home Office, NPCC, fees and European funding. Staff at ACRO are officially employed by the Chief Constable. The costs of supporting ACRO are recharged. In addition, a surety is held in reserves to guard against any liabilities. These reserves are not available to the PCC to support policing in Hampshire.
- 11.3. Less financially significant partnerships exist with the Local Criminal Justice Board, Youth Offending Team (YOT) and Community Safety Partnerships.

12. Consultation

- 12.1. As set out in section 96 of the Police Act 1996, as amended by section 14 of the Police Reform and Social Responsibility Act 2011, the PCC must obtain the views of the local community on the proposed expenditure (including capital expenditure) in the financial year ahead of the financial year to which the proposed expenditure relates.
- 12.2. 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.

12.3. The public consultation exercise on the precept increase has had three distinct elements:

- i) An online consultation, which saw 5,961 people submit responses (the largest number of responses ever received by the Office to a consultation).
- ii) A YouGov survey of 500 demographically weighted respondents across Hampshire and the Isle of Wight.
- iii) A face to face consultation event held on the 12th January; there were two events, one in Basingstoke and one in Netley. These were attended by 98 demographically representative individuals.

12.4. The outcome from each individual element of the consultation, and the overall collective outcome shows that there is significant support for a precept increase of up to £24 or more.

12.5. The overall survey results are statistically relevant, and show that 76.38% of respondents to the question on the level of precept increase supported an increase of up to or more than £24, and further details are set out below

Online Survey.

12.6. The online survey went live and has been promoted to the public since 14th December.

12.7. As at the close of consultation on the 12 January 2019, 5,961 residents from across the Hampshire Policing area had fed back their views by completing the online survey.

12.8. From the total number of 5,961 responses, 5,908 individuals responded to the specific question:

'Would you support an increase in Council Tax to support local Policing ?

12.9. Of those responding:

74% said they would support an increase in council tax

26% said they would not support an increase in council tax

12.10. The online survey then asked:

'How much more would you be willing to contribute through your council tax next year if meeting policing demands required a further uplift to keep communities Safer'

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

- up to £12 per annum
- up to £24 per annum
- more than £24 per annum

12.12. The results show that 77.2% of respondents to this question would be willing to pay up to or more than £24 per annum more in their council tax:

The precept rise residents would be willing to pay	Number of respondents Agreeing	% of respondents
Up to £12 per year	1,024	22.80%
Up to £24 per year	2,174	48.50%
More than £24 per year	1,288	28.70%
Total	4,486	100.00%

YouGov Survey

12.13. An additional survey of 500 respondents was undertaken through YouGov. The survey was conducted using an online interview administered to members of the YouGov panel. The responding sample is weighted to ensure responses are fully representative from across the 14 districts.

12.14. The outcome from this survey was that:

- i) 67% of respondents said they would like to see increased funding go to policing
- ii) of the 67% who would pay more council tax for policing 60% would pay £24 and over
- iii) the top three areas where respondents would prioritise a funding increase are:
 - investment in crime prevention (45%)
 - tackling violent crimes (42%)
 - addressing anti-social behaviour (37%)

Face to Face Consultation Events

12.15. The independently facilitated face to face consultation events were held on Saturday 12 January 2019 in Basingstoke and Netley. In total 94 people attended the consultation events.

12.16. The Office of the Police and Crime Commissioner selected consultation company Opinion Research Services (ORS) to deliver the facilitated groups through the Marketing and Advertising Framework Agreement established by Hampshire County Council in 2016. The framework provided a compliant and efficient route to obtaining the required

service. ORS were selected in accordance with the mechanisms and best value terms of use set out in the Framework Agreement.

12.17. In total 94 participants attended across both events, representing a full demographic cross section of Hampshire, Isle of Wight, Portsmouth and Southampton residents.

12.18. These events allowed residents to be briefed by both the PCC and the Chief Constable on:

- the increasing and changing nature of the crimes the Constabulary has to deal with
- how the existing budget is spent
- the rationale behind the proposal to increase the Band D precept by £24, including setting out the consequences of setting a lower precept increase
- the investment in Policing which the £24 will allow

12.19. From the feedback responses (based on 83 responses using interactive voting) more than half (58%) were in favour of a precept increase.

12.20. In terms of the level of precept increase, 56% (from 80 responses) supported a precept of £24 per annum.

12.21. The presentations were followed by independently facilitated focus groups, to allow attendees to give more detailed thoughts on the proposals.

13. Risks

13.1. There are a number of risks that could impact on the financial position in 2019/20 and beyond, for example:

- an increase in national top-slices
- reductions in government grant beyond existing assumptions
- new additional expenditure will be greater than forecast, hence further savings could be required (as an example, each 1% increase in the pay award beyond the current assumption of a 2% pay award would lead to a cost pressure of £2.5m)
- a risk that partner agencies could reduce or withdraw their services which puts additional financial pressure on the police service
- some activities and funding could be moved to a regional or national basis that would remove funding from the Hampshire Policing Area. There is a risk that the removal of funding causes a financial difficulty that needs to be managed locally
- Insufficient savings are identified or delivered to meet the forecast medium term budget shortfall, necessitating a draw from reserves to balance the budget in any one year

- there are insufficient reserves to fund the scale of one-off funding required to meet short term budget shortfalls, cost pressures, initiatives and investment

13.2. The level of risk has been taken into account in assessing the minimum and overall level of reserves.

14. Recommendations

14.1. The Police and Crime Commissioner sets a precept increase of £24 per annum for Band D properties, which is the equivalent of £2 per month, or 46p per week.

14.2. The full precept increase will be utilised in support of local policing.

14.3. The Police and Crime Commissioner notes that the Police and Crime Panel unanimously supported his proposal to increase the precept by £24 per annum (Band D property).

14.4. To note that 61% of households across Hampshire and the IOW are in properties in council tax bands A-C (see paragraph 6.11), and will therefore see a precept increase of less than £24 per annum as a result of the band D precept increase of £24.

14.5. To note that results from the public consultation identify overall public support for the £24 precept increase at 76.38% with further endorsements from the Chief Constable, the Police Federation, UNISON and Neighbourhood Watch.

14.6. To note the precept 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.

14.7. The Police and Crime Commissioner agrees the 2019/20 revenue budget and MTFs (2019/20 – 2022/23) as set out in appendix D, and notes that the budget has been updated from the budget which was presented to the Police and Crime Panel as set out in paragraph 2.3 of this report, to take account of the final council tax base, final Collection Fund surplus and confirmation of the final Police ICT levy.

14.8. That the additional funding of £624k which is available following confirmation of the final council tax base, Collection Fund surplus and Police ICT levy, be earmarked on a one off basis to support welfare initiatives within the Constabulary as part of the Wellbeing Strategy, the expenditure for which will be agreed in consultation with the Police & Crime Commissioner and subject to a separate decision

14.9. The 2019/20 capital programme is agreed as set out in appendix E.

14.10. The Capital Strategy is approved as set out in appendix F.

14.11. The 2019/20 Reserves Strategy is approved as set in appendix G.

14.12. The Police and Crime Commissioner's basic Council Tax for the year beginning 1 April 2019 will be £201.46 per annum at Band D.

- 14.13. The Police and Crime Commissioner's basic Council Tax for the year beginning 1 April 2019 for each band will be as set out in appendix C.
- 14.14. The Council Tax requirement for the Police and Crime Commissioner for Hampshire, Isle of Wight, Portsmouth and Southampton for the year beginning 1 April 2019 will be £138,927,823.30 as per appendix C.
- 14.15. Precepts are issued for the year beginning 1 April 2019 totalling £138,927,823.30 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.

Inflation and Assumptions

Basic Pay	Sept 2018	Sept 2019	Sept 2020	Sept 2021
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	2021/22
Officer pay	101.17%	101.17%	102.00%	102.00%
Staff pay	101.17%	101.17%	102.00%	102.00%

National Insurance	2018/19	2019/20	2020/21	2021/22
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	2021/22
Actual rate if in scheme:				
Officers	21.30%	31.00%	31.00%	31.00%
Staff	15.10%	16.10%	16.10%	16.10%
Budgeted rate (based on scheme membership)				
Officers	20.16%	29.34%	29.34%	29.34%
Staff	13.79%	14.70%	14.70%	14.70%
Police staff lump sum (£)	5,625,000	6,418,200	6,418,200	6,418,200

Government Grants	2018/19	2019/20	2020/21	2021/22
General Grant Changes	0.00%	3.77%	-1.60%	0.00%

Non-pay	2018/19	2019/20	2020/21	2021/22
Gas	2.50%	2.50%	2.50%	2.50%
Electricity	2.50%	2.50%	2.50%	2.50%
Cleaning	4.00%	3.00%	3.00%	3.00%
Vehicle fuel	2.50%	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

Appendix C

Council tax Precept 2019/20

Council tax at each band								
Band	A	B	C	D	E	F	G	H
£	134.31	156.69	179.08	201.46	246.23	291.00	335.77	402.92

Collection authority tax bases and share of precept 2019/20

Collection authority	Tax base	Precept (£)
Basingstoke and Deane	65,768.80	13,249,782.45
East Hampshire	50,461.90	10,166,054.37
Eastleigh	45,853.61	9,237,668.27
Fareham	42,909.60	8,644,568.02
Gosport	26,956.20	5,430,596.05
Hart	40,704.11	8,200,250.00
Havant	40,708.30	8,201,094.12
Isle of Wight	53,508.00	10,779,721.68
New Forest	71,074.40	14,318,648.62
Portsmouth	57,075.40	11,498,410.08
Rushmoor	31,352.21	6,316,216.23
Southampton	64,959.00	13,086,640.14
Test Valley	48,966.00	9,864,690.36
Winchester	49,307.47	9,933,482.91
Total	689,605.00	138,927,823.30

Appendix D

Budget 2019/20 and Medium Term Financial Strategy

Medium Term Financial Strategy	Revised Budget 2018/19	Efficiency Savings	Growth & Budget Pressure	Conts To/From Reserves	Other changes	Inflation	Forward Budget 2019/20	Forecast Budget 2020/21	Forecast Budget 2021/22	Forecast Budget 2022/23
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Funding:										
Expected amount from General Grants	(180,600)	0	0	0	(3,783)	0	(184,383)	(184,383)	(184,383)	(184,383)
Council tax freeze and benefit grant	(12,944)	0	0	0	0	0	(12,944)	(12,944)	(12,944)	(12,944)
Council tax precept	(120,644)	0	0	0	(18,284)	0	(138,928)	(142,402)	(145,962)	(149,611)
Council tax collection fund surplus	(852)	0	0	0	(191)	0	(1,042)	(1,042)	(1,042)	(1,042)
Total amount funding expected:	(315,040)	0	0	0	(22,257)	0	(337,297)	(340,771)	(344,332)	(347,981)
Expenditure owned by the PCC:										
Office of the PCC	2,044	0	0	0	(44)	30	2,030	2,080	2,130	2,172
Commissioning	2,074	0	64	0	57	0	2,194	2,196	2,198	2,200
Estates	14,321	0	2,763	0	12	456	17,551	17,125	16,950	16,262
Capital Financing	2,505	0	0	0	581	0	3,086	3,052	3,020	3,000
Interest on Balances	(500)	0	0	0	0	0	(500)	(500)	(500)	(500)
Contributions to / (from) Reserves:	3,935	0	1,224	680	0	0	5,839	2,602	1,586	1,586
Net Expenditure owned by Office of the PCC	24,379	0	4,050	680	606	485	30,200	26,554	25,383	24,719
Police Services										
Expenditure:										
Employees	244,188	(1,211)	3,754	330	10,916	4,026	262,003	266,818	271,842	277,395
Transport	6,428	(408)	0	0	0	193	6,214	6,396	6,585	6,781
Supplies and Services	72,327	(1,977)	5,586	0	(3,595)	1,353	73,693	74,511	78,012	82,231
Premises	1,244	22	0	0	0	35	1,301	1,333	1,367	1,401
National Levies	2,559	(108)	0	0	0	51	2,503	2,553	2,604	2,656
Grants Paid	300	(54)	0	0	0	0	246	246	246	246
Total Expenditure on Police Services:	327,047	(3,735)	9,340	330	7,321	5,658	345,960	351,857	360,656	370,710
Income:										
Service Income	(33,496)	429	0	0	348	(659)	(33,378)	(34,042)	(34,719)	(35,409)
Specific Grants	(2,890)	405	0	0	(3,000)	0	(5,485)	(2,485)	(2,485)	(2,485)
Total Income on Police Services:	(36,386)	834	0	0	(2,652)	(659)	(38,863)	(36,527)	(37,204)	(37,894)
Net Expenditure on Police Services:	290,661	(2,901)	9,340	330	4,668	4,999	307,097	315,330	323,452	332,816
Amount from General Grants and Taxation:	315,040	(2,900)	13,390	1,010	5,275	5,484	337,297	341,884	348,835	357,535
Budget (surplus)/ shortfall:	0	(2,900)	13,390	1,010	(16,983)	5,484	0	1,113	4,503	9,554

Capital Programme

Capital Programme 2019-20 - Approved Items Only	2018/19	2019-20	2020-21	2021-22	2022-23 and later years
	£'000	£'000	£'000	£'000	£'000
Estate					
Estate Change Programme	24,728	22,694	310		
Estates Capital Works Programme	2,738	2,257	1,000	1,000	1,000
Estates Specific Projects	686	745			
Total Estate:	28,152	25,696	1,310	1,000	1,000
Technology					
<i>Annual ICT Capitalisation Programme (£1m)</i>					
Print Server Upgrades	82				
Network Infrastructure					
Network Infrastructure Refresh	270				
SEPSNA South East Police Shared Network Service Agreement	76				
VAD Switchboard	115				
Digital Policing Programme					
Body Worn Video	79				
Neighbourhood devices		713			713
ICT 2020					
ICT Rationalisation	873	70			
Technical Debt	240				
ANPR					
Automatic Number Plate Recognition	119				
ANPR Phase 2	570				
ICT Roadmap					
High Tech Crime Unit DFU Central Storage	450				
IL4 Confidential Infrastructure Refresh		137			
Windows 10 Build	887	1,356			
Laptop Rollout / Desktop Reduction	746	994	994	136	136
Managed Mobility Service Pilot / Rollout	125	97			
End User Devices - Phones	474	610	376	152	152
End User Devices - BWV	45	711	378		
Direct Access (Scaling VPN)	113				
EUD Retender	74				
PSN Remediation	662	156	32	32	32
NPTC Office 365	199	750			
Connectivity - Network Infrastructure Refresh	181	181	181		
Compute - Server Refresh	200	200	200		
Storage - Additional Storage Capacity	200	200	200		
Digital Transformation Programme					
Chronicle Upgrade	4	54			
Single Instance of ESRI Gazetteer	128	48			
Data Enablers: General Data Protection Regulation GDPR	30				
Digital Contact: Online Service Enablers	0	167			
Digital 1st: TWIF	169	93			
DIT: ANPR NAS	39				
Data Enablers: Data Architecture	58	135			
Data Enablers: Data Governance	47	66			
Digital Contact: Development of Online Services 2018/19	54	331			
Digital Contact: Social Media Crime Reporting		131			
DETS & DEMS	68	339			
Data Enablers: Data Visualisation		127	253		
Data Enablers: Data Analytics / Demand Analysis (DII)		30	60		
Other ICT Capital Programmes					
ESMCP Airwave Replacement	100	100	2,600	4,600	136
Service Desk CoSourcing	112	100			
Sharepoint	264	657			
Network Monitoring & Alerting		104			
RMS v5.04 Upgrade	565	94			
Events		14			
Technology:	8,418	8,765	5,274	4,920	1,169
Transport					
Vehicle Replacement Programme	2,681	2,379	2,300	2,300	2,300
Transport:	2,681	2,379	2,300	2,300	2,300
TOTAL EXPENDITURE:	39,251	36,840	8,884	8,220	4,469
Capital Receipts:					
Operational Buildings	(5,390)	(17,550)	(8,600)	(1,150)	0
Residential Properties	(1,420)		(1,198)		
Vehicles and fleet	(200)	(300)	(300)	(300)	(300)
Total Capital Receipts:	(7,010)	(17,850)	(10,098)	(1,450)	(300)
Capital Grant & Reserves:					
Capital Grant	(1,158)	(1,184)	(1,184)	(1,184)	(1,184)
Revenue Contributions to Capital Outlay	(6,008)	(5,720)	(2,974)	(332)	(945)
Other reserves funding	(6,937)	(4,413)	(2,500)	(4,500)	0
Landlord Capital Contribution for Eastern PIC Construction	(10,000)	0	0	0	0
Total Capital Grants & Reserves:	(24,104)	(11,317)	(6,658)	(6,016)	(2,129)
TOTAL FUNDING:	(31,114)	(29,167)	(16,756)	(7,466)	(2,429)
Approved (Surplus)/Shortfall to be funded by borrowing:	8,137	7,673	(7,872)	754	2,040

Capital and Investment Strategy 2019/20 to 2021/22

1 Introduction

1.1 This report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the services within the PCC's remit including policing, and provide an overview of how associated risk is managed and the implications for future financial sustainability. The Office of the Police and Crime Commissioner (OPCC) has previously reported these matters in separate reports (the revenue budget, capital programme and the medium term financial strategy). In line with the latest statutory guidance, these inter-related issues are brought together in this Capital and Investment Strategy.

1.2 This strategy covers:

- Governance arrangements for capital investment
- Capital expenditure forecasts and financing
- Prudential indicators relating to financial sustainability
- Minimum revenue provision for the repayment of debt
- Treasury Management definition and governance arrangements
- Knowledge and skills
- Chief Finance Officer's conclusion on the affordability and risk associated with the capital and investment strategy
- Links to the statutory guidance and other information

2 Governance

2.1 The OPCC's medium term financial strategy ensures that we continue to invest wisely in our existing assets and deliver a programme of new assets in line with overall priorities and need.

2.2 The major area of OPCC capital expenditure is the Estate Change Programme which is monitored and reviewed by the ECP Board. Other areas of the capital programme are kept under review by the Chief Finance Officer.

2.3 In accordance with the medium term financial strategy, proposed programmes are scrutinised on a case by case basis to assess affordability. The final capital programme is then presented to the Police

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

- 2.4 Any additions to the capital programme outside of the February capital programme approval are approved through individual PCC decisions.

3 Capital expenditure and financing

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

Table 1 - Forecast capital expenditure and resources to fund capital expenditure

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Forecast Expenditure	39,300	36,800	8,900	8,200	4,500
Funded By:					
Prudential Borrowing	8,200	7,600	(7,900)	700	2,100
Capital Grants	1,200	1,200	1,200	1,200	1,200
Contributions from other bodies (incl Developers)	10,000	0	0	0	0
Capital receipts	7,000	17,900	10,100	1,500	300
Contributions from reserves	6,900	4,400	2,500	4,500	0
Revenue contributions to capital	6,000	5,700	3,000	300	900
Total Resources Available	39,300	36,800	8,900	8,200	4,500

4 Prudential Indicators

4.1 The framework for the use of prudential borrowing, includes:

- borrowing for which loan charges are financed from the revenue budget
- temporary borrowing to accommodate shortfalls in general capital resources.

4.2 As the loan repayments and interest charges have to be financed by the OPCC from its own resources, it is important that the use of prudential borrowing is very closely controlled and monitored.

4.3 The OPCC's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). In order to ensure that over the medium term debt will only be used to fund capital, the OPCC should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

Table 3 – Ensuring borrowing is only for capital purposes

	31/03/19 Revised £m	31/03/20 Estimate £m	31/03/21 Estimate £m	31/03/22 Estimate £m
CFR	58.2	65.9	58.0	58.8
Debt	31.0	30.5	30.0	29.7

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

Affordable borrowing limit

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

Table 4 – Affordable borrowing limits

	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
	£m	£m	£m	£m
Authorised limit:				
Borrowing	85.4	93.1	85.2	86.0
Other long-term liabilities	5.0	5.0	5.0	5.0
Total Authorised limit	90.4	98.1	90.2	91.0
Operational boundary:				
Borrowing	72.3	80.0	72.1	72.9
Other long-term liabilities	5.0	5.0	5.0	5.0
Total operational boundary	77.3	85.0	77.1	77.9

Ratio of Financing Costs to Net Revenue Stream

- 4.6 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Table 5 – Ratio of Financing Costs to Revenue Budget Requirement

	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
	%	%	%	%
Ratio	0.60	0.79	0.77	0.75

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

Incremental Impact of Capital Investment Decisions

- 4.7 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the

difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed for the next three years.

Table 6 - Incremental Impact of Capital Investment Decisions

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
	£	£	£
General Fund – incremental impact on annual band D Council Tax	0.55	(4.09)	(3.93)

5 Minimum Revenue Provision for debt repayment

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

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

MRP in 2019/20

5.2 Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) capital expenditure funded from borrowing. Methods of making prudent provision for unsupported capital expenditure include Options 3 and 4 (which may also be used for supported capital expenditure if the OPCC chooses).

5.3 The OPCC will apply Option 1/Option 2 in respect of supported capital expenditure funded from borrowing and Option 3/Option 4 in respect of unsupported capital expenditure funded from borrowing.

5.4 MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayments for the associated deferred liability.

- 5.5 Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21.
- 5.6 Based on the OPCC's latest estimate of its Capital Financing Requirement on 31st March 2019, the budget for MRP has been set as follows:

	31.03.2019 Estimated CFR £m	2019/20 Estimated MRP £
Supported capital expenditure	7.6	450,000
Unsupported capital expenditure after 31.03.2008	50.6	1,424,000
Finance leases and Private Finance Initiative	0	0
Transferred debt	0	0
Loans to other bodies repaid in instalments	0	0
Total General Fund	58.2	1,874,000

6 Treasury Management

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

liquidity of its investments before seeking the highest rate of return, or yield.

- 6.5 The OPCC's Treasury Management Strategy is scrutinised by the Joint Audit Committee and approved by the PCC each year. Actual performance is reviewed by the Joint Audit Committee and reported to the PCC.

7 Investments targeting higher returns

- 7.1 Given the increasing risk and very low returns from short-term unsecured bank investments, the OPCC aims to continue to diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the estimated £25m that is available for longer-term investment.
- 7.2 Approximately 77% (increased from 74% last year) of the OPCC's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, pooled property and equity funds, corporate bonds and secured bank bonds. Whilst the remaining cash is subject to bail-in risk, 28% of this balance is held in overnight money market funds which are subject to a reduced risk of bail-in, 32% is held in certificates of deposit which can be sold on the secondary market, and 8% is held in overnight call accounts with banks to allow for liquidity. 32% of cash subject to bail-in risk is held in short-term notice accounts which are due to mature before the end of the financial year.
- 7.3 This diversification will represent a continuation of the new strategy adopted in 2015/16.
- 7.4 The OPCC's investments in pooled property and equity funds allow the OPCC to diversify into asset classes other than cash without the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the OPCC's pooled fund investments are in the funds' distributing share classes which pay out the income generated.
- 7.5 Although money can be redeemed from the pooled funds at short notice, the OPCC's intention is to hold them for at least the medium term. Their performance and suitability in meeting the OPCC's investment objectives are monitored regularly and discussed with Arlingclose.

8 Knowledge and skills

- 8.1 Through the Hampshire Shared Services Partnership, the PCC is advised by professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions in accordance with the approved strategies. Performance against targets and learning and development needs are assessed

annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

- 8.2 Staff attend training courses, seminars and conferences provided by CIPFA, Arlingclose and other providers. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.
- 8.3 CIPFA's Code of Practice requires that the OPCC ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Members of the Joint Audit Committee attended a workshop presented by Arlingclose in November 2018, which gave an update of treasury matters. A further Arlingclose workshop has been planned for November 2019.

Investment Advisers

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

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

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

10 Links to statutory guidance and other information

- 10.1 The Local Government Act 2003, section 15(1) and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] require Local Authorities to have regard to the following guidance:
 - MHCLG - Local Government Investment* [MHCLG Investment](#)
 - CIPFA's Prudential Code 2017

- CIPFA's Treasury Management Code 2017

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

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



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RESERVES STRATEGY 2019/20



1. Background

- 1.1. The PCC published a Reserves Strategy as part of the 2018/19 budget report, and an updated Reserves Strategy post was also published to meet new guidance (as referenced in paragraph 1.2).
- 1.2. On the 31 January 2018, new reserves guidance was issued to all PCCs (see the link below). This report sets out the reserves strategy in accordance with this guidance.

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

- 1.3. The Reserves Profile shows that existing planned commitments will result in a forecast reduction of reserves available for use by the PCC by March 2023 to £14.2m (down from £63.5m at the end of March 2018), of which the General Reserve would be £6.3m which is just over 1.8% of the annual revenue budget at that point. This assumes that there are no adverse issues that impact on the General Reserve.
- 1.4. The Chief Finance Officers have a responsibility to ensure that the level of reserves maintained is sufficient. The Police Reform and Social Responsibility Act 2011 states that only the PCC, and not the Chief Constable, is permitted to hold reserves. In Hampshire, it was agreed that this would continue to be the case after the Stage 2 transfer in May 2014.
- 1.5. The Chartered Institute of Public Finance and Accountancy (CIPFA) produces guidance on reserves, but the exact level of reserves to be held is left as a local decision due to the need to reflect individual circumstances. Whilst there are no firm requirements on the amount, it is clear that reserves must be held to ensure that the organisation is able to meet any unexpected liabilities. CIPFA warned that the use of reserves to deal with shortfalls in day-to-day spending would be a “recipe for significant financial problems”.
- 1.6. As part of the revised Financial Management Code of Practice issued in July 2018, the Minister of State for Policing and Fire set out an expectation that General Reserves should not exceed 5% of budget, and that where they do PCCs should provide a *‘justification for holding a general reserve larger than 5% of budget’*.
- 1.7. The current balance on the General Reserve does not exceed this 5% limit.
- 1.8. Reserves required for accounting purposes only are not covered by this strategy as they are not optional and follow proper accounting practices.
- 1.9. The level of reserves held is audited annually by the externally auditors, currently Ernst & Young LLP.

2. Matters for Consideration in assessing the level of reserves

- 2.1. The recent 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, for example the recent increase in Police employer pension costs as a result of actuarial changes to the discount rate.

- 2.2. Therefore, the austerity programme and ongoing fiscal policy changes create an increased risk to financial stability for which reserves are held to mitigate this risk. Reserves will also be required to support the significant investment required to reform policing and achieve the Policing Vision 2025.

3. Financial Stability

- 3.1. Reserves are necessarily and appropriately held as part of good strategic financial management and are a key element in supporting the PCC's medium term planning and Medium Term Financial Strategy. Reserves held by the PCC are reducing, and are likely to reduce further in the medium term.
- 3.2. The PCC continues to use reserves to pay for the necessary cost of change that is required to meet both the financial challenge and the necessary investment to ensure that the Constabulary remains a modern, operationally effective Police Service.
- 3.3. 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.
- 3.4. The level of reserves required and the intended use of those reserves is reviewed on a regular basis.
- 3.5. It is now recognised by the Home Office that it is prudent to hold appropriate reserves to both manage risk and to avoid cliff edges caused by reductions in funding, and to also be able to continue to deliver efficient and effective operational policing
- 3.6. Additionally, Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) also review reserves. The current rating for efficiency is 'good' with no areas for improvement recommended for financial management or reserves.
- 3.7. For the 2019/20 budget, two new earmarked reserves have been created to manage the ongoing needs of the police estate. These earmarked reserves are:
 - i) **Estate Sinking fund** - this reserve will specifically set funding aside (£300k in 2019/20) to meet the future costs of maintaining the police estate to an appropriate standard. This will ensure that there will be no significant build up of unaffordable backlog maintenance costs in particular for those new buildings delivered within the Estates Change Programme (for example, the Northern PIC, Eastern PIC).

- ii) **Dilapidations Reserve** – a key element of the Estates Change programme was the move to leased premises to provide flexibility in accommodation which could respond to changes in the policing model and headcount. This reserve sets aside funding (£300k in 2019/20) to meet the dilapidation costs which arise when the PCC working with Constabulary determine not to renew a lease.
- 3.8. The PCC continues to use reserves to pay for the cost of change and the transformation that is required to meet both the financial challenge and the necessary investment to ensure that the Constabulary remains a modern, operationally effective Police Service.
- 3.9. In 2018/19 £11.4m will have been drawn down from reserves to fund transformation and other one off initiatives. For example, the Commissioner invested £0.8m to enhance and increase the Taser capability within the Constabulary, £1.5m on ICT investment and £4.1m on the Contact Management Platform project.
- 3.10. Reserves are also a one off resource, which unless replenished, can rapidly diminish.
- 3.11. 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 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.
 - iv) 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.
 - v) the significant investment required to embrace an ever evolving technology and digital landscape.
- 3.12. In view of the cost pressures faced by the PCC and the Constabulary, in the medium term there will be a significant call on reserves to fund one off pressures, initiatives and investment.
- 3.13. The two main reserves available to the PCC to fund these cost pressures are the General Reserve and the Transformation Reserve.
- 3.14. In recommending a precept increase for Band D of £24 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.
- 3.15. 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.

3.16. There is already a significant pipeline of projects which due to funding constraints have not been prioritised for inclusion in the current budget/MTFS, but will need to be continually reassessed and prioritised for future investment.

3.17. For example, projects in the pipeline would include:

- i. Investment in artificial intelligence
- ii. Enhanced public contact
- iii. Resilience and productivity in high trauma environments
- iv. Implementation of national technology projects and further local enabling projects
- v. Enhanced policing requirements if necessary to support strategic network infrastructure post in the event of a no deal Brexit
- vi. Ongoing improvements to the police estate including potential redesign at Netley and on the Isle of Wight

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

3.19. In his letter to PCCs as part of the 2018/19 settlement 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'

3.20. It is clear that to meet the Minister's aspirations, and more 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.

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

4. Reserves

- 4.1. 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.
- 4.2. The forecast Reserves position is as set out in full in appendix 1, with a snapshot of the position below which shows the position as at 31 March 2018, the forecast position 31 March 2019 and the forecast position through to the end of the medium term financial strategy as at 31 March 2023:

	Actual as at 31 March 2018	Forecast as at 31 March 2019	Forecast as at 31 March 2023
General Reserve	10.9	7.8	6.3
Earmarked Reserves	52.6	34.1	7.9
Total Reserves available for use by the PCC to support Policing and 'Beyond Policing' to deliver the Police and Crime Plan	63.5	41.9	14.2
Ring fenced Reserves held on behalf of others not available to spend by the PCC	11.4	11.4	11.4
Revenue grant unapplied	1.1	1.1	1.1
Total Reserves	76.0	54.4	26.7

- 4.3. The table above shows that whilst the total reserves attributable to the PCC are forecast to be £54.4m at 31st March 2019, only £41.9m is available to be used directly by the PCC to support Policing and the 'beyond policing' element of his Police and Crime Plan.
- 4.4. The table also shows that reserves are forecast to reduce significantly by March 2023.
- 4.5. The two main reserves available to the PCC to fund investment, transformation and cost pressures are the General Reserve and the Transformation Reserve (which is included with 'Earmarked Reserves').
- 4.6. The General Reserve will reduce by 42% over the timeline of the medium term financial plan and there are already significant plans in place to fund a range of committed or anticipated projects from the Transformation Reserve, and further detail is set out in section 6.3 - 6.12.

Categorisation of Reserves

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

The above split of reserves is shown in Appendix 1.

5. General Reserve (Forecast 31 March 2019 is £7.8m)

- 5.1. The General Reserve is the main reserve held to manage unidentified and unforeseen risk. The PCC CFO is required to set a minimum level for the General Reserve, and this is currently set on a risk basis at £5.5m. The reserve is currently £2.3m above the minimum level, however, the cost of Gosport War Memorial Hospital may impact on this reserve.
- 5.2. General reserves are by nature 'not specific' (they are not earmarked), and are held to cover unforeseen risk and cost pressures, for example:
- cost of national programmes overrun
 - uneven cashflows and managing the timing of savings
 - unforeseen emergencies requiring significant one off spend e.g a significant incident
 - demand pressures
- 5.3. The general reserve balance is forecast to be £7.8m at the end of March 2019, which equates to 2.31% of the 2019/20 net budget which is within the 5% maximum set by the Minister of State for Policing.
- 5.4. The forecast position for the General Reserve over the course of the medium term financial plan is as follows:

	£m	% of Net Budget for following year
Balance at 31 March 2018	10.9	3.46%
Forecast balance as at 31 March 2019	7.8	2.31%
Forecast balance as at 31 March 2020	7.5	2.19%
Forecast balance as at 31 March 2021	7.1	2.06%
Forecast balance as at 31 March 2022	6.7	1.93%
Forecast balance as at 31 March 2023	6.3	1.81%*

* the March 2023 balance is shown as a percentage of the 2022/23 forecast net budget as the MTF5 does not include a forecast budget for 2023/24.

6. Earmarked Reserves

- 6.1. In addition to the general reserve, the PCC also holds a number of earmarked reserves, as set out below (the table shows the March 2018 balance, the forecast March 2019 balance and the forecast March 2023 balance, with more detail shown in appendix 1):

	Actual as at 31 March 2018	Forecast as at 31 March 2019	Forecast as at 31 March 2023
Transformation Reserve	38.5	20.2	0.0
Commissioners Reserve	3.1	0.4	0.1
Equipment Reserve	1.0	1.0	1.0
Performance Reserve	1.2	0.0	0.0
Insurance Reserve	1.5	1.0	1.0
Laboratory Reserve	0.2	0.2	0.2
Estates Carry Forward	0.0	0.7	0.7
ESMCP	0.0	7.0	0.0
Netley Business Plan	0.3	0.3	0.3
Capital revenue contributions	1.0	0.0	0.0
Estate Change Programme Reserve	0.0	2.7	0.0
Dilapidations Reserve	0.0	0.3	2.3
Carry Forward Reserve	5.8	0.0	0.0
Sinking Fund	0.0	0.3	2.3
Total Earmarked Reserves	52.6	34.1	7.9

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

Transformation Reserve (Forecast 31 March 2019 is £20.2m)

- 6.3. The Transformation Reserve was specifically set up to recognise the significant investment required to deliver transformational change, support the significant investment requirements linked to technology development and digital initiatives, and to provide a buffer to help manage the budget in the medium term given the ongoing uncertainty around the level of police grant and precept referendum cap.
- 6.4. Transformational change investment and programmes generally impact over more than one financial year and ensuring funds are allocated to enable delivery of the key change programmes and their outcomes makes prudent sense at a time when budgets continue to be based on annual settlements.

- 6.5. In recommending a precept increase for Band D of £24 per annum, the PCC will be able to fund the currently identified priority growth/pressure items from within the revenue budget over the next 4 years.
- 6.6. 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
- 6.7. 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.
- 6.8. For example, projects in the pipeline would include:
 - Investment in artificial intelligence
 - Enhanced public contact
 - Resilience and productivity in high trauma environments
 - Implementation of national technology projects and further local enabling projects
 - Enhanced policing requirements if necessary to support strategic network infrastructure post in the event of a no deal Brexit
 - Ongoing improvements to the police estate including potential redesign at Netley and on the Isle of Wight
- 6.9. There therefore remains a significant number of potential calls for one off investment for consideration by the PCC, and we know that change and transformation will be continual.
- 6.10. The opening balance of the Transformation Reserve as at 1 April 2018 was £38.5m. There were contributions to the reserve in year of £3.8m (2017/18 underspend and contribution from the revenue budget per 2018/19 MTFS report). This gave a total balance in year of £42.3m. Approvals for use are covered by published PCC decisions. As at January 2019, allocations of £23.9m have been approved for use. The breakdown of the approved draws from this reserve is set out below:

Transformation Reserve - committed

Commitment	£m
Transfer to ESMCP reserve for future commitment to project delivery	7.0
Force Development Programme – the overarching programme that looks at options for further effectiveness and efficiencies	0.3
ICT 5 year plan – investment in technology infrastructure	3.9
Estates Change Programme - delivery of new estate	3.5
Commissioning – funding to third parties to deliver PCC priorities	0.7
Contact Management Platform	4.1
Crime Data Integrity team to improve the quality of crime reporting data in line with national standards	1.4
Investigator payments to incentivise more officers to become investigators due to local and national shortage	0.3
RMS Upgrade	0.7
Tasers	0.9
other smaller allocations to deliver change	0.1
Contribution from Transformation Reserve to ICT revenue budget per 2018/19 MTFS	1.0
Total Commitments	23.9

6.11. The commitments of £23.9m against an available balance of £42.3m left a balance of £18.4m available for allocation at the time of approving the budget report. There is also an earmarked sum of £3.8m available for further Force Development costs. This sum is not approved as yet by the PCC as it will be subject to business cases but the amount is earmarked within the Transformation Reserve as it will be essential to continue to deliver effectiveness and efficiency improvements. The deduction of that £3.8m as well as a number of future initiatives which will require £14.6m funding, leaves £nil available as shown in the table below:

6.12. Transformation Reserve – committed in Budget 2019/20

	£m
Unallocated balance prior to Budget 19/20	18.4
Initiatives funded in Budget 2019/20	
Force Development	(3.8)
Potential schemes to be funded: <ul style="list-style-type: none"> • Investment in artificial intelligence • Enhanced public contact • Resilience and productivity in high trauma environments • Implementation of national technology projects and further local enabling projects • Enhanced policing requirements if necessary to support strategic network infrastructure post in the event of a no deal Brexit • Ongoing improvements to the police estate including potential redesign at Netley and on the Isle of Wight 	(14.6)
Remaining Unallocated Balance	0.0

Commissioner's Reserve

6.13. The Commissioner's Reserve (Forecast 31 March 2019 of £0.4m) holds amounts that are used specifically to support the Commissioner's priorities. The reserve is intended to support programmes that support the delivery of the Police and Crime Plan. Decisions made for releasing funds to support spending priorities in 2019/20 will be subject to the usual decision making process with all decisions available for public scrutiny.

Other Earmarked Reserves

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

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

- vii) **Performance Reserve** holds funds used to pay for specific targeted medium term operations such as Cyber Crime.
- viii) **Insurance Reserve** holds funds available to pay for items that are not covered by the insurance contract. Research and experience has shown that it is more cost effective to hold a reserve for some things that are low risk and low probability rather than pay an insurance premium to cover them. This reserve is expected to be maintained at a similar level.
- ix) **Laboratory Reserve** holds funds 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.
- x) **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.
- xi) **ESMCP Reserve** holds funds set aside for the delivery of the Emergency Services Mobile Communication Programme.
- xii) **Estates Carry Forward Reserve** holds revenue funds earmarked for Estates repairs and maintenance that needs to be rolled forward due to slippage in the repairs programme.
- xiii) **Estate Change Programme Reserve** holds funds set aside in prior years to finance the Estate Change Programme. It was previously held in the Commissioners Reserve but has been split out to aid transparency.
- xiv) **Estates Sinking Fund** reserve has been created in 2019/20 to specifically set funding aside (£300k in 2019/20) to meet the future costs of maintaining the police estate to an appropriate standard. This will ensure that there will be no significant build up of unaffordable backlog maintenance costs in particular for those new buildings delivered within the Estates Change Programme (for example, the Northern PIC, Eastern PIC).
- xv) **Dilapidations Reserve** has been created in 2019/20 because a key element of the Estates Change programme was the move to leased premises to provide flexibility in accommodation which could respond to changes in the policing model and headcount. This reserve sets aside funding (£300k in 2019/20) to meet the dilapidation costs

which may arise if the PCC, working with the Constabulary, determines not to renew a lease.

7. Ringfenced Reserves held by but not available to use by the PCC

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

	Actual as at 31 March 2018	Forecast as at 31 March 2019	Forecast as at 31 March 2023
ACRO Surety	4.0	4.0	4.0
AVCIS Surety	0.4	0.4	0.4
ACRO surplus	7.0	7.0	7.0
Total Ringfenced Reserves not available to use by the PCC	11.4	11.4	11.4

7.2. The purpose of these reserves is as follows:

- xvi) **ACRO** is the national ACPO Criminal Records Office which is hosted in Hampshire. The funds are not available to the PCC for use in the Hampshire policing area. **ACRO Surety** (£4m) and **AVCIS Surety** (£0.346m) held to cover any potential costs to the Chief Constable or PCC should ACRO cease to trade on its current basis.
- xvii) **ACRO Surplus balance** - other net surplus balances held on behalf of ACRO (£7.0m). The governance board for ACRO determines the use of reserves. The annual budget and use of reserves is presented to the National Police Chief's Council each year.

Appendix 1 – Analysis of Useable Reserves

	Analysis of how the Predicted 31 st March 2019 Reserves will be utilised			
	Forecast Balance 31.3.19	Planned Expenditure on projects and programmes over the medium term to 2022/23	Funding for Specific projects and programmes beyond 2022/23	As a general contingency to meet other expenditure needs
	£m	£m	£m	£m
General Reserve	7.8	1.5	0.0	6.3
Transformation Reserve	20.2	20.2	0.0	0.0
Commissioner's Reserve	0.4	0.3	0.1	0.0
Equipment Reserve	1.0	0.0	1.0	0.0
Performance Reserve	0.0	0.0	0.0	0.0
Insurance Reserve	1.0	0.0	1.0	0.0
Laboratory Reserve	0.2	0.0	0.2	0.0
Estates Carry Forward	0.7	0.0	0.7	0.0
ESMCP	7.0	7.0	0.0	0.0
Netley Business Plan	0.3	0.0	0.3	0.0
Capital revenue contributions	0.0	0.0	0.0	0.0
Estate Change Programme Reserve	2.7	2.7	0.0	0.0
Dilapidations Reserve	0.3	(2.0)	2.3	0.0
Carry Forward Reserve	0.0	0.0	0.0	0.0
Sinking Fund	0.3	(2.0)	2.3	0.0
Total Useable Reserves	41.9	27.7	7.9	6.3

Appendix 2 – Analysis of profile

	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23
General Fund	(10.9)	(7.8)	(7.5)	(7.1)	(9.7)	(6.3)
Carry Forward Reserve	(5.7)	0.0	0.0	0.0	0.0	0.0
Laboratory Reserve	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
RCCO	(1.0)	0.0	0.0	0.0	0.0	0.0
Revenue Grants Unapplied	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Netley Business Plan	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Insurance Reserve	(1.5)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Commissioner's Reserve	(3.2)	(0.4)	(0.3)	(0.2)	(0.1)	(0.1)
Equipment Reserve	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Performance Reserve	(1.2)	0.0	0.0	0.0	0.0	0.0
Transformation Reserve	(38.5)	(20.2)	(17.5)	(15.4)	(9.5)	0.0
ESMCP	0.0	(7.0)	(7.0)	(7.0)	(4.5)	0.0
Estate Carry Forward Reserve	0.0	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Sinking Fund Reserve	0.0	(0.3)	(0.8)	(1.3)	(1.8)	(2.3)
Dilapidations Reserve	0.0	(0.3)	(0.8)	(1.3)	(1.8)	(2.3)
Estate Change Programme Reserve	0.0	(2.7)	0.0	0.0	0.0	0.0
TOTAL OPCC	(64.5)	(42.9)	(38.1)	(36.5)	(31.6)	(15.2)
ACRO Surety	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
AVCIS Surety	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
ACRO General Reserve	(7.0)	(7.0)	(7.0)	(7.0)	(7.0)	(7.0)
TOTAL ACRO	(11.4)	(11.4)	(11.4)	(11.4)	(11.4)	(11.4)
TOTAL RESERVES	(76.0)	(54.4)	(49.5)	(47.9)	(43.0)	(26.7)