

HAMPSHIRE AND ISLE OF WIGHT POLICE AND CRIME COMMISSIONER

Report

Date Considered:	13TH February 2023	Item:	
Title:	Council Tax Precept 2023/24, Budget 2023/24 and Medium-Term Financial Strategy 2024/25 to 2026/27		
Contact name:	Andy Lowe, PCC Chief Finance Officer Richard Croucher, Force Chief Finance Officer		
Email:	andrew.lowe@hants.gov.uk richard.croucher@hampshire.pnn.police.uk		

1. Recommendations

The Police and Crime Commissioner:

- 1.1. Sets a precept increase of £15 per annum for Band D properties, which is the equivalent of £1.25 per month, or 29p per week.
- 1.2. Notes that the Police and Crime Panel supported her proposal to increase the precept by £15 per annum.
- 1.3. Notes that the precept referendum limit has been amended for 2023/24 only from £10 to £15; the additional £5 flexibility will be used to deliver an increase of 50 new police officers, and to support inflation pressures.
- 1.4. Notes the recommendations from the Chief Constable on her operational requirements for 2023/24 onwards, and her support for a precept increase of £15 to enable a further increase in police officer numbers and the delivery of her operational requirements, as set out in Appendix A.
- 1.5. Notes that since she reported her budget and precept plans to the Police and Crime Panel, additional funding of £433k is now available due to announcement of the final Police Grant Settlement (additional £57k recurrent), the finalisation of the Council Tax base (a recurrent reduction of £144k against the estimate) and confirmation of the forecast Collection Fund surplus and deficits by the Billing Authorities (additional £520k one off net surplus).
- 1.6. Agrees that for 2023/24, this additional £433k will be used in support of Commissioning.
- 1.7. Note that 61% of households across Hampshire and the Isle of Wight are in properties in Council Tax bands A-C (see paragraph 4.19), and would therefore see a precept increase of less than £15 per annum if the above recommendation is supported.
- 1.8. Note that the precept increase will support the delivery of the her Police and Crime Plan 'More Police, Safer Streets'.

- 1.9. Note the proposals in this report which will ensure that for 2023/24 there will be significant investment to enable 'More Police, Safer Streets', which includes delivering a further increase in police officer numbers by 50 above the existing budgeted establishment (which are in addition to the existing over achievement of officer numbers against the national uplift programme).
- 1.10. Note that the total uplift in police officer numbers in Hampshire Constabulary over the three-year period 2020/21 – 2022/23 delivered through the Government's Uplift programme is 498, but that with her support, Hampshire and Isle of Wight Constabulary (HIWC) is on track to actually deliver 600 new officers in total by April 2023; the 50 new officers funded through the 2023/24 precept increase will be in addition to the 600, taking the total uplift in officer numbers to 650 by March 2024.
- 1.11. Sets the basic Council Tax for the year beginning 1 April 2023 as £251.46 per annum at Band D and notes the basic Council Tax for the year beginning 1 April 2023 for Bands A – G will be as set out in Appendix C
- 1.12. Notes that the final proposed Council Tax Base is 713,986.06 band D equivalents as notified by the billing authorities, and as set out in Appendix C.
- 1.13. Approves the Council Tax requirement for the Police and Crime Commissioner for Hampshire and Isle of Wight for the year beginning 1 April 2022 will be £179,538,934.65 as per appendix C.
- 1.14. Issues Precepts for the year beginning 1 April 2022 totalling £179,538,934.65 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 and Isle of Wight in proportion to the tax base of each billing authority's areas as determined by them and set out in appendix C.
- 1.15. Agrees the 2023/24 revenue budget and MTFS (2024/25 – 2026/27) as set out in Appendix D
- 1.16. Notes the investment proposals included within the 2023/24 budget as set out in Appendix E.
- 1.17. Approves the 2023/24 Capital Programme as set out in Appendix F.
- 1.18. Approves the Capital Strategy as set out in Appendix G.
- 1.19. Approves the Reserves Strategy as set out in Appendix H.
- 1.20. Notes the CFO's Section 25 statement (Appendix I) and has taken it into account in setting the 2023/24 precept, 2023/24 budget and the MTFS 2024/25 – 2026/27.
- 1.21. Notes that the MTFS funding assumptions will be kept under review, and that the budget assumptions for 2024/25 onwards will be updated as necessary to take into account of any required changes.

2. EXECUTIVE SUMMARY

2.1. The proposed budget has been developed to support the priorities of the PCC's Police and Crime Plan– 'More Police, Safer Streets' - which was published in 2021, and to meet the PCC's vision which is:

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

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

www.morepolicesaferstreets.com

2.3. The Plan set out nine key priorities:

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

2.4. The budget and precept proposals set out in this report will enable the PCC to deliver on her priorities, support the demanding operational requirements of the Chief Constable, and to invest in 50 additional police officers, exceeding the target of 600 additional officers.

2.5. The additional 50 officers directly support the PCCs priority for more police officers and improved police visibility.

Economic Context

2.6. In his Autumn Statement, the Chancellor set out that the 'UK's economic and fiscal outlook has deteriorated materially since March 2022. Higher inflation and interest rates, coupled with slower economic growth, have hit the public finances. Difficult decisions are necessary to put the public finances back on to a sustainable footing in the medium term.'

2.7. It was set out in the statement that the OBR expects inflation (CPI) to peak at 11.1% in Q4 2022, and forecasts an average rate of inflation for 2023 of 7.4%.

2.8. The HM Treasury calculation of the underlying CPI basket, based on Consumer price inflation, UK: October 2022, is that nearly a third of categories in the CPI inflation basket experienced inflation above 10% in October 2022, and that Energy prices remain the largest single driver, with energy inflation of 59.0% in the UK; these inflationary pressures have already had and will continue to have a significant impact on both the PCC and Constabulary budget.

2.9. Reflecting the tight public finances, the final Police Finance Settlement provided for a significantly below inflation increase, with government grant funding for Hampshire and the Isle of Wight (HIOW) only increasing by 1.8% (a cash increase of £4.4m), which is significantly below the current and forecast headline rate of inflation.

The Revenue Budget & Precept Proposal - Summary

- 2.10. It is against this difficult economic backdrop that the 2023/24 budget is being set, with inflation a significant pressure, impacting both pay and non-pay (for example fuel and utilities).
- 2.11. The significantly below inflation increase of £4.4m (1.8% increase) in the HIOW Police Grant is challenging; the inflation pressure included in the budget is £12.49m, compared with the total grant increase of £4.4m. The grant increase in isolation is somewhat short of matching the inflation pressure.
- 2.12. Further detail on HIOW's grant settlement is set out in section 3.
- 2.13. To partly offset the below inflation settlement the government has proposed allowing PCCs to raise additional funding through the council tax precept, by increasing the referendum threshold from £10 to £15. Whilst potentially a welcome flexibility, increasing the amount raised through precept does further shift the balance of funding, with an increased reliance on the local tax payer to fund Policing and the statutory functions of the PCC.
- 2.14. Taking account of the police grant and the available precept flexibility, the PCC is **proposing a budget in the net sum of £426.95m**, which is set out in more detail in section 5 and 6.
- 2.15. To deliver a balanced budget in the sum of £426.95m, the PCC is:
- i) proposing a **below inflation precept increase of £15** (6.34%); in announcing the police finance settlement, the headline figures for HIOW set out by the Minister of State for Crime, Policing and Fire (the Minister) presume that the precept income is based on a £15 increase (further detail in section 4)
 - ii) delivering **new investment** in the sum of **£9.49m**, which includes **£3.1m to fund an additional 50 police officers** from 2023/24 (further detail in section 6)
 - iii) delivering **efficiencies and savings** of **£6.42m** (further detail in section 7)
 - iv) funding **inflationary pressures** of **£12.49m** (further detail in section 3)
- 2.16. The budget and precept increase proposed will ensure that inflation pressures are covered, there is continued and necessary investment in support of frontline policing (see section 6), and that the PCC delivers on her key priorities of increasing police officer numbers and increasing police visibility.

Capital Programme

- 2.17. This report includes an update to the Capital Programme, which will see **proposed investment across the estate of £72.86m** over the next 3 years
- 2.18. The capital programme is fully funded, with no requirement to borrow. Further detail is set out in section 9.

Chief Constable's Operational Recommendation

- 2.19. The Chief Constable has outlined in Appendix A her clear support for a £15 precept increase, together with her assessment of the operational case for a £15 increase to support the PCC to deliver 'More Police, Safer Streets', and has set out that:

*'In terms of priorities, officer numbers and visibility are two categories that the public say are most important to them. This chimes with the mandate of More Officers and Safer Streets upon which Commissioner Donna Jones was elected. Against this context, and given the challenges faced by policing, **I have no hesitation in making the operational case for a maximum £15 increase in precept for Band D. This is the only credible way to deliver more police officers than those already committed.....***

Despite national government efforts, police funding is not keeping up. Factoring in the national funding provision, and even with a £15 increase of council tax as per this recommendation, inflationary pressures will account for nearly all of the total increase in police funding for Hampshire & Isle of Wight Constabulary. That this budget still enables 50 extra officers against that context is because of prudent financial planning, significant efficiencies of £6.4m that have been identified for 2023-24, and a steely desire to ensure every pound possible goes into operational policing.

These inflationary pressures mean that £10 extra council tax at Band D would not unlock more police officers. It would simply maintain the 600 extra officers that we will have by the end of March 2023, keep our fleet on the road and keep our buildings heated and operational, but not more boots on the ground. Any less than £10 would mean less officers or vital staff. I share the Commissioner's desire, and the intent of the new Chief Constable, to be more ambitious for the people we serve. The commitment to more visible policing requires as many extra officers as possible, and this can only be delivered with a £15 increase in council tax.'

- 2.20. The operational case sets out clearly why additional investment is required for policing in HIOW, and the benefits that will be delivered.

3. BUDGET AND MEDIUM TERM FINANCIAL STRATEGY (MTFS)

Police Grant Settlement

- 3.1. The final Police Grant Settlement announced on the 31st January 2023 set out:

- the overall level of Police Grant for HIOW for 2023/24, the overall national increase in police grant for 2024/25 (it did not include allocations at an individual PCC level), but was silent on grant levels beyond 2024/25
- that PCC's would be permitted to increase the police precept by an additional £15 in 2023/24, with subsequent confirmation that this additional flexibility was for one year only, the assumption being that in line with SR21, the precept referendum limit would be £10 in 2024/25; there is no announcement on the precept referendum level for 2025/26 onwards.

3.2. In terms of our specific grant settlement, this is as set out below:

- i) There will be a below inflation increase in HIOW Police Core Grant of £0.8m (total core grant £223.8m) – an increase of only 0.35%
- ii) The Pension Grant remains at £2.99m
- iii) Hampshire has been allocated £7.13m (£3.5m in 2022/23) of specific ringfenced grant to ensure that the government funded Police Officer Uplift number of 498 for Hampshire is maintained; however, the PCC has made representation to the Minister of State for Crime, Policing and Fire as it appears that the uplift grant increase includes £1.8m in respect of the 2022/23 police officer pay award, which should more appropriately have been added to the core police grant for the reason set out below.

It is proposed that the Uplift Grant will be subject to clawback in those PCC areas where police officer uplift targets are not met, although the precise details on how clawback would work and on what basis has not been confirmed.

Whilst Hampshire does not expect to be subject to clawback, the PCC does not agree (a view shared by many across the sector) that the pay award funding should be at risk within any clawback mechanism, and hence it should not form part of the Uplift Grant but should be an addition to the core police grant.

3.3. In summary the announced grant settlement position is as set out below:

	2022/23 £m	2023/24 £m	Increase £m	Increase %
Core Police Grant	223	223.8	0.8	0.35
Police Uplift Grant	3.5	7.1	3.6	102.8
Pension Grant	3	3	0	

Legacy Council Tax Grant	12.9	12.9	0	
Total Government Grant	242.5	246.9	4.4	1.8%
Government assumed Precept Income based on £15 Band D Precept Increase	167.4*	179.9	12.5	7.47
Total Hampshire Assumed Funding as per the Police Grant Settlement Tables	409.9	426.8	16.9	4.1%

*£10 precept increase 2022/23

3.4. The PCC welcomes the increase in Police Grant for 2023/24 (core grant and uplift grant), although notes that the net increase (1.8%) is substantially below inflation.

3.5. The Police Grant Settlement report set out that HIOW received an overall increase in funding of 4.1%, but it is noted that:

- i) this level of funding increase assumes that the PCC increases the Band D Precept by £15 and that there is a tax base increase of 1.106% (the actual forecast tax base increase is 0.86%, so will mean less precept increase than the government forecast)
- ii) even with the assumed £15 Precept increase and 1.106% increase in tax base, a 4.1% funding increase is significantly below inflation
- iii) taking account of the actual forecast tax base increase of 0.86%, the total grant and precept funding for HIOW is **£426.43m**, which equates to a total percentage increase in funding including precept of 4%, as set out in the table below
- iv) the inclusion of the declared 2022/23 council tax surplus of £0.520 makes the total available funding £426.9m

Actual Total Police Grant and Precept Income 2023/24 included in Budget

	2022/23	2023/24	Increase	Increase
	£m	£m	£m	%
Total Government Grant	242.5	246.9	4.35	1.8%
Estimated Precept Income based on £15 Band D Precept Increase and Tax Base increase of 0.94%	167.4*	179.5	12.1	7.22

*£10 precept increase 2022/23

Total Hampshire Assumed Funding	409.9	426.4	16.5	4%
Council Tax Collection Fund Surplus	1.5	0.5		
Total Available Funding	411.4	426.9	15.5	

Other MTFS Considerations

Council Tax Base

The total precept income for 2023/24 of £179.5m is based on a council tax base of 713,986.06 Band D equivalents (see Appendix C).

Council Tax Collection Fund Account

The declared surplus on the collection fund for 2022/23 is £0.520m.

Police Officer Pension Valuation

- 3.6. The next revaluation of the Police Officer Pension Scheme will impact from the 2024/25 financial year. There is a significant risk that there could be an increase in the cost of the scheme, which will impact the employer rate of contribution.
- 3.7. At the last revaluation, the Government provided funding for the increase in the employer pension rate through a combination of an increase in the police grant plus a specific grant; this funding increase was only secured following extensive lobbying from the sector. A key assumption within the MTFS is that any increase in cost will be offset by additional grant (over and above the current settlement announcement) but that remains a risk.

Use of Historic LGPS Pension Deficit Contribution

- 3.8. An outcome from the 2019 valuation was that the Fund was deemed to be 100% funded, compared to an 82% funding level at the 2016 valuation date; at the 2016 valuation the Fund was therefore in deficit.
- 3.9. From 2017/18 – 2019/20, the Constabulary and OPCC had been required to pay a fixed cash sum per annum of £5.5m as a contribution to fund the 2016 valuation deficit over a 16-year recovery period.
- 3.10. As the 2019 valuation determined that the Hampshire LGPS was fully funded, the requirement to pay deficit contributions fell away for the period 2020/21 – 2022/23.
- 3.11. The advice from the CFO to the Hampshire Pension Fund in advance of the 2020/21 budget was that as the valuation is on a 3 year cycle, and includes a whole range of assumptions which would be re-visited at the next valuation in 2022 (for example the return on investments), the most prudent treatment of this saving was as a one off saving over the period of this valuation cycle, on the basis that at the next valuation in 2022 the

Fund could be in deficit and the requirement for a deficit payment re-emerge.

- 3.12. On that basis, the deficit saving of £5.5m has been utilised over the past three years to fund one-off growth/pressures.
- 3.13. Based on the actual performance of the Hampshire LGPS Fund over the last three years, it has now been confirmed that for the 2022 valuation the fund has remained in surplus (the surplus has increased).
- 3.14. On that basis it is now felt prudent to assume that the £5.5m funding made available on the cessation of deficit contribution can now be used on a recurrent basis to fund other areas within the budget, and this sum is therefore being utilised to fund ongoing expenditure within the budget for 2023/24 onwards, and has been used in balancing the overall budget.

Inflation and Pay

- 3.15. The budget includes provision for inflation of **£12.49m**.
- 3.16. The OBR expects inflation (CPI) to peak at 11.1% in Q4 2022, and forecasts a rate of inflation for 2023 of 7.4%.
- 3.17. The inflation assumptions applied are shown in Appendix B. In some areas, such as cleaning, inflation factors will be known as they are included within multi-year contracts.
- 3.18. Key inflation assumptions are:
 - a pay award of 2% for both police officers and police staff
 - provision for contractual inflation
 - provision for specific non pay inflation where prevailing rate is known
 - utilities inflation, whilst significant, is hopefully a transitory pressure which will reduce in later years (energy prices remain the largest single driver of inflation, with energy inflation of 59.0% in the UK). For this reason the full impact of utilities inflation has not been included in the revenue budget, with the risk to be managed via an inflation reserve
 - an 'inflation' risk reserve will be utilised to cover utilities and pay inflation
- 3.19. The most significant inflation value is the pay award; a 2% pay award is assumed with effect from 1 September 2023. The Home Secretary decides on the actual pay award following consideration of the recommendations from the Police Pay Review Body with effect from September each year, so the actual pay award will not be known until nearer September 2023.
- 3.20. If there is any variation to the pay award assumption then, for example, an extra 0.5% would equate to an extra £0.85m of cost in 2023/24 as there is only a part-year effect given that the pay award takes effect from September each year.

- 3.21. As inflation and pay awards are included as best estimates, they are of course a risk within the MTFS as the actual position could differ from the assumptions made.
- 3.22. An inflation reserve of £4.7m will be available as at 1st April 2023 to manage the inflation risks particularly in relation to Utilities inflation and pay inflation, and this includes a contribution of £1.7m to this reserve from the 2023/24 budget.

2023/24 Budget and Forecast MTFS Assumptions

- 3.23. In view of the above, the key funding assumptions which have been used to underpin the MTFS are as follows:
- a precept increase of £15 in 2023/24 (see section 4)
 - precept increases of 1.99% in the following years 2024/25 – 2026/27; clearly this leaves flexibility for the PCC to consider the level of precept rise in 2024/25, and potentially in later years depending on the referendum limits announced (a £10 increase in 2024/25 for example would be an increase of 3.98%). Further detail in support of the precept proposal at £15 is set out in section 4 below.
 - an increase in police grant in 2024/25 in line with Hampshire’s usual share of the overall total police grant allocation (which is expected to increase nationally by £150m), and ‘flat cash’ grant (no increase) for 2025/26 and 2026/27 (in comparison to 2024/25).
- 3.24. The total Police grant (core grant plus uplift grant) included within the MTFS is therefore as set out below:

	£m	Increase £m	Basis
2023/24	246.889		Agreed
2024/25	250.780	3.891	Estimate
2025/26	250.780	Nil	Estimate
2026/27	250.780	Nil	Estimate

2023/24 Budget

- 3.25. Based on these assumptions the MTFS currently shows that for 2023/24 the PCC is able to set a balanced budget (see section 5 and section 6) in the net sum of £426.95m.

Forecast MTFS Position

- 3.26. For later years 2024/25, 2025/26 and 2026/27 the MTFS currently shows a shortfall/budget in excess of forecast income of:

	Forecast Budget Deficit
	£m
2024/25	6.61
2025/26	16.59
2026/27	27.41

3.27. The budget and medium-term financial position is set out in appendix D, and takes account of the precept proposal set in section 4 below.

Future Savings

3.28. As currently presented, it is likely that further savings will be necessary in future years to balance the budget in 2024/25 and beyond, but this will be firmed up in later iterations of the MTFS as the assumptions which underpin the MTFS e.g. grant funding, pay award, inflation (particularly utilities), future year precept increase, budget pressures, become clearer.

3.29. In the event that the MTFS were to remain unbalanced in future years post confirmation of funding for the years 2024/25 onwards, the PCC and Chief Constable would need to review planned expenditure and propose mitigating reductions to balance the budget position.

3.30. Work is already in train to review potential areas where savings could be made on the assumption that savings are likely to be required, and a number of potential work streams have been identified; whilst this work has commenced under the tenure of the current Chief Constable, it will be an area for focus for the PCC for discussion with the incoming Chief Constable.

3.31. There are other options which could also negate or reduce the need for savings, and these include:

- not requiring the full £5m per annum set aside for investment in each year across the MTFS; in the current year new investment was £5.96m (excluding the specific new investment in 50 police officers funded from the additional £5 precept flexibility in the change in the referendum limit from £10 to £15)
- the option for the PCC to increase the precept above the 1.99% assumption currently included within the MTFS

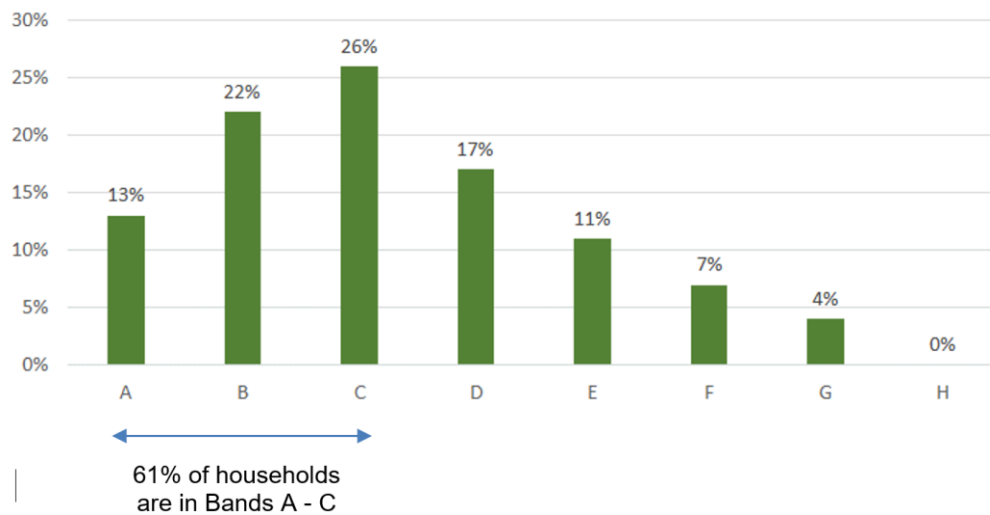
4. PRECEPT PROPOSAL

4.1. Local funding through Council Tax remains an important source of funding, particularly given the below inflation increase to HIOW's police grant, and the presumption that PCCs can balance their budgets through the utilisation of their maximum precept flexibility.

- 4.2. The PCC must ensure sufficient resources are available to deliver her Plan and her statutory responsibilities.
- 4.3. As part of the police settlement announcement in December 2021, the referendum limit was announced as £10 at Band D per year for the 3 year period 2021/22 – 2023/24, and this had been used as the planning assumption.
- 4.4. However, as set out above, in the provisional police settlement announced on the 14th December, it was confirmed that for 2023/24, PCC's can increase their precept on a one off basis by £15 (which for HIOW represents a 6.34% increase to the Band D precept) without the need to hold a referendum; this has provided flexibility for PCCs to raise the precept by an additional £5 for a Band D property for the 2023/24 budget.
- 4.5. In announcing the settlement, the headline figures for HIOW as set out by the Minister presumes that the precept income is based on a £15 increase (see paragraph 3.3 -3.5).
- 4.6. Any precept increase above the referendum limit of £15 will be deemed by the Government to be excessive and therefore a public referendum vote, within the area covered by the proposed increase, would be required to take place to gain approval for an increase in excess of this amount.
- 4.7. The precept decision for 2023/24 needs to take into account both the immediate and medium term resourcing requirements that enable the PCC to deliver her Plan both now and over the course of the MTF5.
- 4.8. Having already consulted on a proposal to increase the precept by up to £10, the timing of the announcement by the Minister to increase the referendum limit to £15 was not helpful; however, as part of the precept consultation which was undertaken, the PCC did receive support for a Band D increase of £10 (54.83% of respondents), and also received feedback that the key priority for investment was 'Improved Police Visibility' (65% of respondents).
- 4.9. Within her Police and Crime Plan, the PCC's key priorities include:
 - i) 'Increasing the number of police officers on our streets is my top priority'
 - ii) 'I commit to increase police visibility to make residents and local communities feel safer'
- 4.10. Reflecting on the feedback from residents, her manifesto commitments and her key priorities above as set out in her Plan, and the Chief Constables operational requirements, **the PCC is proposing a precept increase of £15 for a Band D property, but on the basis that the additional £5 flexibility she has been given is utilised primarily to support a further increase in 50 new and additional police officers in 2023/24 onwards.**
- 4.11. A precept increase of £15 will represent a below inflation increase of 6.34%.

- 4.12. Increasing the Precept by £15 will raise an additional circa £10.62m per annum from 2023/24 (on a like for like basis to 2022/23 without taking account of any increase in the Council Tax Base from 2022/23).
- 4.13. The total Precept raised for 2023/24 is estimated to be £179.54m, a total increase of £12.15m compared to 2022/23 (allowing for an estimated increase in the Council Tax base of 0.86%).
- 4.14. The PCC's view is that increasing the council tax precept by the maximum permitted amount (which is a below inflation increase of 6.34%) is the responsible thing to do to because it will enable and support her vision '**for Hampshire and the Isle of Wight to be two of the safest places to live, work and visit in the country**', provide increased investment in support of her Plan, make provision to manage the inflationary pressures, provide 50 additional police officers and enable the Chief Constable to have the necessary resources to deliver her operational requirements.
- 4.15. As set out in Appendix A, the Chief Constable has set out her operational requirements, and made a clear recommendation to the PCC that she increases the precept by £15.
- 4.16. The Chief Constable is therefore fully supportive of the PCC's proposal to increase the precept by the full amount permissible (£15) and welcomes the PCC's commitment that additional funding raised through the precept will support local policing, including the recruitment of an additional 50 police officers.
- 4.17. The current Band D Council Tax Precept for Hampshire Constabulary is £236.46, which is the 12th lowest of the 37 English forces (see Appendix C).
- 4.18. The proposed precept increase would make the Band D Council Tax Precept £251.46 in 2023/24. The current intelligence is that the majority of PCCs across England will increase their Band D precept by £15, so it is unlikely that Hampshire's position of 12th lowest precept will alter much if at all, and it is very likely that the HIOW precept will remain below the national average.
- 4.19. It is also important to note that a significant number (61%) of households across Hampshire and the IOW are in properties in Bands A – C, and so the increase for those households will be less than £15 per annum, as shown below:

Percentage of Households by Council Tax Band



Impact of a £15 Council Tax Increase By Council Tax Band 2023/24

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

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

4.21. Whilst the government expectation is that PCCs will take up the opportunity to raise the council tax precept by £15, the PCC still has the option to not raise the precept at all, or to raise the precept by any amount up to £15.

4.22. The table below shows for a range of precept increases (up to the maximum of £15) the level of precept income which can be raised:

Comparison of Band D precept increase options

Precept increase	22/23 Band D precept (£)	Total precept (£m)	Additional precept income (£m)
Band D zero%	236.46	167.39	0
Band D 1.99%	241.17	172.18	4.79
Band D £10 (4.23%)	246.46	175.97	8.58
Band D £15 (6.34%)	251.46	179.54	12.15

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

4.24. The PCC has concluded, following consultation with the Chief Constable, and having due regard to her Plan, and the Chief Constable's operational case for a £15 precept increase, that increasing the Band D precept by £15 per annum provides the best opportunity to ensure that her vision 'for Hampshire and the Isle of Wight to be two of the safest places to live, work and visit' is enabled.

Council Tax Precept increase beyond 2022/23

4.25. For 2024/25 – 2026/27, the MTFS assumes that the precept increase will be 1.99%; clearly this leaves flexibility for the PCC to consider the level of precept rises in these later years (a £10 increase in 2024/25 for example would be an increase of 3.98%).

Change in the Balance of Funding Between Grant and Council Tax

4.26. Implementing a £15 precept increase will continue the change in balance of funding which has occurred over the last decade. The Council Tax precept will now account for 42% of overall funding in 2023/24 compared to 33% in 2010/11, with government grant accounting for 58% of overall funding compared with 66% in 2010/11.

5. PROPOSED BUDGET 2023/24

5.1. The PCC is proposing to set a balanced budget of £426.95m, an increase in the roll forward budget from 2022/23 of £15.13m, as set out below:

	£m
Roll Forward Budget 2023/24	411.39
Add: Impact of Inflation	12.49
Add: Investment	9.49
Less: Savings and Efficiencies	(6.42)
Proposed 2023/24 Budget	426.95
Budget increase	15.56
Funded by:	
Police Grant increase	(4.41)
Increase in Precept income	(12.15)
Movement in Collection Fund Surplus	1.0
Movement in Funding Position	15.56

5.2. The budget and proposed precept increase set out in this report will help ensure that the PCC can deliver on her Plan priorities, and further detail on what the budget will deliver is set out in section 6 below.

6. WHAT THE BUDGET & PRECEPT INCREASE WILL DELIVER

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

- i) **Set a balanced budget** for 2023/24 in the sum of £426.95m, as set out below:

	£m	%
Hampshire Constabulary	377.7	88.46
Police Estate	23.6	5.53
Contribution to Reserves*	15.41	3.61
Total Budget Directly in Support of Policing	416.71	97.60
Office of the Police & Crime Commissioner	2.94	0.69
Commissioning, Criminal Justice and Partnerships	4.14	0.97
Capital Financing (net of Interest earned of £2m)	3.16	0.74
Total Proposed Budget	426.95	100

* The contribution to reserves in summary includes £6.7m for ICT investment, purchase of new vehicles £3m, estates £2.4m and contribution to Inflation Reserve £1.7m.

- ii) **Deliver the Key Priorities in the Police and Crime Plan** - support the delivery of her vision and enable delivery of the key priorities as set out in her Plan
- iii) **Deliver the Chief Constable Operational Requirements** - takes full account of the Chief Constable's operational requirements, and her recommendations for the necessary investment to ensure that the Constabulary remain in the strongest possible position to support the PCC in delivery of her Plan and her vision 'for Hampshire and the Isle of Wight to be two of the safest places to live, work and visit in the country'
- iv) **Delivers investment of £9.49m**, which includes an **investment of £3.1m to fund 50 additional police officers** (and enabling infrastructure) for HIOW Constabulary, which directly supports the PCC's number one priority which is to increase police officer numbers, and will also help meet the priority of 'improving police visibility'

Further details on the overall investment of £9.49m is set out in paragraph 6.3 below.
- v) **Provides for South East Area Allowance** - ensures that the increase to the South East Area Allowance for Police Officers from £1,200 to £1,800 put in place during

2022/23 is funded on an ongoing basis; this has a recurrent cost of £2.4m

- vi) **Cover the costs of Inflation** - provides for the significant inflationary pressures of **£12.49m** impacting both pay and non-pay; in addition specific funding has been set aside in an inflation reserve to cover the risk on pay inflation, and fuel and utilities inflation (which whilst significant is hopefully a transitory pressure which will reduce in later years. It is for this reason that the full impact of utilities inflation has not been included in the revenue budget).
- vii) **Maintain Adequate Reserves** - ensures that reserves remain adequate to meet the significant number of known cost pressures and risks which arise over the timeline of the medium-term financial strategy

6.2. The proposed budget and medium term financial position is set out in more detail in Appendix D.

Investment

6.3. The budget will deliver investment of **£9.49m** in 2023/24 as set out below, and with further detail provided in Appendix E:

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
More Frontline	6.387	4.693	4.259	4.249
Right Place, Right Time	1.351	0.624	0.255	0.255
Better Equipped	1.163	1.108	1.035	1.035
Governance Costs	0.266	0.266	0.266	0.266
Allowance for future budget investment/pressures		5.000	10.000	15.000
Gross Investment	9.168	11.691	15.816	20.806
Add net Contributions to reserves	0.324	(1.035)	(0.160)	-
Net Investment	9.492	10.656	15.656	20.805

i) **More Frontline**

More frontline police officers and staff to provide a visible presence, respond to the public, prevent crime and investigate incidents when they occur, and sustain PCSO numbers. The amounts shown are the cost in 2023/24

ii) **Right Place, Right Time**

Investment in new technology to:

- allow personnel to spend more time in the communities they serve

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

iii) **Better Equipped**

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

iv) **Cost Pressures**

There are two specific cost pressures which need to be funded, these are:

- a) **Legally Qualified Chairs (LCQ)** £100k – the demand for LQC usage and time has increased and forecast to increase further, this sum is to fund this demand
- b) **External Audit new contract price** increase £166k – the Public Sector Audit Appointments (PSAA) have completed the national tender exercise for the appointment of external auditors across the public sector for the next 5 year period commencing April 2023. Due to legislative changes, audit oversight and demand pressures, public bodies have been told that the new contracts are anticipated to be 150% more than existing contracts

v) **Allowance for Future Budget Investment/ Pressures**

The medium-term financial plan includes an incremental allowance of £5m for new growth/investment in each year of the MTFS 2024/25 – 2026/27 (so a further £5m in each year, so total new recurrent investment of £15m by year 3). This is to recognise that every year there will be a need for new investment or new funding required to fund unavoidable pressures. For each new budget year, the actual level of funded investment required will be reviewed and updated to take account of overall affordability within the budget

vi) **Contribution to Reserves for Commissioning**

There is a net contribution to reserves of £0.324m in 23/24 which reflects a draw of £0.109m for the wifi phase 2 rollout costs as these have already been provided for in a previous budget, offset by a contribution to fund additional Commissioning by the PCC in 2023/23 of £0.433m (which reflects the net additional funding of £0.433m following finalisation of the Police Grant Settlement, the council tax base, and the council tax surplus)

7. SAVINGS AND EFFICIENCIES

- 7.1. Included within the budget are savings/efficiencies in the sum of £6.42m. The savings/efficiencies that will be delivered are split between the PCC and Constabulary as set out below:

	£m
PCC Office	0.6
PCC Treasury Management Investment Income	1.5
Constabulary	4.31
Total	6.42

PCC Office Saving

- 7.2. The PCC saving arises from the office restructure which the Chief Executive implemented, which reduced staff costs by £614k. The restructure reduced overall headcount, but as important realigned the structure and the professionalism of the team to ensure alignment in support of the PCC and the delivery of the priorities set out in her Plan.
- 7.3. The saving of £614k is now repurposed and in future will be utilised in support of front line policing, and this will be an area of discussion for the PCC with the new Chief Constable to determine the best use of this funding going forward.

PCC Treasury Management Investment Income

- 7.4. The PCC's strong reserves position means that our cash balances will deliver an efficiency in 2023/24, as the recent rise in interest rates will mean that significant additional investment income on our invested balances will be earned whilst rates remain high compared to the most recent years interest rate environment.

Constabulary Savings

- 7.5. The Constabulary undertakes an annual Zero Based Budgeting (ZBB) process whereby the Finance staff review each budget line to assess where efficiencies can be found. A savings programme has also been introduced with a focus of identifying potential savings for future years. The savings programme will focus on potential savings that could be delivered through more significant reviews and may require changes in practices to deliver.

8. POLICE OFFICER UPLIFT PROGRAMME

- 8.1. The Government announced in July 2019 their intention to invest in policing to provide funding to support the appointment of an additional 20,000 police officers over the three years period ending 2022/23.

- 8.2. The initial uplift in police officer numbers for 2020/21 was 6,000, of which HIOWC's share was an additional 156 officers.
- 8.3. HIOWC's additional allocation for 2021/22 was an additional 153 officers (which includes 146 new officers in HIOWC, plus 7 new officers in the South East Regional Organised Crime Unit (SEROCU)).
- 8.4. The final year of allocation in 2022/23 funded 207 new officers for HIOWC, of which 11 officers were for SEROCU, leaving 196 officers for HIOWC. Over the three years that provided a total of an extra 498 officers for HIOWC through the Police Uplift Programme; however as set out in the 2022/23 Budget and Precept report, with support from the PCC, HIOWC were aiming to deliver, and will have delivered an increase of 600 officers by April 2023.
- 8.5. As set in paragraphs 4.10, the PCC has proposed utilising the additional £5 precept flexibility afforded by the change in the referendum limit from £10 to £15, to recruit a further 50 additional officers in 2023/24, which will take the total number of new officers recruited since the start of the uplift programme to 650, significantly above the government funded uplift target of 498.

9. CAPITAL PROGRAMME

- 9.1. The capital programme has been updated, and from a financing perspective provision has been made to support capital expenditure and future borrowing (if required) to ensure continued investment across the Police estate, including the provision of the estate requirements in support of the Police Officer Uplift programme.
- 9.2. Over the next 3 year period, total investment of £72.864m is allowed for within the capital programme. The programme is fully funded, and does not require any borrowing to support the existing plans.
- 9.3. Funding provision of £2m MRP is included within the budget to support future borrowing if required, but in lieu of no current requirement to undertake new borrowing, this sum is being utilised as an annual revenue contribution towards funding the capital programme.
- 9.4. It is important to highlight that the PCC no longer receives any capital grant to support capital investment, as capital grant ceased from 2022/23; the PCC must therefore finance capital investment from revenue resources (police grant and precept), reserves and if necessary borrowing.
- 9.5. In summary, the Capital Programme is as set out below and in Appendix F:

Capital programme

		2022-23	2023-24	2024-25	2025-26
		£000	£000	£000	£000
Capital spend	Estates	1,520	17,464	19,500	26,900
	Vehicles	3,000	3,000	3,000	3,000
	TOTAL	4,520	20,464	22,500	29,900
Funding	Operational buildings receipts	-	(6,675)	-	-
	Residential buildings receipts	-	(1,100)	-	-
	Vehicles receipts	(150)	(150)	(150)	(150)
	Capital grant	-	-	-	-
	RCCO - Estates	(1,370)	(9,539)	(19,350)	(26,750)
	RCCO - Vehicles	(3,000)	(3,000)	(3,000)	(3,000)
	Borrowing	-	-	-	-
	TOTAL	(4,520)	(20,464)	(22,500)	(29,900)
	In year (surplus) / shortfall	-	-	-	-
	Cumulative (surplus) / shortfall	-	-	-	-

9.6. The Capital Programme includes proposed investment (indicative values shown) over the period to enable the delivery of a number of key schemes, including:

- i. **Bitterne Police Station: £8m** - re-build of Bitterne Police station
- ii. **Southampton PIC: £9m** - Upgrade and maintenance to the PIC
- iii. **Front Counters: £2m** - investment in new Front Counters to support improved visibility and accessibility of local policing
- iv. **Netley Site: £4m** - upgrade and improvements to the Netley Site
- v. **Southampton PIC: £5m** – new multi-story cark park
- vi. **Estate Infrastructure Vehicle Electrification £3m** - estate wide upgrades to prepare for electrification of the vehicle fleet
- vii. **Vehicle Replacement: £9m** – annual vehicle replacement programme of £3m per annum
- viii. **Estate wide upgrade across HIOW: £30m** – upgrade to existing estate including new and re-aligned estate on the Isle of Wight

9.7. The Capital Strategy is set out in Appendix G, and provides a 'high-level' overview of how capital expenditure, capital financing and treasury

management activity contribute to the provision of the services within the PCC’s remit including policing, and provides an overview of how associated risk is managed and the implications for future financial sustainability.

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

	Actual as at 31 March 2022	Forecast as at 31 March 2023	Forecast as at 31 March 2027
General Reserve	13.2	7.5	7.5
Earmarked Reserves	93.6	103.1	23.1
Total Reserves available for use by the PCC to support delivery of the Police & Crime Plan and to support the Constabulary	106.8	110.6	30.6

10.3. The level of reserves continues to be reviewed by the PCC and the Chief Finance Officers to ensure that suitable reserves are in place to mitigate and manage the risk of the financial challenges faced, and to ensure that reserves are not unnecessarily held to the extent that is detrimental to current service delivery. The level of reserves required and the intended use of those reserves is reviewed on a regular basis.

10.4. It is recognised by the Home Office that it is prudent to hold appropriate reserves to both manage risk and to avoid cliff edges caused by fluctuations and changes in funding and unexpected budget shocks, and to also enable the delivery of efficient and effective operational policing.

10.5. The PCC continues to use reserves to:

- support the overall budget and medium-term financial strategy
- deliver the Estates strategy and capital programme
- fund the necessary ongoing investment in essential equipment upgrades in support of front-line policing (e.g. Taser replacement, body armour replacement)
- invest in IT (including the national roll out of the Emergency Services Network (ESN))
- deliver her Plan and to ensure that the Constabulary remains a modern, operationally effective Police Service

- manage risk (for example Inflation reserve, Council Tax reserve, Insurance reserve)

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

10.7. In the medium term there is likely to remain significant financial stress in the system to be managed, including:

- i) managing the overall financial position against a back drop of increasing demand
- ii) funding the necessary investment to deliver the PCC's ambition in relation to delivery of her Plan and commissioning of services
- iii) meeting the Chief Constables operational requirements, in support of 'More Police, Safer Streets'
- iv) the investment required to ensure that the Constabulary remains modern and fit for purpose
- v) ensuring that the police estate remains operationally effective, is continually improved, and is a modern and safe environment
- vi) the still to be determined consequences of national programmes (e.g. ESMCP) which require a local funding stream for delivery of its outcomes as well as being subject to growing needs for top sliced contributions to deliver the national infrastructure
- vii) the significant investment required to embrace an ever evolving technology and digital landscape
- viii) the requirement to continue to fund an increasing share of the annual ongoing costs of Operation Magenta, which is the investigation regarding the historical deaths at Gosport War Memorial Hospital
- ix) inflationary pressures, including the yet to be agreed pay awards, and the significant pressures on utility costs
- x) the level of risk over the medium term (see 'Risk' section 11)

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

10.9. The two main reserves available to the PCC to fund these cost pressures are the General Reserve and Earmarked Reserves.

10.10. **General Reserve** – this is the main reserve held to manage unidentified and unforeseen risk. The PCC CFO is required to set a minimum level for the General Reserve, and this is currently set on a risk basis at £5.5m. The forecast balance on the General Fund Reserve at the 31st March 2023 is £7.5m.

10.11. **Earmarked Reserves** – the PCC holds a number of specific reserves which can be utilised in support of the budget over the timeline of the MTFS.

10.12. **The PCC CFO's assessment is that:**

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

10.13. Further detail on reserves is set out in the Reserves Strategy attached as Appendix H.

11. RISK

11.1. There are a number of risks that could impact upon the financial position in 2023/24 and beyond, for example key risks would be:

- a reduction in the government grant announced for 2024/25
- we have no HLOW specific grant funding information beyond 2023/24; our current assumption for future years grant could be too high compared to what we actually receive
- there is a risk of clawback against the £7.1m Police Officer Uplift Grant (the criteria yet to be published) should the Constabulary be unable to maintain their government funded uplift number of 498 officers (although current over recruitment against the government target reduces the risk)
- the Precept proposed by the PCC is less than the assumed 1.99% increase included in each year of the MTFS 2024/25 onwards
- the overall funding and economic position puts an increased expectation and reliance on the PCC to increase the precept by the maximum allowable
- inflation is greater than forecast which would create a cost pressure (as an example, each 0.5% increase in the pay award beyond the current assumption of a 2% pay award would lead to an in year cost pressure of £0.85m)
- utilities inflation is not transitory and translates to an ongoing cost increase and budget pressure
- the economic environment and the cost of living pressure on households impacts on the overall level of Council Tax collected such that it is lower than anticipated
- the £5m incremental recurrent revenue funding each year within the MTFS is insufficient to cover new recurrent revenue pressures
- costs for implementing pension remedy exceeds the available funding set aside

- any cost increase arising as a result of the Police Pension Scheme valuation is not funded in full by central government
- the cost of borrowing continues to increase reducing the potential level of borrowing which could be taken out to support any future capital programme requirements
- the costs of Operation Magenta increase, and the investigation continues beyond 2025/26
- Special Grant available to support Operation Magenta is no longer available or significantly reduces (which the Minister has indicated will be the case for future years)
- an increase in national top-slices
- a risk that partner agencies could reduce or withdraw their services which puts additional financial pressure on the police service
- some activities and funding could be moved to a regional or national basis that would remove funding from the HIOW policing area. There is a risk that the removal of funding causes a financial difficulty that needs to be managed locally
- insufficient savings are identified or delivered to meet the forecast medium term budget shortfall, necessitating a draw from reserves to balance the budget in any one year
- the earmarked reserves are insufficient to cover the pressures/risks to which they relate

11.2. The overall level of risk has been taken into account in assessing the minimum and overall level of reserves, and as set out in section 10 (paragraph 10.12) and in the Section 25 report in Appendix I, the PCC's CFO is content that the level of General Reserve (£7.5m) is reflective of the overall risk environment, and also that the level of Earmarked Reserves are appropriate, which includes a number of specific risk reserves (for example Inflation reserve, Council Tax reserve) .

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

CFO SECTION 25 REPORT

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

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

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

12. PUBLIC ENGAGEMENT AND CONSULTATION

- 12.1. The PCC ran an online Precept consultation, which was open for 4 weeks, launching on October 31st 2022 and closing on December 4th 2022.
- 12.2. The consultation timing was to enable the PCC to consider the views of the public of HIOW on the level of precept increase as part of her budget and precept proposal, which was due for publication on the 18th January.
- 12.3. The completed consultation was of immense value, particularly due to the excellent response rate, and the feedback it provided.
- 12.4. In total, the PCC received just over 8,400 responses to the consultation, with an 82.5% (6,947) completion rate, and a strong representation across our 14 districts. This compares with a total of 3,814 responses to the previous years online consultation for the 2022/23 budget, a 220% increase in the number of responses.
- 12.5. A key outcome was that overall 72.95% of respondents who completed the consultation were supportive of a precept increase.
- 12.6. Respondents were asked to set out their priority areas for investment, which provided valuable insight for the PCC. The priority areas were:
- i) 65.4% wanted to see improved police visibility
 - ii) 56.5% saw tackling ASB as a priority and
 - iii) 43.5% wanted zero tolerance to knife crime.
- 12.7. Participants were also given the opportunity to share with the PCC *“what improvements would you like to see happen in your local community if policing was to receive continued investment?”* and the overwhelming feedback was:
- more visible policing
 - a focus on local policing
 - tackling the crimes that take place in local communities such as ASB and
 - investigation into crimes such as burglary, car crimes and tackling drugs in our local communities.
- 12.8. Although the consultation did not specifically ask about a £15 precept increase due to this flexibility being announced post consultation close, the PCC has been able to consider the feedback on priority areas for investment as part of her consideration of whether or not to use the precept flexibility afforded by a £15 increase.
- 12.9. The number one priority identified through the consultation was for more visible policing.
- 12.10. A set out in section 4 paragraph 4.9, within her Plan, the PCC’s key priorities include:
- i) ‘Increasing the number of police officers on our streets is my top priority’

ii) 'I commit to increase police visibility to make residents and local communities feel safer'

12.11. The consultation feedback was supportive of the PCCs key priorities, and the PCC has taken account of the feedback as part of her consideration as to the level of precept increase proposed, which as set out in paragraph 4.10 is for a £15 increase for a Band D property, with the additional £5 flexibility this provides being primarily utilised to support an increase in 50 new police officers.

13. SUMMARY

13.1. The PCC is in increasing the precept by £15 for a Band D property, to deliver her vision and the priorities within her Plan.

13.2. In utilising the flexibility offered by the referendum limit increasing by £5, the PCC has made a clear commitment to invest in an additional 50 police officers, and deliver overall new investment of £9.49m.

13.3. The Chief Constable has set out her operational case in clear support of a £15 precept increase. See Appendix A.

13.4. 61% of households across Hampshire and the Isle of Wight are in properties in council tax bands A-C, and would therefore see a precept increase of less than £15 per annum as set out below.

13.5. A Capital Programme is proposed which will deliver £72.864m of investment over the next 3 years.

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

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

Police and Crime Panel Budget Paper Operational Statement

January 2023

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

Introduction

Before outlining my final Operational Statement, I would like to put on record my thanks to Police and Crime Panel members, present and past, for their support of policing over my time as chief constable. Effective challenge and support has helped me to deliver the best operational police service I could have. And, above all, the Panel has supported the efforts of police officers and staff and volunteers who work tirelessly in our communities day in day out and who, without fear or favour, meet head on some of the most challenging and sometimes harrowing situations imaginable.

Just as I have benefitted from your challenge and support in my time, so chief constable Scott Chilton will benefit when he takes over operational command on 23rd February 2023. This Operational Statement is about that future, and ensuring that in taking on the role, he has the budget he needs to deliver against the intent that he laid out to you during the Panel confirmation hearing in November 2022.

Public support is welcomed and important

Public consultation carried out by our Police and Crime Commissioner shows that policing continues to benefit from a high level of support from the public. This is very welcome.

Given the current economic context, it is significant that for 61% of people (those in Council Tax Bands A-C) the impact of the proposed budget will be less than £15 per year, and for those most in need of support it will be reduced through council tax support schemes. What is also clear is the benefit to all – irrespective of personal circumstances - of having the most effective police force possible for Hampshire and the Isle of Wight at a time when other public services are stretched.

In terms of priorities, officer numbers and visibility are two categories that the public say are most important to them. This chimes with the mandate of More Officers and Safer Streets upon which Commissioner Donna Jones was elected. Against this context, and given the challenges faced by policing, I have no hesitation in making the operational case for a maximum £15 increase in precept for Band D. This is the only credible way to deliver more police officers than those already committed.

Good progress on extra police officer numbers

The force has made real progress in the last twelve months and I am pleased to say that by 31 March 2023 we will have more than 600 extra officers compared to March

2020. This means we are a force that is on track to deliver its national police uplift numbers.

In fact, the situation is better than simply delivering the government target. Under the Commissioner’s new budget plans that number of extra police officers in Hampshire and the Isle of Wight would now increase again to 650 (see table below). And this could be delivered by 31 March 2024.

It is no exaggeration to say that when I took up my role as chief constable this kind of growth was simply inconceivable.

Date	Number of Officers Achieved	Extra officers
March 2020	2,775	-
March 2021	3,119	+344
March 2022	3,300	+525
March 2023 (current projection)	3,386	+610*
March 2024 (projection with a £10 Band D increase)	3,375	+600
March 2024 (projection with a £15 Band D increase)	3,425	+650

*Short term government funding enables the force to temporarily exceed 600 extra by ten. These extra ten are only affordable longer-term under the £15 option.

This kind of growth is only possible because of local support, local efficiencies, and local council tax. Three other important points of context are worth the Panel noting:

- The pace of growth means that currently 25% of our police officer workforce are students. That is more than 840 of our overall number. We are making huge steps but we need to build experience for the public to feel the full benefit.
- Even with recent local support, we will remain one of the lowest recipients of council tax when benchmarked against other forces. If we do not take the opportunity of £15, every indication is that we would be further left behind.

Cost of living - Impact on policing

The current crisis is serious. Inflation and interest rates are on the rise, while the price of food and electricity are taking their toll. Whilst our thoughts rightly turn first to people in our communities who are suffering, operational policing is not exempt. Police officers and staff, and their families, are feeling the impact in their pockets. Officers cannot strike as others are, but it is important their voice is heard and they feel supported as they continue to deliver core services. Fuel is more expensive for the fleet of response vehicles. Heating police buildings and keeping the lights on is more expensive. Licenses for key IT services have become more expensive. Nearly everything we need to buy to sustain our service delivery is more expensive.

Despite national government efforts, police funding is not keeping up. Factoring in the national funding provision, and even with a £15 increase of council tax as per this recommendation, inflationary pressures will account for nearly all of the total increase in police funding for Hampshire & Isle of Wight Constabulary. That this budget still enables 50 extra officers against that context is because of prudent financial planning, significant efficiencies of £6.4m that have been identified for 2023-24, and a steely desire to ensure every pound possible goes into operational policing.

These inflationary pressures mean that £10 extra council tax at Band D would not unlock more police officers. It would simply maintain the 600 extra officers that we will have by the end of March 2023, keep our fleet on the road and keep our buildings heated and operational, but not more boots on the ground. Any less than £10 would mean less officers or vital staff. I share the Commissioner's desire, and the intent of the new Chief Constable, to be more ambitious for the people we serve. The commitment to more visible policing requires as many extra officers as possible, and this can only be delivered with a £15 increase in council tax.

Retaining and growing skills

We must also nurture and grow the skills that we have. Policing has changed. Cyber skills to target perpetrators of crimes such as online fraud are vital, so it is important that we are able to attract and retain individuals in specialist investigation roles if we are to bring these criminals to justice. This budget will allow us to do more of that and to protect vital staff roles – contact staff to support stretched colleagues and improve our 101 response, PCSOs, Staff Investigators – and prevent what we will see in some other forces, with officers being taken from the frontline to perform back office tasks because the money for staff has run out. Again, good financial planning sets us aside.

The additional increase in funding will also enable us to be active in a competitive employment market for modern skills, attracting the best and brightest, while also retaining the high-quality staff and officers who are already in our ranks. It will ensure that we continue to meet our mandatory and legal obligations, such as forensic collision investigations, and that our witness care responsibilities are of the highest possible standard.

Delivering against the Police and Crime Plan

Over the last twelve months, the Constabulary has worked closely with our Police and Crime Commissioner, delivering against the Police and Crime Plan and building on an already strong working relationship. I have provided below some detail that shows operational progress, and some of the challenges we are embracing:

- In line with national trends, we are recording and managing more crime (175,227 in 2022, compared with 161,256 in 2021). Our accuracy of recording, once our Achilles Heel, is now one of the best in the country. Managing increasing crime requires considerable flexibility from our teams in our Contact Management, Response and Patrol, Investigation Command and Neighbourhood Policing teams. Our commitment to neighbourhood policing remains, but that has been stretched through abstractions. The force has taken firm and considered steps to address this but it remains extremely challenging. More officers can help.

- Since April 2022, we have arrested 24,073 people for 45,689 offences – each of those with a victim. These arrest figures are three per cent more than in the previous year. We have made five per cent more arrests in cases where violence has caused injury. Fifteen per cent more arrests for sexual offences, and seven per cent more arrests for rape.
- In the autumn, having listened to public feedback we changed our approach making a public commitment alongside our Police and Crime Commissioner, to prioritise deploying to all domestic burglaries where people’s houses themselves are targeted. Since September, we have achieved this in 97% of cases.
- Domestic abuse remains a priority and we made 2,435 more arrests for offences linked to domestic abuse in 2022 compared with the same period last year.
- Policing is still the front end of a national Criminal Justice System that is failing overall. We feel that demand first, and perhaps most severely. We continue to invest in partnerships and people throughout the system are doing all they can, but there are real impacts felt by real people.
- Sadly, vulnerable people (including children) are caught up in criminality. In the year from 2021, we managed an additional 10,777 referrals through our multi-agency safeguarding hub. This is good news, but the demand challenge brought by this and by the other increases in demand that I have outlined above is evident.

Last year, I set out what your additional funding would help to provide in addition to more officers, and I’m pleased to be able to update you on these.

- **Contact from the public.** The force has done everything possible to protect 999 emergency services, comparing well against other forces in terms of call answering times, as we took nearly three hundred thousand 999 calls. This kind of volume creates a knock on impact into 101 services, which are non-emergency. There can be no doubt that policing is picking up other services’ non-emergencies as other agencies step back, have periods of industrial action, or move even further away from being available on the phone. Against this context, the average waiting time to answer a 101 call in December 2021 was over three minutes. This is now six minutes on average over the past year. We hear calls from the public that 101 needs to improve and we are responding. I stress again that it is a non-emergency service and we are performing markedly better than many police forces and (dare I say all) other public services, but included in this budget for next year is an investment of £1.6m next year. Within this is better public engagement technology to support staff in their efforts and to keep victims of crime and non-crime incidents updated, from first point of contact to closure, progressing to a victim portal that can be accessed on any mobile device, enabling two-way communication for the public, and beyond that new digital channels for reporting and contact. Innovation such as using Rapid Response Video is also helping us and gaining positive feedback from victims, and we are recruiting up to full strength with one of the biggest drives for contact staff of any force. Our current staff benchmark as highly productive but vacancies impact our service heavily.

- **Improved interview facilities.** Plans are now progressing to have vulnerable witness suites in place. Sites are being identified and we have been engaging nationally to understand what the best facilities look like to ensure victims are supported during what can be harrowing times.
- **Three more specialist police officers in our public protection** to monitor and supervise a growing number of the most dangerous offenders.
- **Five more analysts are now in post,** so we can spot crime trends and make earlier interventions.
- **Eighteen more Roads Policing officer posts have been created.** These individuals aim to keep our highways and byways safe, while performing compassionate and professional investigations when faced with tragic incidents.

Summary of the Operational Case

The operational case for investing further in local policing services is clear. Every measure shows Hampshire & Isle of Wight Constabulary to be a low-cost force, it has found significant efficiencies in the year ahead, and has high productivity.

With sustained support, exciting times lie ahead for Hampshire & Isle of Wight Constabulary. More police and more visibility have public support, and our communities deserve the best possible service. £15 will further strengthen the platform for this, enabling 50 extra officers by March 2024, on top of the 600 extra the force will already have delivered by the end of March 2023. It is my professional view that this budget will give the new Chief Constable the best chance of delivering on the operational intent he shared with the Crime Panel in November 2022, and the requirements laid out in the Police and Crime Plan.

I would like to end my statement by again putting on the record my thanks to this Panel, my thanks to the partners and third sector who work so collegiately with policing, and my thanks to the public for their support. And, finally, I would again like to state my admiration for every one of the brilliant police officers, staff and volunteers I am so proud to lead, whom I will miss serving alongside very much, and in whose hands – with your support - policing in Hampshire and the Isle of Wight will be very safe.

Chief Constable Olivia Pinkney

Inflation and Assumptions

Inflation	2023/24	2024/25	2025/26	2026/27
Pay Inflation (Sept Pay Award)	2.0%	2.0%	2.0%	2.0%
Default prices inflation	5.0%	2.0%	2.0%	2.0%

Exact inflation is used where it is known for certain contracts or where the commodity in question has a specific inflation %

Employer Pension Contributions	2023/24	2024/25	2025/26	2026/27
Officers	31.0%	31.0%	31.0%*	31.0%*
Staff	16.3%	16.3%	16.3%	16.3%

Funding	2023/24	2024/25	2025/26	2026/27
General Govt grant	1.8%	1.74%	0.0%	0.0%
Council tax benefit & freeze grants	0.0%	0.0%	0.0%	0.0%
Pension grant	0.0%	0.0%	0.0%	0.0%
Precept	6.34%	1.99%	1.99%	1.99%

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

Council tax Precept 2023/24

Council tax at each band								
Band	A	B	C	D	E	F	G	H
23/24	167.64	195.58	223.52	251.46	307.34	363.22	419.10	502.92
Increase £pa	10.00	11.67	13.33	15.00	18.33	21.67	25.00	30.00
Increase £p/m	0.83	0.97	1.11	1.25	1.53	1.81	2.08	2.50
Increase £p/wk	0.19	0.22	0.26	0.29	0.35	0.42	0.48	0.58

Collection authority tax bases and share of precept 2023/24

Collection authority	Tax base	Precept
Basingstoke	69,037.30	17,360,119.46
East Hampshire	52,581.28	13,222,088.67
Eastleigh	48,510.23	12,198,382.44
Fareham	44,139.40	11,099,293.52
Gosport	27,056.00	6,803,501.76
Hart	42,313.27	10,640,094.87
Havant	41,898.30	10,535,746.52
New Forest	72,271.70	18,173,441.68
Rushmoor	32,959.11	8,287,897.80
Test Valley	51,968.00	13,067,873.28
Winchester	52,626.87	13,233,552.73
Portsmouth	57,480.60	14,454,071.68
Southampton	67,057.00	16,862,153.22
Isle of Wight	54,087.00	13,600,717.02
Total	713,986.06	179,538,934.65

Appendix C

Comparison of Council Tax Precept by PCC 2022/23 Financial Year

2022-23 Council tax (average Band D) and % change on 2021-22: individual local authorities ^(a)				
Local authority	Average council tax for the authority (Band D)			
	£ (Column 1)	% change (Column 2)	£ change (Column 3)	
POLICE AND CRIME COMMISSIONERS				
1 Surrey	295.57	3.50	10.00	
2 Norfolk	288.00	3.59	9.99	
3 Cumbria	282.15	3.67	9.99	
4 North Yorkshire	281.06	3.69	10.00	
5 Gloucestershire	280.08	3.70	10.00	
6 Northamptonshire	278.04	3.73	10.00	
7 Lincolnshire	276.30	3.75	9.99	
8 Cleveland	275.73	3.76	10.00	
9 Dorset	265.58	3.91	10.00	
10 Warwickshire	262.71	3.85	9.75	
11 Leicestershire	258.23	4.03	10.00	
12 Cambridgeshire	257.58	4.03	9.99	
13 Nottinghamshire	254.25	4.09	9.99	
14 Humberside	253.20	4.11	9.99	
15 Derbyshire	251.60	4.14	10.00	
16 Avon & Somerset	251.20	4.15	10.00	
17 West Mercia	249.66	3.94	9.47	
18 Staffordshire	248.57	4.19	10.00	
19 Suffolk	247.68	4.20	9.99	
20 Devon & Cornwall	246.56	4.23	10.00	
21 Thames Valley	241.28	4.32	10.00	
22 Wiltshire	241.27	4.32	10.00	
23 Durham	240.24	4.34	10.00	
24 Bedfordshire	237.09	4.40	10.00	
25 Merseyside	236.97	4.41	10.00	
26 Hampshire	236.46	4.42	10.00	
27 Lancashire	236.45	4.42	10.00	
28 Cheshire	235.44	4.44	10.00	
29 Greater Manchester CA - Police Functions	228.30	4.58	10.00	
30 Kent	228.15	4.58	10.00	
31 Sussex	224.91	4.65	10.00	
32 South Yorkshire	223.04	4.69	10.00	
33 Hertfordshire	223.00	4.69	10.00	
34 West Yorkshire CA - Police Functions	221.28	4.73	10.00	
35 Essex	218.52	4.79	9.99	
36 West Midlands	187.55	5.63	10.00	
37 Northumbria	153.84	6.95	10.00	
Average	246.42	4.29	9.98	
Source: CTR forms				
(a) The Government is providing a £150 one-off Energy Bills Rebate for most households in council tax bands A-D. This is not reflected in these figures.				

Appendix D

Budget 2023/24 and Medium-Term Financial Strategy

Medium Term Financial Strategy	Starting Budget 2023/24	Inflation	Efficiency Savings	Growth & Budget Pressure	Funding Changes	Forward Budget 2023/24	Forecast Budget 2024/25	Forecast Budget 2025/26	Forecast Budget 2026/27
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Funding:									
Expected amount from General Grants	(223,049)	0	0	0	(775)	(223,824)	(227,715)	(227,715)	(227,715)
Council tax freeze and benefit grant	(12,944)	0	0	0	0	(12,944)	(12,944)	(12,944)	(12,944)
Pension Grant	(2,988)	0	0	0	0	(2,988)	(2,988)	(2,988)	(2,988)
Uplift Grant	(3,502)	0	0	0	(3,632)	(7,133)	(7,133)	(7,133)	(7,133)
Council tax precept	(167,389)	0	0	0	(12,150)	(179,539)	(184,024)	(188,622)	(193,342)
Council tax collection fund surplus	(1,517)	0	0	0	997	(520)	0	0	0
Collection Fund Adjustment Grant	0	0	0	0	0	0	0	0	0
Total amount funding expected:	(411,389)	0	0	0	(15,560)	(426,948)	(434,805)	(439,403)	(444,122)
Expenditure owned by the PCC:									
Executive	1,772	66	(614)	0	0	1,224	1,242	1,257	1,272
PCC Business	1,452	29	0	236	0	1,717	1,755	1,790	1,825
Commissioning CJ & Partnerships	4,142	0	0	0	0	4,142	4,160	4,175	4,191
Estates	22,174	1,439	0	0	0	23,613	24,221	24,836	25,468
Interest on Balances	(500)	0	(1,500)	0	0	(2,000)	(500)	(500)	(500)
Capital Financing	5,158	0	0	0	0	5,158	5,158	5,158	5,158
Reserve Transfers	12,084	0	0	3,332	0	15,416	12,212	11,643	12,277
Net Expenditure owned by Office of the PCC	46,281	1,534	(2,114)	3,568	0	49,269	48,247	48,358	49,691
Police Services									
Expenditure:									
Employees	301,432	6,834	(2,201)	4,422	0	310,486	320,079	327,194	335,267
Indirect Employee Costs	5,754	7	0	293	0	6,054	6,140	6,222	6,307
Premises	1,229	5	(165)	35	0	1,104	1,042	1,066	1,092
Transport	6,398	593	0	0	0	6,991	7,204	7,424	7,652
Supplies and Services	22,460	350	(1,885)	643	0	21,568	26,861	32,288	37,713
Third Party Payments & Support Service	77,219	3,165	(12)	822	0	81,194	82,206	84,449	85,579
Total Expenditure on Police Services:	414,491	10,954	(4,263)	6,215	0	427,397	443,531	458,643	473,609
Income:									
Fees & Charges	(10,851)	0	0	0	0	(10,851)	(10,799)	(10,746)	(10,789)
Grants & Contributions	(38,533)	0	(42)	(293)	0	(38,867)	(39,564)	(40,267)	(40,984)
Total Income on Police Services:	(49,383)	0	(42)	(293)	0	(49,718)	(50,363)	(51,014)	(51,773)
Net Expenditure on Police Services:	365,108	10,954	(4,305)	5,922	0	377,679	393,168	407,630	421,835
Net Expenditure on PCC and Police Services	411,389	12,488	(6,419)	9,490	0	426,948	441,415	455,988	471,527
Budget (surplus)/ shortfall:	0	12,488	(6,419)	9,490	(15,560)	0	6,610	16,585	27,405

Detailed explanation of investment

- 1.1. As set out in section 6 of the report, the budget pressures and growth for 2023/24 total £9.057m as shown in the table below. They include the rolling forward of plans for investment that were set out in previous Budget reports. The table below summarises the budget pressures with further detail provided below for each of those headings.

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
More Frontline	6.387	4.693	4.259	4.249
Right Place, Right Time	1.351	0.624	0.255	0.255
Better Equipped	1.163	1.108	1.035	1.035
Governance Costs	0.266	0.266	0.266	0.266
Allowance for future budget investment/pressures		5.000	10.000	15.000
Gross Investment	9.168	11.691	15.816	20.806
Less Contributions from reserves	0.324	(1.035)	(0.160)	-
Net Investment	9.492	10.656	15.656	20.805

Policing services – More Frontline

More frontline police officers and staff to provide a visible presence, respond to the public, prevent crime and investigate incidents when they occur, and sustain PCSO numbers. The amounts shown are the cost in 2023/24.

- 1.2. The Government's Police Uplift Programme concludes in 2022/23. Hampshire & Isle of Wight Constabulary (HIWC) remains on target to achieve the uplift target and deliver against the pledge for a net additional 600 police officers over the period from 1 Apr 2020 to 31 March 2023. As these officers complete their training, they will continue to increase the capability to provide a visible presence, prevent and detect crime across Hampshire and the Isle of Wight.
- 1.3. The 23/24 budget includes funding provision for a **further 50 officers** at **£3.118m** to continue to deliver against the Police and Crime Plan and in accordance with the feedback received from the budget consultation. These officers will be recruited during 23/24. There is an additional **£0.427m** to allow ongoing **recruitment** of officers and staff post-uplift and **£0.083m** one-off cost for implementing the **pay progression** for officers.
- 1.4. There is **£1.645m** included in the budget to provide additional **contact management** functionality that will improve **101** answering times and provide a better service for victims of crime. Demand for public services continues to increase. Response times for 999 calls remains good with the December average answer time at 7 seconds for 999 calls. Many organisations have withdrawn non-emergency facilities or experience

lengthy delays in accessing those services. HIWC continue to aspire to retain the 101 service in addition to the online access available for non-emergency enquires. The investment will provide a functionality for victims to be able to access the information that they need more easily which will also reduce demand on the 101 number, improving the answering time for callers.

- 1.5. The budget also allows for **£0.506m** to provide more resources to manage the new **bail conditions** and **£0.384m** for **Witness Care Unit** resources. The backlogs in the wider criminal justice system mean that victims, witnesses and accused offenders are waiting longer than before for court dates. The investment is necessary to ensure that justice is served and that victims and witnesses are suitably cared for during the process.
- 1.6. The model for investigating traffic collisions is changing requiring additional staff and new equipment as part of the national approach to **forensic collision investigation** and in preparation for the need for formal accreditation for this activity (**£0.197m**).
- 1.7. There is an increase to the **Serious Case Review Team** to meet the new requirements in relation to homicide with weapons (**£0.048m**).

Policing services – Right Place, Right Time

Investment in new technology to:

- allow personnel to spend more time in the communities they serve
 - provide personnel with the information they need to deal with incidents well
 - ensure that the police can fight the continued challenge and increased emergence of cyber crime
 - improve security to reduce the risk of cyber attack or failures of police IT
- 1.8. An increase to the **external training** budget of **£0.293m** funded from an increase in apprenticeship levy increases (**-£0.293m**) to ensure that officers and staff can attend training which is essential for their roles.
 - 1.9. A **£0.239m** increase in the cloud server capacity in **Azure** to store crime data from RMS. Similarly, **£0.195m** for **DEMS** storage of digital evidence due to the increase in digital evidence that is required.
 - 1.10. The **Automatic Vehicle Location System** software requires replacing as it will be out of support and is required for the control room to identify the location of force vehicles for deployment and officer safety **£0.173m**.
 - 1.11. The Force must meet requirements under the **Management of Police Information** regulations to review, retain and delete information. New requirements mean that temporary additional resourcing is required to meet the requirements **£0.154m**. There is also a temporary **Data**

Safeguards review, retain and delete post added to the Crime portfolio for one year **£0.065m**.

- 1.12. The **Transport Layer System** requires updating to meet the new standards. The TLS provides security for digital communications between two parties e.g. when a server and client communicate it will prevent eavesdrop or tampering **£0.129m**.
- 1.13. **Body Worn Video software support** is required as the body worn video is due for renewal (**£0.110m**).
- 1.14. As part of the annual need to maintain the infrastructure, **£0.107m** one-off is required for a **Windows Server 2012** upgrade. A further **£0.071m** one-off is required to update systems to align with the Police Digital Service windows client operating system and M365 blueprints that underpin the national configuration and governance requirements.
- 1.15. A budget of **£0.109m** is approved for further **wifi** rollout but this cost is funded from reserves as provision had been made in a previous year.

Policing services – Better Equipped

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

- 1.16. There is a recurrent increase of **£0.400m** in the annual contribution to the **equipment reserve** to recognise the need to increase the provision required for the replacement of equipment such as conductive energy devices (tasers) and a further **£0.182m** contribution to the reserve for **body worn video** device replacement.
- 1.17. A recurrent increase of **£0.340m** to the **vehicle replacement reserve** to recognise the increase in costs of replacing vehicles due to price increases.
- 1.18. There is also a need to increase the number of **taser trainers** **£0.083m** to deliver the training required to replace the X2 taser with the T7 taser.
- 1.19. Temporary funding is included for **wellbeing support caseworkers** **£0.074m** and **PPE for the Mind** **£0.035m** to enable the cost benefit of these arrangements to be assessed.
- 1.20. A **Health & Safety Researcher** (**£0.033m**) to ensure compliance with health and safety legislation.

Governance

- 1.21. Fees for **external audits** are expected to increase so **£0.136m** is added to the OPCC budget and **£0.030m** is added to the Constabulary budget to fund the expected increases. The budget for **legally qualified chairs** is also required to be increased by **£0.100m** based on levels in 2022/23.

Contributions to reserves for Commissioning

- 1.22. There is a net contribution to reserves of £0.324m in 23/24 which reflects a draw of £0.109m for the wifi phase 2 rollout costs as these have already been provided for in a previous budget, offset by a contribution to fund additional Commissioning by the PCC in 2023/23 of £0.433m (which reflects the net additional funding of £0.433m following finalisation of the Police Grant Settlement, the council tax base, and the council tax surplus)

Capital Programme

Capital programme		2022-23	2023-24	2024-25	2025-26
		£000	£000	£000	£000
Capital spend	Estates	1,520	17,464	19,500	26,900
	Vehicles	3,000	3,000	3,000	3,000
	TOTAL	4,520	20,464	22,500	29,900
Funding	Operational buildings receipts	-	(6,675)	-	-
	Residential buildings receipts	-	(1,100)	-	-
	Vehicles receipts	(150)	(150)	(150)	(150)
	Capital grant	-	-	-	-
	RCCO - Estates	(1,370)	(9,539)	(19,350)	(26,750)
	RCCO - Vehicles	(3,000)	(3,000)	(3,000)	(3,000)
	TOTAL	(4,520)	(20,464)	(22,500)	(29,900)
	In year (surplus) / shortfall	-	-	-	-
	Cumulative (surplus) / shortfall	-	-	-	-

Capital and Investment Strategy 2023/24 to 2025/26

Contents

1. Introduction
2. Governance arrangements for capital investment
3. Capital expenditure, capital financing and asset management
4. Prudence and affordability
5. Minimum Revenue Provision (MRP) statement
6. Treasury Management including pooled fund investments
7. Service and commercial investments
8. Knowledge and skills
9. Chief Financial Officer's conclusion on the affordability and risk associated with the Capital and Investment Strategy
10. Links to the statutory guidance and other information

1 Introduction

- 1.1 This Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the services within the PCC's remit, including policing, and provides an overview of how associated risk is managed and the implications for future financial sustainability.

2 Governance

- 2.1 The PCC's medium term financial strategy ensures that we continue to invest wisely in our existing assets and deliver a programme of new assets in line with overall priorities and need.
- 2.2 The major area of PCC capital expenditure is on the Estates Programme which is monitored and reviewed by the Estates Board. Other areas of the capital programme are kept under review by the Chief Finance Officer.
- 2.3 In accordance with the medium-term financial strategy, proposed programmes are scrutinised on a case-by-case basis to assess affordability. The final capital programme is then presented to the Police and Crime Commissioner (PCC) in February each year for approval as part of the budget and overall MTFS.

3 Capital expenditure, capital financing and asset management

- 3.1 Capital expenditure is what the PCC spends on assets, such as land, property and vehicles, which will be used for more than one year.
- 3.2 Capital expenditure may be funded directly from revenue however the general pressures on the PCC's revenue budget and council tax levels limit the extent to which this may be exercised as a source of capital funding.

- 3.3 Prudential borrowing does provide an option for funding additional capital development/expenditure but one which then results in borrowing costs that have to be funded each year from within the revenue budget or from generating additional ongoing income streams.
- 3.4 The PCC's revenue budget includes budgetary provision to support borrowing to enable the PCC to progress schemes within the capital programme, but other sources of funding will always be maximised to limit the extent to which borrowing support is required; there is currently no requirement for borrowing, as the capital programme is fully funded.

Capital expenditure

- 3.5 Table 1 provides details of the PCC's capital programme and the estimated expenditure flows. This is one of the Prudential Indicators.

Table 1 – Capital programme forecast expenditure flows (Prudential Indicator 1)

	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m
Forecast expenditure	4.5	20.5	22.5	29.9	77.4

- 3.6 The most significant element of the PCC's capital programme is related to improving the Estate in support of operational policing. There is also an annual vehicle replacement programme, fully funded by a contribution from the revenue budget.

Capital financing

- 3.7 All capital expenditure must be financed, either from external sources (e.g. capital grant), the PCC's own resources (e.g. revenue contributions), or debt. Debt is only a temporary source of funding and is replaced over time by other financing, usually from revenue through annual Minimum Revenue Provision (MRP) charges. External debt will also incur interest costs. The PCC's borrowing strategy is summarised in Section 6 and forms part of the Treasury Management Strategy.

The resources to fund the capital expenditure flows set out in Table 1 are shown in Table 2.

Table 2 – Resources to fund capital expenditure

	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m
Prudential borrowing	-	-	-	-	-
Capital grants	-	-	-	-	-
Capital receipts	(0.2)	(7.9)	(0.2)	(0.2)	(8.4)
Revenue contributions to capital	(4.4)	(12.5)	(22.4)	(29.8)	(69.0)
Total resources	(4.5)	(20.5)	(22.5)	(29.9)	(77.4)

- 3.8 The capital programme is fully funded by capital receipts and revenue contributions over the next 3 years. There is no requirement to borrow at this stage, although the revenue budget has made provision for future borrowing should this be required.

Asset management and disposal

- 3.9 Asset management for the PCC's estate is conducted by the Estates team.
- 3.10 Capital receipts are generated when a capital asset is identified as surplus to requirements and is then sold. The proceeds from these asset sales may be used to fund new capital assets or to repay debt. The repayment of capital grants, loans and investments will also count as capital receipts, with the same restrictions on future use of the proceeds. The PCC has relatively limited opportunities to generate capital receipts.
- 3.11 The PCC's financial regulations set out that the PCC is required to consider and approve the sale and purchase of all land and buildings.

4. Prudence and affordability

- 4.1 The PCC is required to ensure that capital expenditure, investment and borrowing decisions are prudent, sustainable and affordable. There are a number of prudential indicators that must be set and monitored to help with this requirement, which are set out in the Prudential Code. The prudential indicators cover:
- Capital expenditure (Tables 1 and 3)
 - External debt (Tables 3 and 5)
 - Affordability (Tables 6 and 7).
- 4.2 The Prudential Code sets out that certain acts and practices are not prudent activity for a PCC and incur risk to the affordability of local authority investment. The PCC will not therefore:
- Borrow to invest primarily for financial return
 - Make investment or spending decisions that increase the CFR unless directly and primarily related to the functions of the PCC (any financial returns should either be related to the financial viability of the project or incidental to the primary purpose).

Prudential borrowing

- 4.3 Capital financing costs associated with prudential borrowing must be financed by the PCC from its own resources. It is therefore important that the use of prudential borrowing is very closely controlled and monitored. The PCC will only use prudential borrowing where there is a clear financial case to support doing so, although it will not borrow to invest primarily for financial return and therefore retains full access to the Public Works Loan Board (PWLB).

Ensuring borrowing is only for capital purposes

- 4.4 The Capital Financing Requirement (CFR) is the cumulative outstanding amount of debt finance. The CFR increases with new debt-funded capital expenditure and reduces through annual Minimum Revenue Provision (MRP) charges to the revenue budget and any capital receipts or other contributions used to replace debt.
- 4.5 The Prudential Code states that a PCC must ensure that gross debt is only for capital purposes over the medium term, which means that gross external debt must not exceed the total of the CFR from the preceding year plus the estimates of any additional CFR for the current and next two financial years, except in the short term. This is a key indicator of prudence and is shown in Table 3.

Table 3 – Ensuring Borrowing is Only for Capital Purposes (Prudential Indicator 2)

	2022/23	2023/24	2024/25	2025/26
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
CFR	54.0	51.5	84.8	81.5
Debt				
Borrowing	29.7	29.7	29.4	29.0
Lease liabilities	-	-	38.8	35.8
Total Debt	29.7	29.7	68.1	64.8

- 4.6 Total debt is expected to remain below the CFR during the forecast period. The estimates for CFR and debt reflect the introduction of IFRS 16 (the new accounting standard for leases) from April 2024; the introduction of IFRS16 does not have a cash impact.
- 4.7 External debt is expected to remain below the CFR because of the PCC's borrowing strategy, whereby it has used internal borrowing (the temporary use of internal cash balances) to fund capital expenditure in place of borrowing money from external sources on the advice of its treasury management advisors, Arlingclose.
- 4.8 The PCC is not expecting to undertake new external borrowing to support its capital programme plans over the next 3 years. Should this position change, then the timing and source of borrowing will be determined in line with the Treasury Management Strategy and upon taking advice from Arlingclose.

Liability benchmark

- 4.9 The Liability benchmark compares planned/actual borrowing with an alternative strategy where cash and investment balances are kept to a minimum to reduce borrowing. More detail is provided in the Treasury Management Strategy.

- 4.10 It is an important tool to help establish whether the PCC is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the PCC must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.
- 4.11 The liability benchmark is the lowest level of debt the PCC could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The PCC expects a negative liability benchmark across the first two years of the forecast period, which means that currently there is not a requirement to borrow during this period.

Table 4: Liability benchmark

	31/03/22 Actual £m	31/03/23 Estimate £m	31/03/24 Forecast £m	31/03/25 Forecast £m	31/03/26 Forecast £m
Loans CFR	56.4	54.0	51.5	46.0	45.7
Less: Balance sheet resources	(129.8)	(139.3)	(117.8)	(93.0)	(33.2)
Net loans requirement	(73.4)	(85.3)	(66.3)	(47.0)	12.5
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	(63.4)	(75.3)	(56.3)	(37.0)	22.5

Affordable borrowing limit

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

Table 5: Affordable Borrowing Limits (Prudential Indicators 3 and 4)

	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Authorised Limit:				
Borrowing	89.9	87.5	82.0	81.7
Leases	0.0	0.0	38.8	35.8
Authorised Limit	89.9	87.5	120.8	117.4
Operational Boundary:				
Borrowing	72.9	70.5	65.0	64.7
Leases	0.0	0.0	38.8	35.8
Operational Boundary:	72.9	70.5	103.8	100.5

Affordability of financing costs

- 4.13 Capital expenditure is not charged directly to the revenue budget, however the interest payable on loans and the annual MRP are charged to revenue, as are other financing costs such as interest payable under finance leases and amounts relating to the early settlement of borrowing. In aggregate these costs are known as financing costs. The impact of these costs needs to be well understood prior to making capital investment decisions and then closely monitored.
- 4.14 Table 6 shows the proportion of the PCC's net revenue stream (Council Tax and government grants through the Police Grant settlement) required to meet financing costs. This is an indicator of the affordability of the PCC's capital programme.

Table 6: Ratio of Financing Costs to Net Revenue Stream (Prudential Indicator 5)

	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio	0.91%	0.88%	1.55%	1.04%

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

Reliance on income from commercial and service investments

- 4.16 The update to the Prudential Code in 2021 introduced a new prudential indicator intended to show how reliant a local authority is on income from commercial and service investments, and therefore how exposed the authority is to the loss of this income. The PCC does not have any investments classified as commercial or service investments.

Table 7: Net Income from Commercial and Service Investments to Net Revenue Stream (Prudential Indicator 6)

	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio	0.0%	0.0%	0.0%	0.0%

5. Minimum Revenue Provision (MRP) Statement

- 5.1 Where the PCC finances capital expenditure by debt, statutory guidance requires it to put aside revenue resources to repay that debt in later years, known as MRP. The Local Government Act 2003 requires the PCC to have regard to proper practice as issued by Government. The Department for Levelling Up, Housing and Communities has been consulting on proposed changes to the relevant regulations to ensure that all authorities make adequate revenue provision. Until that is concluded, the relevant guidance is that issued by the (former) Ministry of Housing, Communities and Local Government in 2018.

- 5.2 The broad aim of the MHCLG guidance is to ensure that capital expenditure is financed over a period that is reasonably commensurate with that over which the capital expenditure provides benefits or, in the case of borrowing supported by Government Revenue Support Grant (RSG), reasonably commensurate with the period implicit in the determination of that grant.
- 5.3 The guidance requires the PCC to approve an Annual MRP Statement each year, and whilst it provides a range of options for the calculation of MRP, the guidance also notes that other options are permissible provided that they are fully consistent with the statutory duty to make prudent revenue provision.
- 5.4 The four options provided are:
- Option 1: Regulatory Method
 - Option 2: CFR Method (4% of the CFR)
 - Option 3: Asset Life Method
 - Option 4: Depreciation Method
- 5.5 Options 1 and 2 may be used only for supported capital expenditure funded from borrowing (i.e. financing costs deemed to be supported through the RSG from central government). Methods of making prudent provision for unsupported capital expenditure are restricted to Options 3 and 4 (which may also be used for supported capital expenditure if the PCC chooses).
- 5.6 The PCC will continue to apply Option 2 in respect of supported capital expenditure funded from borrowing with an MRP charge equal to 4% of the CFR balance in respect of that expenditure.
- 5.7 The PCC will continue to apply Option 3 in respect of unsupported capital expenditure funded by borrowing by charging MRP over the expected useful life of the relevant assets in equal instalments.
- 5.8 For assets acquired by leases, MRP will be determined to be equal to the element of the rent or charge that goes to write down the balance sheet liability.
- 5.9 The adoption of the new accounting standard for leases (IFRS 16) when implemented will mean that former operating leases will be brought onto the balance sheet from 1 April 2024. Where this is the case, the annual MRP charge will be set so that the total charge to the revenue budget remains unaffected by the new accounting standard.
- 5.10 Capital expenditure will not be subject to MRP charges until the year after the expenditure takes place.
- 5.11 Based on the PCC's latest estimate of CFR on 31 March 2023, the budget for MRP has been set as follows:

Table 8: MRP Budget

	31/03/2023 Estimated CFR £M	2023/24 Estimated MRP £M
Supported Capital Expenditure	7.7	0.3
Unsupported Capital Expenditure After 31/03/2008	43.6	1.4
Leases	2.7	0.8
MRP budget for future capital expenditure	0.0	2.0
Total General Fund	54.0	4.5

6. Treasury Management

- 6.1. The Treasury Management Strategy (TMS) supports the Capital and Investment Strategy in setting out the arrangements for the management of the PCC's cash flows, borrowing and investments, and the associated risks.
- 6.2. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the PCC's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.
- 6.3. The PCC is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 6.4. The PCC has potentially large exposures to financial risks through its investment and borrowing activity, including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the PCC's Treasury Management Strategy (TMS).
- 6.5. The PCC's TMS, is approved by the PCC each year. Actual performance is reviewed by the PCC at mid-year and the end of each financial year.
- 6.6. Treasury Management prudential indicators are included within the Treasury Management Strategy.

Treasury management borrowing strategy

- 6.7. The PCC's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans, should the PCC's long-term plans change, is a secondary objective.

Treasury management investment strategy

- 6.8. The CIPFA Code requires the PCC to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The PCC's objective when investing money is to strike an appropriate balance between risk and return,

minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- 6.9. The contribution that these investments make to the objectives of the PCC is to support effective treasury management activities.
- 6.10. The PCC's actual and forecast treasury management investment balances are shown in Table 9 with further detail in the TMS.

Table 9 – treasury management investments

	31/3/22 actual	31/3/23 forecast	31/3/24 forecast	31/3/25 forecast
	£m	£m	£m	£m
Short term investments	87.87	62.70	64.50	81.30
Long term investments	2.00	5.00	15.00	15.00
Pooled fund investments	10.00	10.00	15.00	15.00
Total	99.87	77.70	94.50	111.30

Pooled fund investments

- 6.11. The PCC holds reserves for a number of purposes, which are explained in more detail in the Reserves Strategy (Appendix H). Where the PCC holds surplus cash, it is invested until it is required, in accordance with the PCC's TMS. This includes allocating a proportion to investments in pooled funds. The PCC has made investments totalling £10m into pooled property, equity and multi-asset funds.
- 6.12. These investments help the PCC to mitigate interest rate and inflation risks as part of its TMS. They also present a number of risks which must be carefully managed, including the risk of loss of capital, illiquidity, entry and exit fees, and volatility of returns.
- 6.13. The principal mitigation for risk is ensuring that investments in non-cash assets are held as long-term investments. This will enable the initial costs of any investment and any periods of falling capital values to be overcome. In order to be managed as long-term investments, the amounts invested need to be taken from the PCC's most stable cash balances. The allocation of £10m has been based on a prudent assessment of the PCC's investment balances and liquidity requirements,
- 6.14. The selection of investments to target higher yields is carefully managed with the assistance of Arlingclose, the PCC's treasury management advisor. Arlingclose recommends that the PCC diversifies its investments in pooled funds between asset classes. This is to mitigate the loss of capital value, so that there is no over exposure to an event that impacts the value of investments in a particular asset class, such as a fall in property prices.

6.15. The PCC utilises pooled investment vehicles as the most appropriate means to access asset classes such as property or equities. Pooled funds are managed by external specialist investment managers who are best placed to select investments and then manage them, for example for property investments managing the relationship with tenants and maintenance of the building.

7. Service and commercial investments

7.1. The Ministry of Housing, Communities and Local Government (MHCLG) issued statutory guidance on local government investments in 2018. The PCC is required to have regard to this guidance, which complements both the Prudential Code and Treasury Management Code. The update to the guidance in 2018 reflected changes in patterns of local authority behaviour that were considered to be exposing local authorities to too much financial risk, with insufficient transparency and the potential for insufficient expertise in understanding complex transactions being entered into.

7.2. The term 'investments' within the Prudential Code covers all financial investments of the authority as well as other assets held primarily for financial return, such as commercial property. The MHCLG definition goes slightly further in including all non-financial assets that the organisation holds primarily or partially to generate a profit. The MHCLG guidance states that assets that generate revenue income solely through fees and charges for discretionary services levied under Section 93 of the Local Government Act 2003 should not be classified as non-financial investments for this purpose.

7.3. Investments are categorised in accordance with the primary purpose of the investment. All of the PCC's investments are defined as **treasury management investments** and therefore covered by Section 6 of this document and the Treasury Management Strategy.

7.4. The PCC primarily uses its property estate for the delivery of frontline services, with asset management conducted by the Estates team, as set out in Section 3. Where practical and without having an operational impact, the PCC will look to use property assets to reduce the annual revenue cost of the estate and to maximise the potential for income generation, for example through the use of vacant space.

7.5. The PCC is also pursuing a number of opportunities either through its land holdings or through the relationship it has with partners or contractors to look at new and innovative ways of generating a financial return. To date, the PCC has formed partnerships with other emergency services by sharing buildings.

7.6. **Investments for commercial purposes** are defined in the Prudential Code as being undertaken primarily for financial return but without being linked to treasury management activity or being part of service delivery. They are therefore additional investments taken voluntarily with the primary objective of generating a net financial return or profit. They will usually constitute capital expenditure. The income generated helps to deliver service objectives.

7.7. **Investments for service purposes** are those undertaken primarily and directly for the delivery of public services or in support of joint working with

others to deliver such services. They will normally constitute capital expenditure and it may be appropriate to borrow to finance these investments. They may or may not deliver financial returns, but this will not be the primary purpose of the investment.

- 7.8. The PCC does not consider the use of its estate to constitute **commercial or service investments**. It has no assets classified on its balance sheet as investment properties and the income generated from allowing partners to use space within the PCC's buildings provides a contribution to offset costs being incurred by the PCC rather than to generate a profit.

Investment indicators

- 7.9. In addition to setting Prudential Indicators required by the Prudential Code, the PCC has also set the following quantitative investment indicators in accordance with the requirements of the MHCLG investment guidance.

Table 10 – Total Investment Exposure (£m) and net rate of return (%)	31.03.2022		31.03.2023		31.03.2024	
	Actual		Forecast		Forecast	
	Invested £m	Return %	Invested £m	Return %	Invested £m	Return %
Treasury management (Long Term)	12.00	4.23%	15.00	4.45%	30.00	4.53%
Service investments (loans)	0	n/a	0	n/a	0	n/a
Service investments (equity)	0	n/a	0	n/a	0	n/a
Commercial investments	0	n/a	0	n/a	0	n/a
Total investments	12.00	4.23%	15.00	4.45%	30.00	4.53%

- 7.10. This shows that the PCC expects all of its investments to continue to be for treasury management purposes. If the PCC does plan to undertake any investments that would constitute commercial or service investments in future, the Capital and Investment Strategy will be updated and appropriate investment indicators introduced.

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 supporting capital expenditure, borrowing and investment decisions in accordance with approved strategies.
- 8.2. The Chief Financial Officer (S151 officer) and Deputy Chief Financial Officer (Deputy S151 officer) for the PCC are experienced members of the Chartered Institute of Public Finance and Accountancy (CIPFA), as is the Head of Investments and Borrowing, who oversees daily treasury management activity.
- 8.3. 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.
- 8.4. 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.
- 8.5. CIPFA's Code of Practice requires that the PCC 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 (JAC) were invited to a workshop presented by Arlingclose in November 2022, which gave an update of treasury matters. A further Arlingclose workshop is planned for 2023.

Investment Advisers

- 8.6. Through the Hampshire Shared Services Partnership, the PCC has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Chief Financial Officer for the PCC, their staff, and Arlingclose.

9 Chief Financial 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 10). Together, they form an integrated approach adopted by the PCC to balance the need for capital investment to support service priorities with consideration of affordability and the consequent impact on the revenue budget, whilst recognising and managing risk to an acceptable level.
- 9.2. The forward planning of capital investment and its 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 Financial 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:

- Ministry of Housing, Communities & Local Government (MHCLG) – Statutory Guidance on Local Government Investments* [MHCLG Investment](#).
- Ministry of Housing, Communities & Local Government (MHCLG) – Statutory Guidance on Minimum Revenue Provision (MRP)
- CIPFA's Prudential Code
- CIPFA's Treasury Management Code

(*Where a PCC prepares a Capital Strategy in line with the requirements of the Prudential Code, and a TMS in line with the requirements of the Treasury Management Code, the Investment Strategy can be published in those documents instead of as a separate document).

10.2. The PCC includes its non-treasury management Investment Strategy within this Capital Strategy. The TMS is a separate document reported to JAC and the PCC.

10.3. The CIPFA Prudential Code was revised in December 2021 to reflect developments since it was last updated in 2017 and became applicable with immediate effect, however an exception was made to allow the deferral of revised reporting requirements until 2023/24. The revised reporting requirements relate to the capital strategy, prudential indicators and investment reporting. The Treasury Management Code was also revised at the same time.

10.4. The proposed Capital Programme is included at Appendix F within this report.



RESERVES STRATEGY 2023/24

HAMPSHIRE POLICE AND CRIME COMMISSIONER

1. Background

- 1.1. The PCC first published a Reserves Strategy as part of the 2018/19 budget report.
- 1.2. On the 31 January 2018, new reserves guidance was issued to all PCCs (see the link below).
<https://www.gov.uk/government/publications/police-finance-reserves-guidance>
- 1.3. The Reserves Profile shows that existing planned commitments will result in a forecast reduction of useable reserves by March 2027 to £30.6m (down from £106.8m at the end of March 2022), of which the General Reserve would be £7.5m, which is 1.6% of the forecast 2026/27 revenue budget (£471.5m). This assumes that there are no adverse issues that impact on the General Reserve.
- 1.4. The Chief Finance Officers have a responsibility to ensure that the level of reserves maintained is sufficient. The Police Reform and Social Responsibility Act 2011 states that only the PCC, and not the Chief Constable, is permitted to hold reserves; in practice the PCC and Constabulary CFO work closely together in formulating the reserves strategy.
- 1.5. The Chartered Institute of Public Finance and Accountancy (CIPFA) produces guidance on reserves, but the exact level of reserves to be held is left as a local decision due to the need to reflect individual circumstances. Whilst there are no firm requirements on the amount, it is clear that reserves must be held to ensure that the organisation is able to meet any unexpected liabilities. CIPFA have previously warned that the use of reserves to deal with shortfalls in day-to-day spending would be a “recipe for significant financial problems”.
- 1.6. The current financial climate remains challenging, and there are a number of financial pressures and risks which need to be managed over the medium term, for which reserves are in place to mitigate. Reserves will also be required to support the significant investment required to reform policing and achieve the Policing Vision 2025.
- 1.7. Reserves required for accounting purposes only are not covered by this strategy as they are not optional and follow proper accounting practices.

2. Financial Stability

- 2.1. The PCC continues to use reserves to pay for the cost of change that is required to deliver the Police and Crime Plan priorities, and to meet both the financial challenge and the necessary investment to ensure that the Constabulary remains a modern, operationally effective Police Service.
- 2.2. The level of reserves continues to be reviewed by the PCC and Chief Finance Officers to ensure that suitable reserves are in place to mitigate and manage the risk of the financial challenges faced, and to ensure that

reserves are not unnecessarily held to the extent that is detrimental to current service delivery.

- 2.3. Additionally, Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) also review reserves. The current rating for efficiency is 'good' with no areas for improvement recommended for financial management or reserves.
- 2.4. Reserves are necessarily and appropriately held as part of good strategic financial management and are a key element in supporting the PCC's medium-term planning and Medium-Term Financial Strategy. Reserves held by the PCC are primarily earmarked reserves which will be drawn down over the medium term.
- 2.5. Reserves are also a one-off resource, which unless replenished, can rapidly diminish.
- 2.6. In the medium term there is significant financial stress in the system to be managed, including:
 - i) managing the overall financial position against a back drop of increasing demand
 - ii) funding the necessary investment to deliver the PCC's ambition in relation to delivery of her Plan and commissioning of services
 - iii) meeting the Chief Constables operational requirements, in support of 'More Police, Safer Streets'
 - iv) the investment required to ensure that the Constabulary remains modern and fit for purpose
 - v) ensuring that the police estate remains operationally effective, is continually improved, and is a modern and safe environment
 - vi) the still to be determined consequences of national programmes (e.g. ESMCP) which require a local funding stream for delivery of its outcomes as well as being subject to growing needs for top sliced contributions to deliver the national infrastructure
 - vii) the significant investment required to embrace an ever evolving technology and digital landscape
 - viii) the requirement to continue to fund an increasing share of the annual ongoing costs of Operation Magenta, which is the investigation regarding the historical deaths at Gosport War Memorial Hospital
 - ix) inflationary pressures, including the yet to be agreed pay awards, and the significant pressures on utility costs
 - x) the overall level of risk over the medium term
- 2.7. In view of the cost pressures faced by the PCC and the Constabulary, in the medium term there will be a significant call on reserves to fund one off pressures, initiatives and investment.

- 2.8. There therefore remains a significant number of potential calls for one off investment for consideration by the PCC, and we know that change and transformation will be continual.
- 2.9. The PCC CFO's assessment is that:
- i) the level of the General Fund reserve is reflective of the overall risk environment in which the PCC operates
 - ii) the level of Earmarked reserves and their purpose are necessary and appropriate
 - iii) the overall level of reserves is appropriate given the known financial pressures and risks faced by the PCC.
- 2.10. The earmarked reserves have been created to support planned initiatives and also to cover a number of risks, and these will be continually reassessed to ensure that the reserves held are commensurate with the risk.

3. Reserves

- 3.1. The PCC continues to use reserves to pay for the cost of change that is required to deliver the Police and Crime Plan priorities, and to meet both the financial challenge and the necessary investment to ensure that the Constabulary remains a modern, operationally effective Police Service.
- 3.2. The forecast Reserves position is set out in full in Appendix 1, with a snapshot of the position below which shows the position as at 31 March 2022, the forecast position as at 31 March 2023 and the forecast position through to the end of the medium term financial strategy as at 31 March 2027:

	Actual as at 31 March 2022	Forecast as at 31 March 2023	Forecast as at 31 March 2027
General Reserve	13.2	7.5	7.5
Earmarked Reserves	93.6	103.1	23.1
Total Reserves available for use by the PCC to support delivery of the Police & Crime Plan and to support the Constabulary	106.8	110.6	30.6
Ring fenced Reserves held on behalf of others not available to spend by the PCC	11.4	11.4	11.4
Total Reserves	118.2	122.0	42.0

- 3.3. The table above shows that the reserves available to be used directly by the PCC to support delivery of her Police and Crime Plan and policing have slightly increased since 2022/23. This is due to setting up new reserves such as the Inflation Reserve, to deal with future uncertainties in energy costs and pay awards.
- 3.4. The General Fund reserve is available to the PCC to fund investment, transformation, and unforeseen cost pressures.

- 3.5. The General Reserve balance has reduced since March 2022 and is forecast to remain stable from 2023/24 onwards. There was a draw from the General Fund in 2022/23 of £2.464m to help balance the base budget (funded from 2021/22 underspend).

Categorisation of Reserves

- 3.6. The Reserves Guidance issued on the 31st January 2018 requested that reserves are split across the following headings:
- Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan
 - Funding for specific projects and programmes beyond the current planning period will currently be the balances remaining as at March 2027.
 - The general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management

The above split of reserves is shown in Appendix 1.

4. General Reserve (Forecast 31 March 2023 is £7.5m)

- 4.1. The General Reserve is the main reserve held to manage unidentified and unforeseen risk. The PCC CFO is required to set a minimum level for the General Reserve.
- 4.2. General reserves are by nature 'not specific' (they are not earmarked), and are held to cover unforeseen risk and cost pressure, for example:
- cost of national programmes overrun;
 - uneven cash flows and managing the timing of savings;
 - unforeseen emergencies requiring significant one off spend e.g. a significant incident; or
 - demand pressures.
- 4.3. The General Reserve balance is forecast to be £7.5m at the end of March 2023. This equates to 1.76% of the 2023/24 net budget (£426.52m) which is within the suggested 5% maximum set by the Minister of State for Crime, Policing and Probation.
- 4.4. The forecast position for the General Reserve over the course of the medium-term financial plan is as follows:

	£m	% of Net Budget for following year
Forecast balance as at 31 March 2023	7.5	1.76%
Forecast balance as at 31 March 2024	7.5	1.70%
Forecast balance as at 31 March 2025	7.5	1.64%
Forecast balance as at 31 March 2026	7.5	1.59%
Forecast balance as at 31 March 2027	7.5	1.59%

* the March 2027 balance is shown as a percentage of the 2026/27 forecast net budget as the MTF5 does not include a forecast budget for 2027/28.

5. Earmarked Reserves

In addition to the General Reserve, the PCC also holds a number of earmarked reserves, as set out below (the table shows the March 2022 balance, the forecast March 2023 balance and the forecast March 2027 balance, with more detail shown in Appendix 1):

	Actual as at 31 March 2022	Forecast as at 31 March 2023	Forecast as at 31 March 2027
Carry Forward Reserve	0.8	0.0	0.0
Commissioner's Reserve	1.1	1.0	0.8
Council Tax Reserve	2.1	2.1	2.1
Estate Reserve	33.1	48.9	7.8
Grant Equalisation Reserve	6.0	6.0	3.5
Inflation Reserve	0.0	3.1	3.9
Insurance Reserve	1.5	1.5	1.5
IT Services Reserve	24.5	24.6	0.2
Operation Magenta Reserve	8.3	7.1	0.0
Pension Remedy Reserve	3.0	3.0	0.0
Replacement Programme Reserve	3.9	3.1	1.6
Revenue Grants Unapplied Reserve	0.5	0.1	0.0
Trading Reserves	4.5	1.9	1.9

Transformation Reserve	1.3	0.0	0.0
Uplift Reserve	2.9	0.9	0.0
Total Earmarked Reserves	93.6	103.1	23.1

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

Transformation Reserve (Forecast 31 March 2023 is £0.0m)

- 5.2. The Transformation Reserve was specifically set up to recognise the significant investment required to deliver transformational change, support the significant investment requirements linked to technology development and digital initiatives, and to provide a buffer to help manage the budget in the medium term.
- 5.3. The Transformation Reserve has supported a number of improvement initiatives over the past few years but is due to close at the end of this year once all approved spends have been drawn down. A number of new specific reserves have been set up since 2020/21 which have replaced the need for a Transformation Reserve and mean the PCC has set aside funds for a number of future pressures in Estates, ICT (including ESMCP), and other operational considerations such as equipment replacement and Op Magenta.

Earmarked Reserves

- 5.4. The PCC holds earmarked reserves for specific purposes. These are the:
- i) **Carry Forward Reserve** holds funds approved for carry forward by the PCC as part of the annual outturn report.
 - ii) **Commissioner’s Reserve** holds amounts that are used specifically to support the Commissioner’s priorities. This is intended to support programmes that support the delivery of the Police and Crime Plan.
 - i) **Council Tax Reserve** has been set up to hold the one-off Local Council Tax Support grant of £2.1m received in 2021/22 – this reserve will be utilised to manage any impact from the current cost of living issues on council tax collection in 2023/24, and to manage any ongoing impact (slow recovery/reduced growth) on the Council Tax Base
 - iii) **Estates Reserve** holds revenue funds for a number of future Estates programmes such as large repairs and maintenance projects, future potential dilapidations costs and new capital investment. An Estates Uplift reserve also exists to provide funding towards estate requirements to support the increase in police officer numbers.
 - iv) **Grant Equalisation Reserve** will be used to offset and manage future uncertainty in the level of Police grant.

- ii) **Inflation Reserve** this reserve has been set up to manage inflation risk – both pay and non-pay – in recognition of the current high and volatile inflation environment, which has seen inflation rise to over 10%. In particular the reserve will be used to manage the ‘transitory’ spike in utilities inflation/prices. There is also pressure on pay, and this reserve could be used to meet any in year pressure on pay arising from a pay award in excess of the budgeted 2%
- v) **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.
- vi) **IT Services Reserve** holds funds set aside for IT refresh programmes (laptops/phones/BWV and servers) and the delivery of ESMCP.
- vii) **Operation Magenta Reserve** has been set up in response to the reinvestigation of the historic events at Gosport War Memorial Hospital which is an investigation of national interest. The PCC is currently able to apply for Special Grant from the Home Office to support 80% of expenditure annually, although it is anticipated that the available Special Grant will taper down incrementally over the next 2 years to 55% of. The costs of the investigation on an annual basis are now significant, and at a reduced contribution rate would equate to a cost to be funded by the PCC of between £4m to £5m per annum over the next 2 years and possibly beyond. This reserve has been set up to ensure that funding is set aside to meet these costs. The reserve, in the sum of £8.3m, has been funded via transfers from the General Fund Reserve and the Transformation Reserve.
- viii) **Pension Remedy Reserve** sets aside specific funding in recognition of the one-off costs which will arise from implementation of the McCloud/Sargeant pension remedy judgment impacting Police Pensions.
- ix) **Replacement Programme Reserve** holds funds available to offset the impact of large-scale equipment replacement.
- x) **Trading Reserves** holds funds for specific areas of the Constabulary such as Netley Business Plan and Safer Roads. These areas generate income which is ring-fenced for specific usage.
- xi) **Uplift Reserve** holds funds to meet the infrastructure and non-pay costs associated with the estimated increase in police officer numbers.

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

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

	Actual as at 31 March 2022	Forecast as at 31 March 2023	Forecast as at 31 March 2027
ACRO Surety	3.0	3.0	3.0
AVCIS Surety	0.3	0.3	0.3
ACRO General Reserve	8.1	8.1	8.1
Total	11.4	11.4	11.4

6.2. The purpose of these reserves is as follows:

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

7. Overall CFO Assessment of reserves

7.1. The PCC CFO's assessment is that:

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

7.2. Over the last few years a number of new and necessary earmarked reserves have been created against known risks, and these will be continually reassessed to ensure that the reserves held are commensurate with the risk.

Appendix 1 – Analysis of Useable Reserves

	Analysis of how the forecast 31 st March 2023 Reserves will be utilised			
	Forecast Balance 31.3.23	Planned Expenditure on projects and programmes over the medium term to 2026/27	Funding for Specific projects and programmes beyond 2026/27	As a general contingency to meet other expenditure needs
	£m	£m	£m	£m
General Reserve	7.5	0.0	0.0	7.5
Carry Forward Reserve	0.0	0.0	0.0	0.0
Council Tax Reserve	2.1	0.0	0.0	2.1
Commissioner's Reserve	1.0	0.2	0.8	0.0
Estates Reserve	48.9	41.1	7.8	0.0
Grant Equalisation Reserve	6.0	2.5	3.5	0.0
Inflation Reserve	3.1	0.0	0.0	3.1
Insurance Reserve	1.5	0.0	0.0	1.5
IT Services Reserve	24.6	24.4	0.2	0.0
Operation Magenta Reserve	7.1	7.1	0.0	0.0
Pension Remedy Reserve	3.0	3.0	0.0	0.0
Replacement Programme Reserve	3.1	1.5	1.6	0.0
Revenue Grants Unapplied Reserve	0.1	0.1	0.0	0.0
Trading Reserves	1.9	0.0	0.0	1.9
Transformation Reserve	0.0	0.0	0.0	0.0
Uplift Reserve	0.9	0.9	0.0	0.0
Total Useable Reserves	110.6	80.8	13.9	16.1

Appendix 2 – Analysis of profile

	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27
General Fund Balance	(13.2)	(7.5)	(7.5)	(7.5)	(7.5)	(7.5)
Fully committed to Existing Spend Programmes						
Carry Forward Reserve	(0.8)	0.0	0.0	0.0	0.0	0.0
Estate Reserve	(33.1)	(48.9)	(43.2)	(28.3)	(6.7)	(7.8)
IT Services Reserve	(24.5)	(24.6)	(16.6)	(15.7)	(14.8)	(0.2)
Replacement Programme Reserve	(3.9)	(3.1)	(3.1)	(2.3)	(1.6)	(1.6)
Revenue Grants Unapplied Reserve	(0.5)	(0.1)	0.0	0.0	0.0	0.0
Uplift Reserve	(2.9)	(0.9)	(0.5)	0.0	0.0	0.0
Trading Reserves						
HC Trading Reserves	(4.5)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)
Risk Reserves						
Council Tax Reserve	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)
Grant Equalisation Reserve	(6.0)	(6.0)	(3.5)	(3.5)	(3.5)	(3.5)
Insurance Reserve	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Operation Magenta Reserve	(8.3)	(7.1)	(5.4)	(0.0)	0.0	0.0
Pension Remedy Reserve	(3.0)	(3.0)	(1.5)	0.0	0.0	0.0
Inflation Reserve	0.0	(3.1)	(3.3)	(3.5)	(3.7)	(3.9)
Corporate Reserves						
Commissioner's Reserve	(1.1)	(1.0)	(0.9)	(0.8)	(0.8)	(0.8)
Transformation Reserve	(1.3)	0.0	0.0	0.0	0.0	0.0
Total Earmarked	(93.6)	(103.1)	(83.4)	(59.5)	(36.4)	(23.1)
Other Reserves						
AVCIS Surety	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
ACRO General Reserve	(8.1)	(8.1)	(8.1)	(8.1)	(8.1)	(8.1)
ACRO Surety	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Total Revenue Reserves	(118.2)	(122.0)	(102.3)	(78.4)	(55.3)	(42.0)

Section 25 Report from the PCC Chief Financial Officer

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

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

The PCC is required to have regard to this report in approving the budget and council tax. Section 25 concentrates primarily on the risk, uncertainty and robustness of the budget for the next financial year rather than the greater uncertainties in future years. This report does however consider not only the short-term position but also the position beyond 2023/24 in the context of the PCC's Medium Term Financial Strategy (MTFS) presented in the main report.

Robustness of Estimates in the Budget

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

Each year a zero based budgeting exercise is also carried out to review whether or not there are elements of the budget that do not reflect the current activity or need, and adjustments have been made to the Constabulary budgets to reflect that savings of £4.31m that have been implemented in order to help balance the budget.

Appropriate provisions for pay and price inflation are included within each successive MTFS and these are then refined by the Chief Financial Officers in rolling forward the detailed budget for the next financial year; for 2023/24 provision has been included to fund pay inflation of 2% (Sept 23 pay award), and general inflation of 5%.

In the absence of an agreed pay award, there remains a risk that the pay award could be higher; the Minister of State for Crime, Policing and Fire proposed that PCCs should budget for a pay award in excess of 2%, but gave no steer on the actual level of pay award. What is clear is that the government are faced with increasing pay demands across the public sector. The PCC and many of her colleagues are clear that with a below inflation grant settlement (HIOW 1.8% increase in government grant), the government should make additional funding available should the final pay offer exceed 2%.

Although the headline allowance for pay within the budget is 2%, should the pay award be greater than 2% and no further government grant be forthcoming, we have put in place an Inflation reserve to cover unbudgeted inflation increases. The reserve is available to cover both pay and non pay inflation pressures (for example utilities inflation), and a contribution of £1.7m to the reserve is included part of the 2023/24 budget; in total the Inflation reserve will be at £4.7m at the start of the 2023/24 financial year. This is an appropriate reserve to hold given the uncertain economic environment, and provides good risk coverage should

inflation pressure increase. From a pay perspective, each additional 0.5% increase in pay has a cost of £0.85m.

In general terms, the forecasting for the MTFS is undertaken on a very prudent basis, particularly in respect of allowances for pay and price inflation and increases in government grant, precept increase and council tax base. For the current MTFS, the PCC has only received confirmation of Hampshire's grant funding for the 2023/24 financial year; increases in total Police Grant has only been announced as part of SR21 for 2024/25 (a national increase of £150m, with no detail on PCC specific allocations), with no detail for 2025/26 onwards. The MTFS therefore includes an assumption that Hampshire will receive its proportionate share of the overall increase in Police Grant in 2024/25, and a prudent assumption of no increase in grant funding for 2025/26 onwards, so flat cash.

The settlement announcement confirmed that Precept rises of £15 would be permitted for 2023/24, reverting to £10 for 2024/25. There is no announcement on referendum limits for 2025/26 onwards; at this stage the MTFS is based on a £15 precept increase for 2023/24, but for later years the precept increase has been included at 1.99% (which equates to for example a precept increase of £5 in 2024/25). This is therefore below the £10 increase allowable for 2024/25, so is a prudent assumption.

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

- Unavoidable
- Operationally unavoidable
- High Priority
- Optional

The bids are subject to scrutiny and sign off by Force Executive and with Joint Chief Officer Group with Thames Valley Police for collaborated initiatives, and then are discussed and agreed with the PCC, subject to overall affordability and assessment against the PCC's priorities. For the current year, the budget includes new investment of £9.49m; the headline investment is in 50 new police officers at a cost of £3.2m, the cost of which is funded from the additional £5 precept flexibility afforded to the PCC through the change in the referendum limit to £15.

For the remainder of the MTFS, the budget estimates only include unavoidable cost increases and growth items for investment which are operationally unavoidable (and an allowance for future pressures incrementally per annum of £5m – so total recurrent revenue funding which increases by £5m each year, so a £15m increase in total resource by year 3).

Budget management within the Constabulary remains strong as demonstrated by the outturn position each year; for 2022/23 the Constabulary are forecasting an underspend which will be utilised in support of the capital programme (in the forecast sum of £7.8m).

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

Risks in the Budget 2023/24 and the MTFS

- a) **Government Funding** - The Police Spending Settlement announced in December 2022 has only provided Hampshire's specific information on government grant for 2023/24. For later years, whilst the increase in national police grant has been announced for 2024/25, grant allocations at an individual PCC level have not been announced for 2024/25 onwards. This is a key risk as the funding position beyond 2023/24 is not known, and has therefore required that an estimated grant level has been included for the remaining years of the settlement period (2024/25 - 2026/27) within the MTFS.

For the final 2 years within the MTFS period (2025/26 and 2026/27), there is no announcement on the level of grant available. The risk mitigation here has been to include a very prudent estimate of 'flat cash' for Police Grant in 2025/26 and 2026/27, i.e. no increase in grant in comparison to 2024/25.

To manage the risk of having to estimate the overall level of government grant for the period 2022/25 – 2026/27, a Grant Equalisation reserve is available which can be utilised to offset and manage any fluctuations in government grant over the medium term. In addition a General Reserve is available at £7.5m.

- b) **Council Tax** – In announcing the settlement for the current year, the Government have effectively assumed that the total available increase in resource available to PCC's to cover for example pay rises, inflation, Investment and unavoidable growth is predicated on a precept rise of £15 for 2023/24, reverting back to £10 in 2024/25.

This presents a risk to the overall funding position, as it will be a local decision for the PCC as to level of precept increase up to the relevant referendum threshold each year. The current MTFS is predicated on precept increases of 1.99% for the period 2024/25 – 2026/27. This is felt to be a prudent approach, and leaves flexibility for the PCC to determine the actual precept rise each year taking account of confirmed referendum limits.

- c) **Council Tax Collection** – Post the impact of COVID-19 which impacted the collection of Council Tax, particularly during 2020/21, it does appear that over the past two financial years, 2021/22 and 2022/23, collection levels have improved.

Over the medium term, the current tough economic climate and the current cost of living pressures may impact Council tax collection in 2023/24.

A Council Tax reserve is available and can be utilised to manage any ongoing impact to the overall level of precept income.

- d) **Pay Inflation Risk** – The MTFS contains provision as follows for annual pay awards for increases in Police Officer and Police staff pay:

23/24 - 2%

24/25 - 2%

25/26 - 2%

26/27 – 2%

Whilst the level of actual pay awards will be determined by the Home Secretary following recommendations from the Police Pay Review Body, the percentage

increases shown above are relatively low. The Minister set out that PCCs should budget for pay awards in excess 2%, but with no indication as to the likely level of pay award/what a prudent assumption on pay would be.

Noting the risks around pay inflation, funding has been set aside in an inflation reserve (supplemented by a recurrent contribution to the reserve of £1.7m from 2023/24 onwards, for the medium term) to cover all inflation risks (with Utilities the other main specific inflation risk) which could be used to manage the impact of a pay award in excess of 2%

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

Whilst there is concern that inflation pressures may not be short term in nature, the budget has been prepared on a risk basis which assumes that in particular the significant Utilities inflation is 'transitory' in nature, and that costs will reduce over the next two years.

A specific Inflation Reserve of £4.7m (supplemented by a recurrent contribution to the reserve of £1.7m from 2023/24 onwards, for the medium term) is available to support the budget from 1st April 2023 should inflation risk not be containable within the approved budget 2023/24, and the plan is that the 'transitory' utilities inflation (not built into the budget) will be funded from and necessitate a draw from this reserve.

In the round my assessment is that it would take a sustained and significant increase in inflation beyond the current budgeted amounts (including the inflation reserve) to create a financial problem that could not be dealt with in year from reserves.

- f) **Treasury Risk** – The PCC has no current exposure to interest rate risk on borrowing as current long-term borrowing is historical and has been undertaken on a fixed rate basis.

If the PCC were to approve significant future investment in support of the key emerging capital issues across the police estate, this is likely to require support through prudential borrowing, and decisions on when best to take out this borrowing would need to be considered. Rates have clearly increased significantly over the past year, so this is a new risk, negated currently as there are no immediate plans or requirement to take out new borrowing.

MRP Provision of £2m to support borrowing for potential new capital investment has been included within the budget, although the proposed capital programme included in this report does not require any borrowing support (this budget provision is being utilised as RCCO, but essentially is available to fund new borrowing if required).

On the investments side, the PCC has a very prudent approach to forecasting its investment returns and they also represent a very small part of the overall funding for the budget. The investment strategy protects capital ahead of yield and most of the medium term investments are in products that should return a stable income yield each year. The tough economic environment will actually be beneficial from an investment perspective, as returns on our overall cash balances will be significantly higher than in recent years.

In addition to the above, the budget report sets out a range of other key risks in section 11 of the report as follows:

- a reduction in the government grant announced for 2024/25
- we have no HLOW specific grant funding information beyond 2023/24; our current assumption for future years could be too high compared to what we actually receive
- there is a risk of clawback against the £7.1m Police Officer Uplift Grant (the criteria yet to be published) should the Constabulary be unable to maintain their government funded uplift number of 498 officers (although current over recruitment against the government target reduces the risk)
- the Precept proposed by the PCC is less than the assumed 1.99% increase included in each year of the MTFS 2024/25 onwards
- the overall funding and economic position puts an increased expectation and reliance on the PCC to increase the precept by the maximum allowable
- inflation is greater than forecast which would create a cost pressure (as an example, each 0.5% increase in the pay award beyond the current assumption of a 2% pay award would lead to a full year cost pressure of £0.85m)
- utilities inflation is not transitory and translates too an ongoing cost increase and budget pressure
- the economic environment and the cost of living pressure on households impacts on the overall level of Council Tax collected such that it is lower than anticipated
- the £5m incremental recurrent revenue funding each year within the MTFS is insufficient to cover new recurrent revenue pressures
- costs for implementing pension remedy exceeds the available funding set aside
- any cost increase arising as a result of the Police Pension Scheme valuation is not funded in full by central government
- the cost of borrowing continues to increase reducing the potential level of borrowing which could be taken out to support the any future capital programme requirements
- the costs of Operation Magenta increase, and the investigation continues beyond 2025/26
- Special Grant available to support Operation Magenta is no longer available or significantly reduces (which the Minister has indicated will be the case for future years)
- an increase in national top-slices
- a risk that partner agencies could reduce or withdraw their services which puts additional financial pressure on the police service

- some activities and funding could be moved to a regional or national basis that would remove funding from the HLOW policing area. There is a risk that the removal of funding causes a financial difficulty that needs to be managed locally
- insufficient savings are identified or delivered to meet the forecast medium term budget shortfall, necessitating a draw from reserves to balance the budget in any one year
- the earmarked reserves are insufficient to cover the pressures/risks to which they relate

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

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

- the PCC maintains an appropriate level of reserves and balances;
- the MTFS includes prudent assumptions as to the level of future precept increases and police grant increases
- the PCC together with the Chief Executive and CFO will proactively manage and monitor all aspects of budget performance during the year

Adequacy of Reserves

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

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

Reserves are necessarily and appropriately held as part of good strategic financial management and are a key element in supporting the PCC’s medium-term planning and Medium Term Financial Strategy. Reserves held by the PCC are forecast to reduce in the medium term.

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

- iii) **Grant Equalisation Reserve** - this reserve in the sum of £6m will be used to offset and manage future uncertainty in the level of Police grant
- iv) **Council Tax reserve** – this reserve will be utilised to manage any impact from the current cost of living issues on council tax collection in 2023/24, and to manage any ongoing impact (slow recovery/reduced growth) on the Council Tax Base

- v) **Operation Magenta Reserve** – this reserve has been set up to ensure that funding is set aside to meet the costs of the reinvestigation of the historic events at Gosport War Memorial Hospital which is an investigation of national interest.
- vi) **Pension Remedy Reserve** – this reserve, in the sum of £3m sets aside specific funding in recognition of the one off costs which will arise from implementation of the McCloud/Sargeant pension remedy judgment impacting Police Pensions
- vii) **Inflation Reserve** – this reserve has been set to manage inflation risk – both pay and non-pay – in recognition of the current high and volatile inflation environment, which has seen inflation rise to over 10%. In particular the reserve will be used to manage the ‘transitory’ spike in utilities inflation/prices. There is also pressure on pay, and this reserve could be used to meet any in year pressure on pay arising from a pay award in excess of the budgeted 2%

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

Based on current planning assumptions, and taking into account the risks set out in section 11 of the budget report, the minimum general fund balance has been set at £5.5m. The actual balance of the reserve is forecast to be £7.3 m (which is 1.7% of the 2023/24 net budget) at the end of March 2023, and then forecast to be maintained at that level over the MTFs for the period through until March 2027.

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

The Earmarked reserves which are held are deemed to be appropriate, and their purpose has been set out in the Reserves Strategy. Useable Earmarked reserves are forecast to reduce from £93.6m on 31st March 2023 to £23.1m by 31st March 2027.

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

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

Reliability / accuracy of budget estimates

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

There are a significant number of risks around the estimation of future costs (in particular the impact of inflation) and income (primarily government grant) contained within the budget and MTFs proposals and these are clearly set out within this appendix and within the body of the budget report, together with comments on risk mitigation.

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

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

Budget 2023/24 – Conclusion

Given the details outlined above, provided that the PCC considers the above factors which form part of the budget and MTFS and agrees the budget and MTFS as proposed, including the level of earmarked reserves and balances, a positive opinion can be given under Section 25 on the robustness of the estimates and level of reserves for 2023/24.

Cash Flow

As part of setting the budget, I have reviewed, together with the Chief Constable's CFO, the cash flow forecast for the period through until end of March 2024. The cash flow position remains very positive, and I have no concerns as to the cash position.

In practice, through effective treasury management throughout the year, surplus cash will be invested until required, ensuring that the PCC keeps sufficient but not excessive cash available to meet the PCC's day to day spending needs, while managing the risks involved (in line with the CIPFA code and the treasury management strategy). On that basis actual short term cash balances may be less than forecast as surplus cash will be invested in periods longer than 1 day duration.

The Position Beyond 2023/24

Given the announcement of only a firm one-year settlement 2023/24, the PCC is still in the position of not knowing what the actual grant funding position is beyond a one-year planning horizon.

At this stage, in response to this position, the MTFS has been based on prudent funding assumptions, which should mean the PCC is well placed to respond to and manage changes to funding.

As set out earlier, the MTFS is necessarily based on prudent assumptions which do show budget shortfalls across the 3 years post 2023/24. However, whilst there are risks within the MTFS these have been mitigated as far as possible and it would take a significant change in the funding regime to create a scenario which the PCC and Chief Constable could not manage over the course of the MTFS through either planned budget reduction and/or draws from reserves.

Andrew Lowe

**PCC Chief Financial Officer
January 2023**