

**POLICE AND CRIME COMMISSIONER  
FOR  
HUMBERSIDE**

**MEDIUM TERM  
RESOURCE STRATEGY**

**2017/18**

**TO**

**2021/22**

**POLICE AND CRIME COMMISSIONER FOR HUMBERSIDE  
MEDIUM TERM RESOURCE STRATEGY 2017/18 – 2021/22**

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## Executive Summary

- i. This is the annual review of the Police and Crime Commissioner for Humberside's Medium Term Resource Strategy (MTRS). It has been formulated in consultation with the Chief Constable and incorporates a financial forecast over a rolling five-year timeframe covering the period 2017/18 to 2021/22. The MTRS sets the financial context for resource allocation together with budget and precept setting. It has been reviewed by the PCC. It is an essential tool to ensure the medium term financial sustainability of the Force and the Office of the Police and Crime Commissioner.
- ii. The MTRS provides information on the resources available to enable the outcomes set out in the PCC's Police and Crime Plan to be delivered. The Plan is about to be published and has three aims:-
  - To develop increasingly self-sustaining and safe communities in the Humber area;
  - To build confidence in the agencies involved in creating safer communities and
  - To provide services to victims and the most vulnerable that meets their needs.
- iii. The PCC and the Force along with local authorities and other public sector agencies have faced unprecedented reductions in funding since the Comprehensive Spending Review 2010. Service pressures and increasing demand for services has meant that policing has had to make significant budget savings in response to the Government's austerity measures.
- iv. Although the Police Service has been protected since announcements in November 2015, there is significant uncertainty over the funding available to the PCC in the years beyond 2017/18. This is due to two main factors. The first relates to proposals to implement a revised formula for the distribution of Government grant that is likely to be implemented in 2018/19. The second involves the top slicing of resources by the Home Office to support national programmes, particularly to support transformation and the delivery of the Policing Vision 2025.
- v. The MTRS provides details of the funding to be made available in terms of Police Grant in 2017/18, based on the Provisional Settlement announced in December 2016 together with projections of income from Council Tax/Precept next year and in the later years to 2021/22. This takes into account increases in the taxbase and assumptions of Collection Fund surpluses based on estimates from the four billing authorities in the Humberside Police Force area.
- vi. After changing its approach last year, in making its grant determination for 2017/18, the Home Office once again factored in the assumption that all PCCs would agree to maximise their precept income. Ministers indicated that if they did so then the settlement would be "flat cash" when compared with 2015/16. In terms of actual grant in 2017/18, all PCCs will receive the same 1.4% reduction in general grant.
- vii. The Police and Crime Plan outlines the PCC's proposals to re-energise the local Community Safety Partnerships. The MTRS sets out in detail the resources that will be made available to support this activity. It also provides for the continuation of support for drug intervention programmes in each of the four unitary authority areas and for victims services. The latter will utilise funding from the Ministry of Justice that has been confirmed at around £1.1m, broadly the same level as in the current financial year.
- viii. In view of the proportion of the budget that relates to spending on police officers, police staff and PCSOs, and in view of the fact that the Force is projecting an underspend in 2016/17, much of which is pay related, a different approach has been adopted in 2017/18 for the construction of pay estimates. This is now based on strength, the number of people in or projected to be in post, as opposed to one based on establishment and applying a vacancy factor. The revised arrangement will strengthen and place even greater emphasis on the links between the budget and workforce plans.
- ix. The strategy sets out details of the proposed capital programme which includes significant continuing investment in IT/IS, much of which relates to partnership programmes being implemented as part of the collaboration with South Yorkshire. This also provides for expenditure in connection with the new Emergency Services Network. Capital spending on Estates

incorporates funding to address custody issues on the South Bank of the Humber following a thorough review of custody facilities across the Force area.

- x. As part of meeting the challenges ahead, consideration needs to be given to assumptions for annual precept increases. Increases provide the PCC with a permanent source of income in future years. The MTRS sets out a comparison of two options, freezing the precept in 2017/18 and increasing it by 1.99%, the maximum permissible without holding a referendum. Both options assume further increases of 2% in later years. The financial forecasts illustrate the impact on the funding gap and potential use of reserves in each of these options.
- xi. There has been much commentary on the levels of reserves held by PCCs. The policy on reserves has been reviewed and it has been agreed that the General Reserve should be maintained at 3% of the net revenue budget. Monies set aside for Partnership working have been increased in view of the enhanced emphasis in this field of activity and the Technology and Capability Fund, although not used in 2016/17, has, in part, been earmarked to fund temporary expenditure on training and development in respect of the new crime recording and contact management programmes.
- xii. After taking into account the issues raised within the MTRS, including the financial implications of each of the options in connection with precept for 2017/18 and Government assumptions that in order to protect the resources available for policing the maximum possible amount should be raised from the Council Tax the Commissioner's preferred recommendation is for a 1.99% increase in 2017/18. This would increase the precept for a Band D property to £187.33 from £183.67, an increase of £3.66 per annum.

## Introduction

- 1.1 This document sets out details of the Medium Term Resource Strategy (MTRS) which supports the Police and Crime Commissioner for Humberside's (PCC's) precept proposals for 2017/18.
- 1.2 The MTRS provides information on the resources available to support the delivery of the PCC's Police and Crime Plan. It continues to incorporate detailed information on workforce planning assumptions in addition to the medium term financial plans.
- 1.3 The PCC has responsibility for the totality of policing in the Humberside Police Force area and he also has a wider role in relation to the "and Crime" agenda, which includes the responsibility for commissioning victims' services.
- 1.4 The MTRS therefore continues to set out information on spending plans in connection with collaboration with partners on community safety and victims' services.
- 1.5 The options within the MTRS are those presented to the PCC in developing his proposals for the precept next year. These options are reflected in the first year, 2017/18, in the illustrations shown later in this document.
- 1.6 Assumptions for future years are indicative at this stage as the Provisional Police Grant Settlement announced in December 2016 cover only information for 2017/18. Assumptions for later years are based on the best information at this time using intelligence from the Autumn Statement announced on 23 November 2016 and the Settlement.
- 1.7 The Final Police Grant 2017/18 will be presented for consideration by Parliament in February 2017.
- 1.8 The Provisional Grant Settlement was accompanied by details of the referendum limits for 2017/18. The limit for most PCCs including the PCC for Humberside is 2%, The PCCs with the ten lowest bills will be able to raise their precept by £5 per Band D household.
- 1.9 In the Autumn Statement, the Chancellor confirmed that the Government's departmental spending plans would remain as set out in 2015 which included assumptions from Ministers that all PCCs will increase their precepts by the maximum amount possible without triggering a referendum.
- 1.10 The Minister of State for Policing, Fire, Criminal Justice and victims announced that the PCC for Humberside would receive £1,084,387 next year, compared with £1,091,981 in 2016/17, in respect of his responsibility to commission services for victims.
- 1.11 The precept proposal for 2017/18 is subject to consideration by the Police and Crime Panel (PCP) that has a power of veto. The PCP is scheduled to meet on 6 February 2017 to consider the PCC's precept proposal.
- 1.12 There have been no changes to the arrangements whereby the PCP has to receive the precept proposal by 1 February each year. The PCP must then consider the PCC's proposal and respond with its views by 8 February. The Panel can either agree or veto the proposal. A veto requires a two thirds majority. Any veto can only be on the grounds that the PCC's proposal is either too high or too low. In those circumstances the PCC must consider and submit a further precept proposal, either lower or higher, depending on the PCP's comments on the original proposal. This must be presented to the PCP by 15 February. The Panel then has until 22 February to consider and submit comments to the PCC who has to have regard to those comments and declare and issue the final precept by 1 March 2016.

## **2 Police and Crime Plan**

- 2.1 The PCC's Police and Crime Plan, "Working to Deliver the Best Possible Service", has been drafted and circulated for consultation with key partners and stakeholders. It covers the period 2017 to 2021 and will supersede the plan produced by the previous PCC. The Plan was considered by the PCP on 11 January 2017 and is expected to be published shortly.
- 2.2 In his Plan the PCC acknowledges that policing along with all public bodies has faced years of funding cuts necessitating adaptation and change. He also recognises that the financial outlook for the Police Service remains challenging. The Plan seeks to address the broad challenge of securing and maintaining public confidence, whilst working to deliver services to the public that meet their needs.
- 2.3 The PCC understands that delivering community safety is a hugely complex endeavour that involves not just the police but many different statutory and voluntary agencies along with the public themselves. The overall approach is to encourage change that delivers the best results. It is focussed on promoting long term improvement and requires those delivering community safety to be clear about what they want to achieve and how to work towards it.
- 2.4 The MTRS sets out details of the resources available to the PCC and to the Chief Constable to deliver the Plan. It recognises a change from the previous plan, particularly in relation to the need to further develop joined up cross-agency working with an embedded outcome based approach.
- 2.5 The Police and Crime Plan sets out the PCC's vision, mission and values which provide the broad direction behind it. These statements are followed by three aims formulated in consultation with the public and partners. The aims are long term aspirations which will remain for the whole period of the Plan.
- 2.6 The Chief Constable will produce a delivery plan setting out how the Force intend to improve its delivery against the priority areas reflected in the aims and the changes that will be introduced which will lead to better results. The MTRS identifies the resources made available to support these activities
- 2.7 It also sets out details of the funding that is available to allow the PCC to support partnership working and in relation to the Office of the Police and Crime Commissioner. The Chief Executive will also produce a delivery plan in connection with these resources.
- 2.8 The three aims of the Plan are:-
- To develop increasingly self-sustaining and safe communities in the Humber area;
  - To build confidence in the agencies involved in creating safer communities and
  - To provide services to victims and the most vulnerable that meet their needs.
- 2.9 The MTRS incorporates a 5-year financial forecast, including estimates of both revenue and capital expenditure. It also includes detailed information on staffing assumptions. This enables the PCC to take a view on what is needed to deliver the Plan and how it can be financed and resourced. It also provides a basis for negotiations with key partners who play a significant part alongside the Force in ensuring that the high level outcomes are achieved.

## **3 Purpose of the Medium Term Resource Strategy**

- 3.1 This MTRS sets out comprehensive and detailed plans covering the period 2017/18 to 2021/22. The Strategy takes account of the latest information following the release of the Government's Provisional Police Grant Report on 15 December 2016 which only provides details of the grants for 2017/18.

- 3.2 In the Statement that accompanied the Provisional Settlement the Minister indicated that Government is committed to protecting the public and will provide the resources necessary for the police to do their critical work, and prioritise finishing the job of police reform by enabling the police to transform so they can tackle changing crime, deal with previously hidden crimes and protect the vulnerable.
- 3.3 He recognised that since 2010 some of the biggest changes to policing in a generation have taken place but commented that crime is down by over a quarter according to the Independent Crime Survey for England and Wales. The Minister referred to the fact that there is significantly greater local accountability and transparency and police leaders have taken the opportunity to radically reform the way they deliver services to the public, with Police officers being taken out of back office roles and resources focused on front line delivery. He also noted that police forces are working more closely than ever before to reduce costs and duplication. They have also started to work more closely with other emergency services through co-location and collaboration in areas such as fire and mental health.
- 3.4 The Minister referred to Her Majesty's Inspectorate of Constabulary (HMIC) setting out that there is still considerable scope for forces to continue to improve the efficiency of their organisations and transform the way in which they operate. It is seen as vital that the pace and urgency of change continues in order to enable us to have a police force fit to meet the challenges of the 21st century. It was noted that: "HMIC found evidence to suggest that some forces have reduced the pace and ambition of their plans since last year."
- 3.5 The Minister reiterated that the Government expects PCCs and Chief Constables to do everything in their power to drive efficiencies at pace, and indicated that the Settlement provides the opportunity to improve the quality of policing and continue to reduce crime.
- 3.6 The Statement followed the principles set out at the time of the Final Police Grant Settlement for 2016/17 which was published on 4 February 2016. It indicated that direct resource funding for each PCC, including precept, will be protected at flat cash levels compared to 2015/16, assuming that precept income is increased to the maximum amount available in both 2016/17 and 2017/18. The Minister pointed out that no PCC who chooses to maximise precept in both years will face a reduction in cash funding next year compared to 2015/16.
- 3.7 In making this assertion, he pointed out that the Government have updated its precept forecasts for 2017/18 since February to reflect actual tax base increases in 2016/17.
- 3.8 The 2017/18 Settlement continues the current methodology of applying uniform percentage changes to core grant funding for each PCC.
- 3.9 The Minister insisted that more is still required to transform policing to meet its own vision for 2025. In doing so he announced an increase in the level of reallocations essential to drive police reform and that, as planned at the time of the Spending Review, there will be additional funding for new investment in police technology.
- 3.10 He recognised that income from precept has increased faster than expected, and so the Government can meet its planning assumption on direct resource funding for PCCs and also substantially increase the size of the Police Transformation Fund to £175m in 2017/18. This aims to enable the policing sector to invest additional funding in the projects that will improve efficiency, protect vulnerable victims of crime, further improve the leadership and culture of policing and tackle new types of crime such as cybercrime.
- 3.11 The combined effect of the above issues announced in the Minister's Statement and the Settlement is that although the overall direct resourcing for policing will be maintained, less money will be allocated to PCCs. The result is that all PCCs will received a flat rate decrease in grant funding (Police Grant plus ex-DCLG Grant) of 1.4% in cash terms when compared with 2016/17.

- 3.12 The Minister also commented that specific funding for counter-terrorism policing would continue to be allocated over the course of the Spending Review period to ensure that the police have the capabilities to deal with the terrorist threats that we face. This is in addition to the funding set out in the settlement and it is protected. The indicative Spending Review profile for counter terrorism police funding in 2017/18 is £670m. A further £32m will be provided for armed policing from the Police Transformation Fund in 2017/18.
- 3.13 As counter-terrorism funding is negotiated separately, any increases here should not impact on the rest of the Police Grant Settlement. PCCs have yet to receive full counter terrorism funding allocations. The figures will be confirmed separately. They will not be made public.
- 3.14 The Settlement confirmed that there is provision in 2017/18 for Council Tax Freeze Grants to PCCs in England relating to the 2011/12, 2013/14, 2014/15 and 2015/16 council tax freeze schemes to continue to be paid next year.
- 3.15 The MTRS incorporates details two options in respect of the Council Tax/Precept for 2017/18, a freeze and an increase of 1.99%, just below the referendum limit of 2%.
- 3.16 Whilst the 2015 CSR and the latest announcements have provided some comfort in relation to the funding available for the Police Service as a whole, the concerns raised last year over the potential impact of “top slicing” or “reallocations” in future years to provide support for key projects and initiatives that have the capacity to substantially reduce the amount available to be distributed to PCCs have proved valid. Next year the top-slices/reallocations total £812m, substantially higher than the corresponding figure of £584.8m in 2016-17. It is now virtually certain that this amount will grow very substantially in future years as work being undertaken by Accenture with the APCC suggests that the Transformation Fund alone could rise to £700m It is intended that this will be a key driver to delivering the Policing Vision 2025.

3.17 The Provisional Settlement identifies the following amounts as being top sliced in 2017/18 are as follows:-

	<b>2016/17</b>	<b>2017/18</b>
	<b>£m</b>	<b>£m</b>
<u>Police PFI</u>	73.0	73.0
<u>Transformation Funding</u>		
Innovation Fund*	55.0	-
Transformation Fund	76.4	175.0
<u>Arms-Length Bodies</u>		
Direct Entry	4.6	5.0
IPCC	32.0	37.6
HMIC PEEL**	-	9.4
Gangmasters and Labour Abuse	-	2.0
<u>Strengthened Response to Organised Crime**</u>	13.0	28.0
<u>Pre-Charge Bail***</u>	-	15.0
<u>ESN Topslice and Airwave and Major Programmes</u>		
Emergency Services Mobile Communications Programme (Airwave replacement) and ESN Core Costs	284.0	383.0
Major Projects (including Home Police Biometrics and National Police Data Programme)	21.8	33.0
Forensic Archive	-	1.0
<u>Police Special Grant</u>		
Basic Reserve	25.0	35.0
Commonwealth Heads of Government Meeting in UK	-	15.0
<b>TOTAL</b>	<b>584.8</b>	<b>812.0</b>

\* *Innovation Fund to be included within the Transformation Fund*

\*\* *Permanent transfers in 2016/17 not counted as top slice*

\*\*\**For Magistrates Courts/Legal Aid*

3.18 Further information is detailed below:-

- *Police Transformation Fund*

- Total funding for transformation will increase in size to £175m, an increase of over £40m compared with the combined amount set aside in 2016/17 for the Innovation Fund and Transformation Fund. There will be no further rounds of the Innovation Fund.
- The Government will be working with the Police Reform and Transformation Board to ensure a sector led approach to use this increase in funding in order to incentivise and facilitate transformation in policing. This will improve the leadership and culture of policing, the diversity of its workforce, the protection of vulnerable people, cross-force specialist capabilities, exploitation of new technology and how we respond to changing threats.
- The Home Office will continue to fund a national uplift in armed policing capability and capacity to respond more quickly and effectively to a firearms attack with £32m of specific funding together with funding for current Police Innovation Fund projects.

- *Police technology programmes*
  - Funding will continue to be reallocated for the new Emergency Services Network (ESN), the existing Airwave system, Home Office Biometrics and the National Law Enforcement Police Database. As planned at the time of the Spending Review, there will be an approximately £100m increase in funding for ESN. This is critical to give all officers priority access to 4G mobile broadband data on a single network, including in some areas where it is currently not available at all, allowing them to get even more benefits from mobile working than many forces are already achieving. This investment will bring productivity and operational benefits as well as substantial savings to the taxpayer. The intention is for funding for major technology programmes to be managed flexibly between projects, to ensure reallocated funding is used as efficiently as possible. Around £1m will be spent maintaining the Forensic Archive, which maintains forensic exhibits relating to criminal investigations on behalf of the police.
  
- *Arms-Length Bodies*
  - The Police Settlement will continue to fund national policing bodies to deliver services and governance which are essential to the efficient and successful functioning of the police service. The Home Office will continue to fund HMIC's PEEL inspection programme, and the College of Policing direct entry schemes. There will be increased funding to support the Independent Police Complaints Commission as it becomes the Independent Office for Police Conduct with an expanded role in investigating serious and sensitive allegations involving the police, enabling it to implement the legislative reforms in the Policing and Crime Bill and enhancing its capability to handle complex major investigations.
  - A new reallocation of around £2m will support the Gangmasters and Labour Abuse Authority (GLAA) to use new police-style enforcement powers set out in the Immigration Act 2016 to tackle labour exploitation, including modern slavery across the economy. Through greater resources to use these new powers, the GLAA will be able to undertake more investigations into modern slavery offences that might otherwise fall to the police, saving police time and improving the law enforcement response to exploitation of the most vulnerable workers.
  
- *Pre-charge bail*
  - The Government plans to implement significant reforms to pre-charge bail including time limits set out in the Policing and Crime Bill. This will end the situation where some people can spend months or even years on pre-charge bail with few or no safeguards by introducing: a presumption that suspects will be released without bail, regular reviews by the courts and formal guidance governing the imposition of conditions. This change in police practice may involve increased costs for the magistrates' courts and in legal aid, which a new reallocation of up to £15m for 2017/18 will meet.
  
- *Strengthening the response to organised crime*
  - The National Crime Agency (NCA) and Regional Organised Crime Units will receive flat cash resource grants from the Home Office compared to 2015/16, in line with the approach taken to funding PCCs. This involves an adjustment to the police funding settlement to top up these grants, continuing the approach taken to NCA in 2016/17.
  
- *Police Special Grant including Commonwealth Heads of Government Meeting policing*
  - This is the third year that the Government has decided to provide funding from the Police Settlement for the discretionary Police Special Grant contingency fund, which supports police force areas facing significant and exceptional events which might otherwise place them at significant financial risk. In 2017/18 a provision of £50m has been made from the Police Settlement for Police Special Grant. This is an increase which reflects both an assessment of potential need across police forces, and the specific costs likely to be incurred preparing for the policing operation at the Commonwealth Heads of Government Meeting in 2018.

- 3.19 Government has moved to end the uncertainty over changes to the review the funding formula for policing following the abandonment of the previous exercise in November 2015. The latest position is that work is currently underway involving a number of working groups reporting directly the Minister. The aim of these arrangements is to come forward with proposals for public consultation by February 2017. At this stage there have been no exemplifications of the likely impact and details of any transitional arrangements needed on implementation. This adds further uncertainty regarding external funding in the years after 2017/18.
- 3.20 The development of the “and Crime” agenda is now moving to be a key element of the PCC’s new Police and Crime Plan and in the way in which he sees partnership working being stimulated to support the achievement of its key aims.
- 3.21 During 2016/17 the PCC continued to fund key partners at the same level as in previous years for most activities with the exception of support for Community Safety Partnerships (CSPs). He has provided support to the Force for drug testing on arrest, at a reduced level, whilst continuing with the commitments to provide longer term support linked to contract timescales with the four Unitary Authorities within the Force area towards their Drug Intervention Programmes (DIP). Funding support for Youth Offending Teams and Positive Lifestyles delivered by Catch 22 have also continued at the same rate as in previous years and the PCC is now providing direct support to the Local Safeguarding Children’s’ Boards and Local Safeguarding Adults’ Boards previously channelled through the Force ,
- 3.22 For 2017/18 and future years the PCC has agreed to maintain budget provision at the current core level, £2.3m, as in previous years. This has now been increased by transferring monies transferred from the Force in respect of monies previously paid direct to local partners. This aims to ensure that all support is coordinated from a single source. Further funding is available within the Partnership Reserve to supplement the base budget.
- 3.23 The provision of victims’ services continues to be a vitally important part of the PCCs workload. All monies from the MoJ have been fully spent with extra support funded from the budget provision for partnership working. The Minister of State for Policing, Fire, Criminal Justice and Victims has announced that the PCC for Humberside will receive £1,084,387 next year. This compares with an allocation for 2016/17 of £1,091,981. There has been no confirmation of allocations for future years. If the grant is insufficient to meet the demands for service then again, additional support can be met from the Partnership Reserve.
- 3.24 In 2016/17 the PCC continued to allocate resources to voluntary and community groups, local councils and other organisations through the Commissioners Crime Reduction Fund to address crime and community safety issues in communities. For 2017/18, funding will be made available to the CSPs and they will have the responsibility for allocating resources for such schemes within their local, areas.
- 3.25 The four unitary authorities within the Force area are the billing authorities and they have provided information on the tax base for 2017/18. This totals 262,141 Band D properties, compared with 255,974 in 2016/17. This represents an increase of 6,167 properties (2.41%). This is in excess of the amount assumed in our projection for 2017/18 and represents another significant permanent addition to the income base. A 1% increase in precept/Council Tax would generate c£481,500 based on this figure.
- 3.26 In formulating the 2017/18 funding settlement, the Government has recognised that the taxbase in 2016/17 has increased significantly more than the 0.5% increase that they had assumed. When setting out that where PCCs have maximised the amount available from precept without triggering a referendum there will be a cash standstill when compared with 2015/16, the Government has now factored the extra income arising from the 2016/17 taxbase into their estimate of direct resourcing for policing. The Home Office has continued to assume a taxbase of 0.5% for 2017/18. The actual increase in Humberside is 2.41%.
- 3.27 Based on the taxbase growth in the last two years, the MTRS now assumes increases on 1.00% for future years. This has been moderated to mitigate against some of the taxbase growth being

diverted towards national projects and reducing the grant available to PCCs. This would still allow the commitment to flat cash compared to 2015/16, which appears to be a benchmark, to be maintained.

3.28 As indicated above although this is additional locally generated income, it is now being counted within the overall financial envelope for policing which has allowed investment in national projects. At the same time the grant monies available for PCCs have been reduced.

3.29 The billing authorities have also provided details of the following estimated collection fund balances:

<b>Collection Fund Balance 31 March 2016 £000</b>		<b>Estimated Collection Fund Balance 31 March 2017 £000</b>
593	East Riding of Yorkshire Council	409
506	Hull City Council	696
68	North East Lincolnshire	110
283	North Lincolnshire	140
<b>1,450</b>	<b>TOTAL</b>	<b>1,355</b>

3.30 In 2015/16 Police Officers were awarded a 1% pay increase and Police Staff accepted an offer of 2.2% with effect from 1 March 2015 covering two pay years to be paid over 18 months to 31 August 2016.

3.31 As part of the Budget announcement in the summer of 2015, following the General Election, the Chancellor indicated that in order to have public services that we can afford and to protect more jobs, public sector pay awards with a rise of 1% per year will continue for the next four years. This position has been maintained and is reflected in the financial forecasts along with the 1% pay awards for Police Officers and Police Staff from September 2016.

3.32 The loss of contracted out status in connection with National Insurance has already been factored into the original budget for 2016/17 and later years.

3.33 The Government's commitment to increases in the Living Wage are unlikely to impact directly on pay costs but may affect contract prices where service providers are affected. An exercise to establish budget pressures arising in this way is currently underway and will be reflected in budget monitoring reports as the year progresses.

3.34 Budget forecasts provide for employers' contributions in respect of police pensions at 24.2% as there has been no change to the position whereby forces will not benefit from an actuarial valuation which indicated that a rate of 21.3% should be applied. The Home Office are continuing to make adjustments through the Pension Fund Account for this so that the benefit goes back to the HM Treasury.

3.35 The budget projections for 2017/18 and the next two years incorporate revised assumptions of the level of employers' contributions in connection with police staff who are members of the Local Government Pension Scheme administered by the East Riding of Yorkshire Council. Following the latest triennial review, the revised Primary Rate for employer contributions will be 18.3% from 2017/18 to 2019/20, with a small annual cash contribution as a Secondary Rate, compared to a combined rate of 21.6% in 2016/17. This is mainly due to the fact that the funding position of the East Riding Pension Fund has substantially improved to 95% from 87% at the last valuation. At this stage no provision has been made for the next valuation due in 2019 for implementation in 2020/21.

3.36 The projected budgets for 2017/18 onwards take account of the Apprenticeships Levy. This amounts to 0.5% of the pay bill. Work is ongoing with the Force as part of its Workforce Planning to determine

how Humberside can benefit from accessing the funding by creating apprenticeship positions to support the delivery of policing locally.

- 3.37 The assumptions within the MTRS reflect benchmarking at local, regional and national level undertaken by both the Assistant Chief Officer (Support) and Deputy Chief Executive / Treasurer.
- 3.38 Two options for the budget for next year and future years are included, based on assumptions of:
- A 1.99% increase in 2017/18 with similar increase in each further year of the financial forecast
  - Freezing the Council Tax in 2017/18 with 2% increases in each of the following years
- 3.39 Following discussion with the PCC and networking with colleagues in policing around the country these are seen as the most realistic options. There is the capacity to model other scenarios in fast time as and when required.
- 3.40 Whilst over the last two years the funding settlements for policing have been more favourable than could have been anticipated in mid-2015, Government emphasis has been maintained in seeking to encourage PCCs to opt for maximum increases in precept in order to protect funding levels. By not increasing the precept in line with this thinking, PCCs would effectively be volunteering to reduce the cash available locally for policing. This is in stark contrast to the period up to 2015/16 when the Government were seeking to constrain increases in Council tax and indeed offered financial inducements in terms of grants to freeze.
- 3.41 In previous years, consultation exercises on increasing the precept have been carried out on a one-off basis or more recently as part of the quarterly survey arrangements. This survey work was suspended following the change in PCC in May 2016 due to the fact that the new Policing and Crime Plan was being developed.
- 3.42 For 2017/18 the PCC launched an online survey in December 2016 published on his website seeking views on a potential increase of up to 2% to help protect local policing. This was publicised on social media and was picked up by the local press. Disappointingly, the number of responses have been very limited. However, as in previous years, the results once again show that the majority of those expressing a view support an increase for this purpose.
- 3.43 The MTRS is based on the version of the Strategy approved by the previous PCC in February 2016 and submitted to the PCP in support of the precept proposal for 2016/17. The assumptions have been updated as the year has progressed. They have now been amended for the information set out in the Provisional Police Grant Settlement for 2017/18 announced on 15 December 2016, a change in the methodology for calculating pay estimates and factors likely to impact on the budget in future years.
- 3.44 The overall intention continues to be to ensure that assumptions are reviewed on an ongoing basis to influence and demonstrate the affordability of the financial and resource plans which support delivery of the Police and Crime Plan.
- 3.45 The MTRS covers a period of 5 years. It is based on two firm fundamental principles, setting annual budgets in the context of the medium term and never funding permanent pressures with temporary funding, except to assist in spreading the financial challenge so that, as far as possible, savings targets can be achieved within a realistic and sensible timescale.
- 3.46 Following approval, the MTRS will be reviewed regularly by the Assistant Chief Officer (Support) and Deputy Chief Executive / Treasurer, by the Corporate Governance Group (CGG) as well as the Chief Officer Group and Senior Leadership Group. The PCC will receive regular updates and briefings throughout the year. He will also have the opportunity to consider updates at the CGG in respect of Force and “and Crime” spending plans, as well as reviewing the costs of the OPCC.
- 3.47 The document reflects formal and informal discussions between the PCC and stakeholders. The review arrangements will again need to reflect the dynamic nature of policing and its context. It must

continue to be recognised that there is a need for the Force and the PCC to have the ability to respond and to resource additional demands upon this 24/7 service. They also have to be capable of reacting to changes emanating from external factors outside of their control.

- 3.48 The forecasts reflect the revised operating model for the Force which was implemented in April 2015 and the subsequent adjustments that have been made to the original plans.
- 3.49 The MTRS is a key component in providing the link between operational planning and financial and workforce plans. It provides a framework for scrutiny to ensure that plans are robust and that resources are directed towards delivering the outcomes set out in the Police and Crime Plan.
- 3.50 The Strategy attempts to describe the financial direction of the Force, and supports work with Community Safety partners and service providers. It seeks to capture known and estimated information on external funding, spending pressures and development needs, as well as seeking to encompass risks with financial consequences over the 5 year period.
- 3.51 It provides options over the medium term for delivering a sustainable revenue budget and capital programme and in addition provides the background for setting prudential indicators on capital financing. This enables the PCC to determine how capital spending can be paid for.
- 3.52 It seeks to establish a stable financial framework on which to plan for the future. It also provides a basis for the development of specific proposals with partners and stakeholders and for consultation, in addition to allowing issues arising from strategic intelligence assessments to be considered.
- 3.53 The MTRS is one of a number of key shared endeavours between the Force, PCC and partners. Notwithstanding the continuing difficulties in foreseeing the future, it is important that the PCC continues with the process of setting annual budget decisions in the context of the medium term. In this way the impact of budget options on the Force and partners can be assessed in our efforts to deliver the best possible service to local communities.
- 3.54 The Strategic Partnership (SPP) between Humberside and South Yorkshire was introduced in 2015 to help to coordinate the development of services that work more effectively across both the two forces. This collaboration allowed resources and best practice to be shared as well as looking at making better use of technology in order to change the way services are delivered to the public in the future.
- 3.55 The Joint Specialist Operations Unit (JSOU) went live in 2016 and detailed reviews were carried out in several parts of both forces.
- 3.56 Whilst this work was being undertaken, the PCCs and Chief Constables determined that in view of the changes within both force areas, with a new PCC in Humberside and a new Chief Constable in South Yorkshire, together with the growth in the national transformation agenda it was time to take stock and to set out a clear direction for the next phase of activity.
- 3.57 In mid-2016, it was agreed that both forces and OPCCs would continue to work together on projects which were already underway but that new projects in relation to the SPP would not be undertaken i.e.
- that all current shared services would continue, whilst recognising that more still needs to be done to enhance service delivery;
  - there would be a major concentration on major projects such as Connect, Contact and Mobility;
  - that all ongoing reviews would be completed and options for implementation assessed and
  - that the approach to national developments regarding specialist capabilities and transformation would be reviewed as they became more defined.

## **4 Benefits of the Strategy**

- 4.1 The MTRS assists the PCC in:

- Responding to the Chief Constable's resource requirements to contribute to the delivery of the outcomes and objectives set out in the Police and Crime Plan
- Considering the funding requirements of the "and Crime" aspects of his role including the commissioning and provision of victims' services
- Providing a basis for aligning financial resources to agreed spending priorities taking account of the risk of threat and harm to the public
- Consulting with the public on service plans and on future budget and precept proposals
- Seeking continuous improvement in financial planning and the financial management of Force, partnerships and the OPCC to maximise the financial and other resources available to tackle crime and community safety issues
- Ensuring that the resources available, both internal and external, are directed towards delivering the outcomes set out in Police and Crime Plan over the medium term
- Ensuring that, the PCC responds to the challenge of ensuring that the Chief Constable provides value for money services to local communities
- Ensuring that funding for crime and community safety initiatives and for victims services is used efficiently and effectively
- Allowing the development of longer term budgets and strategic thinking, including workforce planning and identifying opportunities for collaboration with other forces and external partners
- Reviewing the PCC's policies in relation to use of reserves to ensure that a balance continues to be struck between the need to deliver performance and to pump prime significant developments whilst making efficiency savings, in addition to cushioning the impact of budget reductions, supporting business change and providing support for partnership working
- Identifying financial risks and ensuring that there are sufficient reserves available to deal with unexpected events and emergencies
- Responding to external pressures, including variations in the level of external funding announced in Government Settlements, Spending Reviews and revised grant distribution mechanisms together with the impact of changes to other funding regimes and the pressures on partners
- Developing a sustainable revenue budget and a capital programme over the medium term
- Informing treasury management decisions and determining prudential indicators
- Providing information to improve and influence national, sub-regional, regional and local partnership working and to support consultation and joint working with partners

## 5 Principles of the Strategy

5.1 The key principles and actions underlying the MTRS 2017/18 to 2021/22 are designed:

- To work with the Chief Constable to ensure that using the Force governance processes, resources are directed to objectives aimed at achieving the Police and Crime Plan
- To contain overall Force and PCC expenditure within original estimates each year
- To agree proposals for funding allocations to partners and for other initiatives that support the delivery of the Plan
- To set and deliver a balanced budget and maintain the intelligent use of reserves
- To aim to manage financial risks and seek to meet the financial challenge arising from spending pressures and variations in grant support within the period covered by the financial forecasts, whilst maintaining an adequate level of overall reserves and balances (within this to maintain a General Reserve at a minimum of 3% of the net revenue budget, the level that the PCC has expressly decided to maintain this General Reserve level)
- To maintain Earmarked Reserves for specific purposes which are consistent with best practice and used in line with the requirements to review balances at least annually
- To ensure that the PCC responds to the challenge of holding the Chief Constable to account for delivering an effective service during a period of continuing austerity and specifically that financial viability is maintained and the service provides the best value for money with the resources available
- To provide a basis for setting and monitoring the achievement of savings and efficiency targets
- To seek to rationalise the approach to efficiency and value for money, building on the work that has already achieved substantial savings to deliver budget reductions identified utilising workforce planning assumptions alongside the Force governance and other processes
- To ensure that, in line with best practice, there is a culture that places sustainability as a core responsibility and makes efficiency and productivity improvements key factors in the approach to integrated resource management
- To provide resources to support regional and sub-regional joint working to improve capacity and resilience as well as seeking to maximise efficiency gains through the implementation of appropriate efficiency and productivity programmes
- To recognise the impact of increases in precept levels in areas of low income and low wealth (as measured by property values) on local communities
- To consider Government guidance and advice on Council Tax/Precept alongside the referendum principles set out to limit annual increases within the context of the medium term implications for the Force and the PCC
- To seek to balance the need for increases in precept against delivery of service priorities and the need for continuing financial stability, working within the scope of the best information on the Government's announcements associated with the procedures for holding a referendum on proposals for increases in Council Tax/Precept which exceed predetermined limits
- To use prudential borrowing and other means of financing to support the capital programme as part of an effective Treasury Management Strategy

- To contribute to reviews of police funding and to support the work of professional associations such as the Association of Police and Crime Commissioners (APCC), the Association of Police and Crime Commissioners' Chief Executives (APACCE) and the Police and Crime Commissioners' Treasurers' Society (PACCTS) as well as the National Police Chiefs' Council (NPCC) and the College of Policing
- To ensure that the Assistant Chief Officer (Support) and Deputy Chief Executive / Treasurer continue to prepare a rolling programme of 5 year budget forecasts
- To explore opportunities to secure external funding, sponsorship and other income generation to support the objectives set out in the Police and Crime Plan
- To assess and review the impact of the time expiry, withdrawal or changes to the funding from external sources as well as the impact of wider public sector funding cuts on the resources available for policing and crime and community safety

## **6 Police and Crime Commissioner's Review of the Strategy**

6.1 The development of the MTRS for 2017/18 to 2021/22 has involved consideration of:

- The MTFS agreed by the PCC in 2016/17 and subsequent revisions during 2016
- The Police and Crime Plan April 2017 to March 2021
- The financial environment in which the Force and PCC operates
- The current financial position
- Funding
- Workforce Plans
- The "and Crime" agenda
- Medium Term Budget Pressures
- Savings Plans/Investment
- The IT/IS Strategy and significant investment to aid transformation of services
- The outcome of public consultation
- The Strategic Policing Requirement
- Collaboration with other Forces to address gaps in the provision for Protective Services and other regional and sub-regional initiatives, to improve resilience and to achieve savings
- The close working with South Yorkshire on IT/IS, Human Resources and other enabling services
- Collaboration with other PCCs as a means of achieving budget savings and extending partnership activity as a means of maintaining capacity and capability
- Working jointly with the unitary authorities and other public sector bodies, such as the Humberside Fire and Rescue Service, to deliver better outcomes for local taxpayers
- The Capital Programme, including the Estates Strategy, and asset rationalisation in Force and with partner organisations

- Treasury Management policies and strategy together with Prudential Indicators
- The policy on the retention and use of Reserves
- The Police Funding Formula and other Government initiatives to assess the impact on projections of the level of General Grant and other changes to the allocations of specific grants affecting crime and community safety issues
- Government announcements on Council Tax and Precepts together with details of referendum principles and information on the trigger limits
- Local partnership initiatives including of the use of commissioning, community safety funding, crime reduction grants, total place and community budgets
- Commissioning and the award of grants in connection with Victims' Services
- The continuing and increased emphasis on efficiency, productivity and value for money in policing and to free up resources to address new demands on the service
- Changes to Police Officer and Police Staff terms and conditions and to public sector pension arrangements

## 7. Financial Environment

- 7.1 In the UK, GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.
- 7.2 The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.
- 7.3 The Monetary Policy Committee, (MPC), meeting of 4th August was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.
- 7.4 The MPC meeting of 3 November left Bank Rate at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC at the meeting on 4 August, where a strong steer had been given in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.
- 7.5 The latest MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolves in the coming months. Capita Assets Services, the PCC's Treasury Management Adviser's current view remains that Bank Rate will stay unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019. This is unchanged from their most recent forecast.. However, they

would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though they consider this to be unlikely. It has also been pointed out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on their forecasts.

- 7.6 The pace of Bank Rate increases in Capita Asset Services' forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.
- 7.7 The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, consumers have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK (Gesellschaft für Konsumforschung) consumer confidence index, the trusted source of relevant market and consumer information, recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.
- 7.8 Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.
- 7.9 Another market commentator, Capital Economics' forecasts for GDP are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.
- 7.10 The Chancellor has said he will do 'whatever is needed' i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

- 7.11 The other key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16). This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.
- 7.12 What is clear is that consumer disposable income will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.
- 7.13 Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast. This was followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.
- 7.14 Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. House prices have been rising during 2016 at a modest rate but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.
- 7.15 The Brexit timetable and process is as follows:-
- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
  - March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
  - UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
  - The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
  - The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
  - If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
  - On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
  - The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
  - It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

## **8 The Current Financial Position**

- 8.1 The action taken to modernise systems and processes, to implement plans for savings and to build up and preserve the level of reserves and balances in anticipation of impending reductions in grant funding means the PCC continues to be in a position where he has options on how to move forward in a managed way. Following a period of protracted and severe austerity measures during which substantial savings had to be found opportunities for further budget reductions have become increasingly limited with more fundamental changes being required.
- 8.2 The improved position with the announcement in November 2015 that the service would be protected and subsequent confirmation last November when it was indicated that the original spending plans would not change were welcome news. Nevertheless, both announcements came with warnings that savings would still be required to enable the service to create the resources necessary to deliver transformation. Policing is seen as self-reforming as evidenced by it being allowed to develop proposals for use of the Transformation Fund.
- 8.3 The challenge within Humberside and one which has been the same for other forces has been to reassess and balance the need to continue to implement savings plans that were already in progress with new opportunities for investment
- 8.4 Budget monitoring in 2016/17 has identified that this situation has seen expenditure falling short of agreed budgets due mainly to underspending on pay and for the first time in a number of years savings targets have not been achieved.
- 8.5 The analysis of the underspend has led to a change in practice in the way pay estimates have been constructed in this MTRS. For 2017/18 and future years, pay estimates have been constructed on the basis of the payroll at December 2016, rolled forward with known and anticipated police officer, PSCO and staff variations. This is in contrast with previous years when the pay basis utilised and assumed full establishment and the application of a vacancy factor. Improved workforce planning arrangement has made this possible and will also enable closer in year monitoring reports on staff numbers as well as finance against profile to be readily available.

## **9 Funding**

- 9.1 In the summer of 2015 following the General Election, the Chancellor announced that unprotected budgets, including policing, would need to find savings of between 25% and 40%. The Home Office continued to work on proposals for a new funding formula for the distribution of police resources which was expected to be applied in conjunction with the outcome of the CSR2015 in 2017/18 but the review was abandoned. Work is now underway to review of the funding formula once again. It is the Government's intention is for proposals to be issued for consultation in February 2017. This is likely to be only on certain elements of the formula. At this stage there is no information or exemplifications of the likely impact of any new formula and these are not likely to be available until later in the spring.
- 9.2 The Chancellor's announcement in November 2016 is reflected in the Provisional Police Grant Settlement for 2017/18 which was issued as a consultation document on 15 December 2016. Consultation ended on 27 January 2017. The Final Settlement will be announced and confirmed by Parliament in early February 2017.
- 9.3 Based on past experience material changes between the Provisional and Final Settlements are unlikely and so the amounts of Government Grant estimated for the purpose of the MTRS reflect the Provisional Settlement. If there are changes, these are likely to be minor and will be dealt with by adjusting the use of reserves.
- 9.4 The actual grant Settlement is again for one year only, 2017/18. Additional information was provided on Home Office funding in future years last year but this exercise has not been repeated again this

year. Uncertainty over future top slicing and proposals for the funding formula review means that once more there is insufficient information to identify the specific amounts that will be made available for individual PCCs for future years.

- 9.5 More detailed financial information on future years would significantly aid financial planning, something that has been impressed on Ministers repeatedly. This point has been made again in response to this year's grant settlement consultation.
- 9.6 The latest Chancellor's statement has once again created expectations within the media and communities. Savings will still be required and it will be necessary to manage those expectations and to explain to partners and the public why this is still the case. As indicated above, the key challenge in 2016/17 was reconfiguring the savings proposals that were planned following the Government's change of mind with regard to cuts so late in the day. This is particularly important in relation to workforce planning where there has been a move to recruit after years of austerity with plans only to reduce staff numbers.
- 9.7 Ministers have indicated that provided precepts are increased by the maximum amount then the Settlement reflects a cash standstill when compared with 2015/16. This means of course that budgets have had to and will need to continue to absorb inflation and new cost pressures, additional demands from CSE, cybercrime and other complex areas of crime and the impact of global events on UK communities.
- 9.8 It must also be recognised that many other local service providers such as Councils, Health, Probation and Justice are all continuing to address their own substantial financial and demand challenges,
- 9.9 For 2017/18 General Grant (Police Grant and CLG/Home Office funding) has been cut by 1.4% for all individual PCCs.
- 9.10 The Government's assumptions of the level of direct resourcing for policing now include updated information on the level of precept that can be raised locally, reflecting the actual level of taxbase for 2016/17. Using this information it can be shown that if maximum increases in precept are applied then cash available will be the same as in 2015/16. However, this masks the 1.4% reduction in grant referred to above and the fact that the PCC and Force have faced substantial cost and demand pressures during this period.
- 9.11 The Provisional Settlement confirmed that the "Legacy Grants", Localisation of Council Tax and Council Tax Freeze Grant would continue to be received in 2017/18. This has been assumed for future years but there remains a possibility that these grants could be consolidated into the main grant and allocated on the basis of any revised formula or dealt with differently in future. The impact of this cannot be assessed at this stage.
- 9.12 The detailed analysis of the Provisional Settlement compared with 2017/18 is set out below:

2016/17 £	Grant Settlement	2017/18 £
46,569,261	CLG/Home Office Funding	45,916,920
67,245,339	Police Formula Grant	66,305,918
<b>113,814,600</b>	<b>Total Formula Grant</b>	<b>112,222,838</b>
10,040,945	Legacy Grants	10,040,945
<b>123,855,545</b>	<b>TOTAL</b>	<b>122,263,783</b>

- 9.13 The billing authorities have provided the following information in respect of their calculations of the 2017/18 tax base:

<b>Tax base 2016/17 (Band D properties)</b>	<b>Unitary Authority</b>	<b>Tax base 2015/16 (Band D properties)</b>
111,185.30	East Riding of Yorkshire Council	113,265.60
56,965.00	Kingston upon Hull City Council	58,838.00
41,325.60	North East Lincolnshire Council	41,890.40
46,498.10	North Lincolnshire Council	48,147.19
<b>255,974.00</b>	<b>TOTAL</b>	<b>262,141.19</b>

- 9.14 The increase in the number of Band D properties of 6,167. This is 3,607 more than anticipated in the original MTRS assumptions for 2017/18. It will generate additional Council Tax revenues which will offset the loss of grant and is in excess of the Government's assumption of a 0.5% increase. It should be noted that as for 2017/18 the amount of grant awarded in future years could be affected by Ministers revising their assumptions to take account of any uplift over and above their original taxbase assumptions when seeking to refer to funding for policing being protected and probably benchmarked against the cash position in 2015/16. The taxbase has been assumed to increase by 1% in future years. The interaction between this assumption and the Government's adjustments in grant determinations will be kept under review.
- 9.15 The PCC has been informed that the estimated Collection Fund surpluses at the end of 2016/17 will be £1.355m. This compares with £1.450m in 2015/16. Surpluses are prudently assessed and only fully assumed when it is clear that they are likely to be achieved. Any deficits on Collection Funds would have to be made up by taking them into account in the decision on Council Tax/Precept in the following year. The assumptions for future years of Collection Fund surpluses for planning purposes are 50% of the amount assumed for 2017/18 in each year.

#### **The "and Crime" agenda**

- 9.16 The PCC has once again earmarked resources for partnerships in 2017/18 within the base budget and he has access to his Partnership Reserve.
- 9.17 For 2017/18 the Commissioner has provided more detail regarding the granting of money from the OPCC to Community Safety Partnerships to support his intention to promote CSPs as the coordinating entity at the centre of community safety activity within each local authority area. The proposals have been discussed with the Chief Executives and Leaders of each Council together with local CSP Managers.
- 9.18 The Police and Crime Plan which has been out for consultation and considered by the PCP, clearly highlights this as a significant strand of work during his period in office. The intention is to re-energise the CSPs, creating much closer and more productive working relationships.
- 9.19 The Plan specifies community based outcomes that all CSPs should take into account. The PCC has considered the aims of each local authority in developing it so that there is appropriate alignment with his objectives.
- 9.20 This changed approach involves the provision of funds so that CSPs will be able to better control where activity takes place within their area of operation and for there to be closer links with the front-end delivery of activities, whether that be by the statutory agencies, or third sector and voluntary groups.
- 9.21 For the 2017/18 financial year the intention is to channel as much funding as possible, that is nominally identified as being for community safety delivery in each of the unitary authority areas, through to the Community Safety Partnership.

9.22 The PCC has already pledged £1.50m in 2017/18 for this purpose, with further investment commitments of £980k in DIP initiatives. Additional investment will be capable of being made from the Partnership Reserve. Amounts will be used to fund Victims Services from utilising the MoJ grant will be made in addition to these amounts.

	<b>Commitment</b>	<b>Commitment</b>	<b>TOTAL</b>
	<b>2017/18</b>	<b>2017/18</b>	<b>2017/18</b>
	<b>CSPs</b>	<b>DIP</b>	
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Partners</b>			
East Riding	415,615	116,000	531,615
Hull	467,549	417,800	885,349
NELincs	337,509	291,024	628,533
Nlincs	279,327	155,311	434,638
<b>TOTAL</b>	<b>1,500,000</b>	<b>980,135</b>	<b>2,480,135</b>

9.23 The amounts available to CSPs have been calculated by adding together all of the funding provided within the four local authority areas, including funding for Youth Offending Teams and Local Safeguarding Boards but excluding support for directly or jointly commissioned drug, alcohol and victim services. It has been derived using a formula taking into account geography, demography and crime. This seeks to ensure an equitable division between the four authority areas and negate a situation where one area bids against another.

9.24 The intention is to pass the funding to CSPs with maximum discretion. The OPCC will work with them to ensure continued flexibility in future years. In determining the amounts to be allocated, consideration has been given to how the monies have been used in the past. The allocations and level of discretion will allow the CSPs to recognise some of the potential imperatives for continued funding, at least in the initial period of this change.

9.25 The PCC's intention is not to ring-fence any of the funding within the overall grant to each CSP, except for one part relating to allocations from the Crime Reduction Fund.

9.26 This Fund has been used in the past for locally-based community or not-for-profit organisations that have been able to bid for grants from the Office of the Police and Crime Commissioner. By including an element for similar schemes in the allocations, it is hoped that decisions to award grants of this nature will be attuned to the aims of the CSP. The aim here is to continue to encourage community resilience and provide important groups involved in delivering the outcomes set out in the Police and Crime Plan with access to some funding. The Commissioner recognises that any work carried out by such groups must have a focus that ties into the aims of the CSP.

9.27 The PCC therefore intends to specify that part of the amount allocated to CSPs should be ring fenced specifically to enable them to continue to award monies to similar groups or projects. This will be allocated against criteria that the CSP agrees itself. If a CSP decides to allocate more money to that aspect of delivery then that would be a decision for the CSP.

9.28 It should be noted that the partnership funding from the PCC should not be used to support any activity or pre-existing post for which another member of the CSP has withdrawn or reduced funding and, importantly, that the CSP adopt an outcome-based planning process that links strategic intentions to community activity.

9.29 The Commissioner will work with the CSP to embed this approach and this will form the basis of discussions prior to the start of new financial year. It is helpful that some local authorities are already adopting an outcome-based accountability method of planning.

- 9.30 The PCC will require assurances around how the fund will be managed, so spend against it can be tracked against outcomes. Support for the pooling of budgets will be encouraged where appropriate to develop true partnership working. This will also be the subject of separate discussions on what this may look like in each local authority area.
- 9.31 In adopting this approach the PCC is looking to strengthen local partnership working arrangements which will include: greater data sharing, joint planning cycles and joint commissioning frameworks and the pooling of budgets, all of which can also help to generate cross-sector efficiencies and maximise the level of protection to the public in our area.
- 9.32 Developing indicators of movement towards achievement of the outcomes will form a necessary strand of work for CSPs. Closer working between agencies will be a fundamental requirement for this to occur.
- 9.33 The Commissioner has fully spent all of the allocations from the MoJ in respect of commissioning victims services since 2013/14. He continued to support the provision of services utilising the MoJ grant allocation of £1.091m in 2016/17. The amount allocated in 2017/18 is £1.084m. Funding for victims services can also be topped up with monies from the main community safety budget provision and where appropriate the Partnership Reserve.

## **10 Medium Term Budget Pressures**

- 10.1 The options set out in this document continue to provide for amounts previously agreed that have ongoing revenue implications. They include provision for known and predicted pay awards which have been included in the estimated pay budgets for 2017/18 and future years.
- 10.2 Budget provision has been made for known price variations for non-pay inflation on the basis of agreed assumptions. The budget also includes the Apprenticeship Levy which is estimated to cost £515k in 2017/18.
- 10.3 The projections include provision for both the capital financing and revenue consequences of capital spending.

### **Protective Services/Regional and Sub-Regional Working**

- 10.4 The MTRS incorporates the costs and savings arising from the Force and the PCC's involvement in Regional Working with North Yorkshire, South Yorkshire and West Yorkshire on a four force basis and with South Yorkshire on a two force basis.
- 10.5 The four force Yorkshire and the Humber Region is a lead force arrangement with Humberside having the lead for underwater search and public order.
- 10.6 The budget projections also include estimates of spending and income in relation to the joint work with South Yorkshire OPCC and South Yorkshire Police.
- 10.7 In 2015/16 and 2016/17 a principal policing partnership with South Yorkshire Police saw joint Human Resources and Information Services established alongside joint teams for estates and facilities management and legal services. Significant scoping work was completed in 2016/17 through the Strategic Partnership Programme (SPP) to produce blueprints for further collaborative working, in particular in Criminal Justice and Contact Management services.
- 10.8 In 2016 the creation of further joint services was paused to allow the new Chief constable of South Yorkshire Police to review that force's service delivery models, although a commitment continues to procure joint information technology platforms for these services so that this work can be picked up again in future. The costs of these collaborative services are built into the proposed 2017/18 Budget and the Savings plan takes forward all of the recommendations from the work completed by the SPP Team that can be implemented in Humberside Police alone.

- 10.9 The aim of the joint activity has been to share operational and support services with the aim of protecting community policing. The budget for 2017/18 includes a prudent level of savings arising from the Joint Special Operations Unit which went live in April 2016. The full savings from this joint service will be available in subsequent years. In relation to the other aspects of the strategic partnership it has been assumed very prudently that the initial costs of establishing the programme team will be met from savings which accrue from their work during the year.
- 10.10 In addition to this activity work will continue to seek to enhance joint working and new and innovative business models with other partners along the lines of the joint venture with the Humberside Fire and Rescue Service and the Humberside Fire Authority.

### Savings Plan

- 10.11 The Force has already delivered substantial business change through previous savings plans. Anticipated savings from the Strategic Partnership with South Yorkshire have not been developed as originally envisaged due to the pause agreed following changes in the PCC in Humberside and the Chief Constable in South Yorkshire.
- 10.12 As a result, the savings plans have been reappraised. Although the planned savings in 2016/17 have not been fully achieved underspending has still occurred. This reappraisal has resulted in the change in the construction of pay budgets as detailed above. It is understood that some other PCCs are adopting a similar approach. It has reduced the base costs.
- 10.13 Chief Constable has examined the opportunities for savings and a revised savings plan has been developed with the outcomes included within the financial forecasts within the MTRS.

Savings Plan	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
New Operating Model				
- CJU	637		481	21
- Overtime		200	200	
Modernisation				
- IS Support Contract	201	887	205	
- Connect Inputting		200	200	
- ESN/ESMCP			275	
- Command Hub		750	750	
Infrastructure				
- Estates/Utilities	505	68		
- Helicopter/NPAS	1,051			
- Business Centre/HQ Finance Review		180		
- Fleet	88			
Workforce				
- Supervisory Levels		450		
- Police Staff Reductions	331			
- Vacancy Management	90			
<b>TOTAL</b>	<b>2,903</b>	<b>2,735</b>	<b>2,111</b>	<b>21</b>

### Resource Planning

- 10.14 As has been set out at length previously and communicated to the public, a significant part of the budget each year is pay and pay-related. A very significant proportion of the Force budget is the staff related costs of Police Officers, Police Community Support Officers and Police Staff. As a consequence the base budget is highly dependent on the Force's planned number of staff posts in the staffing establishment and Workforce Plan prepared by the Assistant Chief Officer (Human

Resources). In order to maintain the planned establishment, at a time of reduced funding, budget reductions have previously been targeted from other areas within the Force. Over 2015/16 and 2016/17, however, the gap between the establishment and the number of people actually employed and being paid throughout the financial year has been significant and has created annual financial underspending, whilst at the same time the calculated financial savings requirement could appear in retrospect to have been set too high.

- 10.15 This inevitably meant that the focus for savings in previous years required substantial reductions in the numbers of officers and staff. The redesign of the Force operating model was a key part of the response to this challenge, as was the PCC's determination to ensure that police officers and PCSOs are equipped with mobile technology to ensure that they can spend as much time as possible out in their communities.
- 10.16 It is widely recognised that Police officers cannot be made redundant and it is acknowledged that the pace at which police officer numbers could be reduced was constrained by the rate of natural turnover and so, for this part of the workforce, planning assumptions are based on predictions of the numbers of officers leaving the organisation through transfer, retirement etc. There are further constraints on the number of officers as the Chief Constable must ensure resilience at times of peak activity to satisfy local, regional and national demands on the service.
- 10.17 The position will need to be closely monitored. This will involve ongoing appraisal of turnover, transfers in and out of Force and the ability to attract and train the required number of officers. The resource plans will be kept under constant review as to progress against forecast and sustainability should the assumptions of Government support change in the years beyond 2017/18.
- 10.18 In 2017/18 the budgets for staff costs have been built on the number of Police Officers, Police Community Support Officers and Police Staff that are currently and projected to be in post and being paid over the course of the course of the next and future financial years. The baseline information for staffing budgets has been the Force payroll system that can identify where costs are being incurred down to individual posts. This number in post is known as "the strength" and plainly is different to the staffing establishment.
- 10.19 Through this new approach the 2017/18 overall financial requirement for pay has fallen in comparison with that prepared in previous financial years. This change is intended to provide a more accurate position as it is being based on more explicit links between financial and workforce plans and strong joint working between financial planning and workforce planning specialists in the Force. Improved accuracy with which base budgets and financial projections are made obviously reduce the risk that calculated savings targets that have to be achieved are overstated, thereby helping to maintain operational and organisational capacity and capability in the Force. The new savings plan is in place and this will continue to be developed to allow the Force to live within its recurrent resources and to provide investment to enhance future capacity and capability in areas identified as being critical to delivering and/or enabling improved services to our communities.

## 11 Capital and Prudential Borrowing

### Impact of Capital Programme

11.1 The following table outlines the estimated costs of the current programme over the next five financial years together with details of how it is proposed to be financed.

<b>Capital</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<u>Capital</u>					
<u>Expenditure</u>					
Estate Strategy	11,455	9,720	900	250	250
IT Equipment	2,730	3,177	3,060	932	1,059
Vehicles/ Equipment	1,858	818	553	650	337
<b>TOTAL</b>	<b>16,043</b>	<b>13,715</b>	<b>4,513</b>	<b>1,832</b>	<b>1,646</b>
<u>Financing</u>					
Capital Grant	698	697	697	697	697
Revenue	0	0	0	0	0
Loan	15,345	13,018	3,816	1,135	949
Capital Receipts	0	0	0	0	0
<b>TOTAL</b>	<b>16,043</b>	<b>13,715</b>	<b>4,513</b>	<b>1,832</b>	<b>1,646</b>

11.2 The capital programme will continue to assist in the delivery of front line policing services. Asset rationalisation has continued with a number of sites disposed of in 2016/17 and with others currently on the market. Capital receipts will be applied when they are received.

11.3 The Estates Board provides the platform for regular updates and discussion on the progress of property-related Capital Schemes. The DPCC and the Deputy Chief Executive / Treasurer represent the PCC on the Estates Board.

11.4 The Capital for Estates now includes provision totalling £14.5m over the next two years for investment in the provision of new custody facilities on the South Bank of the Humber following a thorough review of custody facilities Forcewide. The IT element of the Programme also incorporates substantial investment plans in respect of CONNECT and Contact Management systems which should lead to savings in future years as well as supporting local costs of the new ESN/ESMCP arrangements.

- 11.5 Police Capital grant has been reduced from £82m in 2016-17 to £77.2 in 2017/18, with 45.9m (59.4%), allocated for the Police Capital Grant. The rest is broken down as follows:

<b>Police Capital</b>	<b>£m</b>
Police Capital Grant	45.9
Special Grant Capital	1.0
Police Live Services	18.1
National Police Air Service	12.2
<b>TOTAL</b>	<b>77.2</b>

- 11.6 The allocation to the PCC for Humberside in 2017/18 is £697,832.
- 11.7 The Force and the PCC will continue to examine the possibility of alternative sources of finance such as leasing of equipment, vehicles and IT and to compare these with prudential borrowing to identify the most cost efficient option for funding the capital programme.
- 11.8 The main source of funding for capital will continue to be prudential borrowing.
- 11.9 The PCC has again been actively promoting asset rationalisation, joint working and co-location of services with other public and voluntary sector partners.
- 11.10 Meetings have continued to be held with partners across the Force area to identify opportunities for joint working on property issues that are mutually beneficial in terms of reducing costs and generating capital receipts whilst maintaining and if possible improving services and access to them.

#### **Impact of Prudential Borrowing on the Budget Position**

- 11.11 The PCC will, as indicated above, predominantly utilise prudential borrowing as the means of funding the capital programme.
- 11.12 The approved Treasury Management Strategy Statement (TMSS) provided information on current borrowing levels and set out agreed Prudential Indicators which were agreed. The TMSS explained that day to day cash balances have been and in the short term continue to be used as a cost-effective way to finance capital spending. It also confirmed that the PCC retains the capacity to borrow to fund capital expenditure as and when necessary to replace the cash that has been temporarily used to finance capital in this way. Cash balances are continuing to be invested in the money markets. No external borrowing has been taken from the Public Works Loans Board (PWL) so far in 2016/17, and based on current cash flow projections borrowing is unlikely to be required by 31 March 2017. The PCC has access to information on a monthly basis on treasury management activity produced by external advisers, Capita Treasury Solutions. When it is reconstituted, the Joint Independent Audit Committee (JIAC) will have the responsibility of scrutiny and oversight of treasury management matters and reports prior to consideration by the PCC.
- 11.13 Cashflow forecasting at a detailed level has continued. The MTRS information is supported by high-level projections of the PCC's cash flows. Assumptions of interest payable and interest receivable included within the MTRS are based on these forecasts.
- 11.14 Detailed cashflow information is essential as the basis for determining when the PCC will have to borrow and the cash position is reviewed at monthly Investment Review Meetings chaired by the Deputy Chief Executive / Treasurer.
- 11.15 The PCC's approved TMSS incorporated the investment strategy and the policy in respect of the Minimum Revenue Provision (MRP), the amount to be set aside each year for debt repayment. The MTRS reflects updated calculations of the MRP required in respect of past and proposed capital spending.

## 12 Reserves, Provisions and Contingency Fund

### Reserves Policy

- 12.1 Billing and precepting authorities in England and Wales are to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. In establishing reserves, the PCC must also comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
- 12.2 The Chief Constable and the PCC are required to review the reserves policy and the holding of contingencies on an annual basis as part of the budget process. This is reflected in medium term financial planning and the annual budget setting process. It is important that the use and retention of the PCC's reserves is visible and that consideration of their use is placed at the forefront of the decision making process. Revenue reserves are balances, held on the balance sheet until they are spent or released for other purposes. As such, they can only be used once, and should not be part of the base budget.
- 12.3 The PCC holds these balances for two main purposes:
- a) A contingency to cushion the impact of unexpected events or emergencies.
  - b) A means of building up funds to meet known or predicted liabilities or to smooth expenditure requirements – known as earmarked reserves (this includes for example Risk Management, Partnership Reserve, Performance Improvement Reserve and Technology and Capability Reserve).
- 12.4 The PCC has maintained a simplified approach to holding reserves for the benefit of all stakeholders. The General Reserve is intended to meet the purposes under a) above, with the main aim of the PIR being used to pump prime spend to save initiatives, to support the revenue budget and to assist business change along with the Technology and Capability Reserve to support new investment.
- 12.5 The Road Safety Reserve was created in 2015/16 and during this financial year the PCC has agreed that the funding held in this reserve can be used to support Safer Roads Humber (SRH) and bids for local schemes administered by them in conjunction with the Force.
- 12.6 The balance in the Partnership Reserve was agreed to be topped up each year to £1m to support commitments being provided to community safety partners and victims service provision. Funding within the Reserve can continue to be used to support partnership projects that can help to deliver the outcomes in the PCC's Police and Crime Plan and will be used as the vehicle to carry forward funding identified for partnership initiatives.
- 12.7 Access to the Partnership Reserve will need to be strictly controlled. As this is a reserve, then the risks associated with committing the PCC to long term support must be recognised. It should also not be used as a simple substitute for existing funding that is being withdrawn as a result of budget cuts elsewhere. In view of the predicted underspend in 2016/17 and the increased emphasis on partnership working, the PCC has agreed that the balance on this reserve should be increased to £2.5m.
- 12.8 Temporary funding of this nature however can be a powerful driver to encourage partnership working. Sustaining infrastructure that has been and will continue to support the progress in reducing crime is an important consideration along with seeking out opportunities for improving performance. It also enables new and innovative initiatives to be progressed, piloted and evaluated. As a result, the PCC may, at some stage, want to make additional transfers from the PIR to the Partnership Reserve to carry on this work if it proves successful.
- 12.9 The Technology and Capability Reserve was set up last year with a balance of £5m. Once again due to the underspend, there has been no drawdown in 2016/17. However, £1.25m in respect of potential temporary revenue spending over 3 years has been identified that is associated with the

implementation of the Connect and Contact Management programmes. This is currently being assessed and will be a likely call against this reserve.

- 12.10 The Risk Management Reserve (RMR) is retained for specified issues and it has been agreed that this should be maintained in £1.8m.
- 12.11 There is no statutory guidance on the right level of reserves. Guidance from the Chartered Institute of Public Finance and Accountancy confirms that PCCs should, on the advice of their Chief Finance Officers, make their own judgements on such matters, taking into account relevant local circumstances and an assessment of risk. Generally figures for general reserves of between 2% and 5% of net revenue spending have been the norm. Networking around the Police Service has shown that a General Reserve equivalent to 3% of its net revenue budget is widely regarded as appropriate. This takes into account the fact that when the Home Office provides support for major incidents via a special grant, forces are routinely expected to be able to meet up to 1% of the Net Revenue Budget from their own resources.
- 12.12 The PCC's policy on reserves as reflected in the MTRS principles is as follows:
- To hold a General Reserve of a minimum of 3% of the Net Revenue Budget in any financial year to cover any major unforeseen expenditure
  - To maintain earmarked reserves for specific purposes which are consistent with best practice
  - To review the level of reserves at least annually
- 12.13 The PCC must retain adequate reserves so that unexpected demand-led pressures on budgets and known areas where financial implications are uncertain, such as is currently the case with major incidents, regional and sub-regional collaborative working and more widely in respect of risks associated with assumptions of external support and income from Council Tax increases, can be met without adverse impact on the achievement of the outcomes and objectives set out in the Police and Crime Plan.
- 12.14 The policy for reserves and balances has to be based on a thorough understanding of needs and risks. Part of this process is to give clearer explanation of the existing and proposed use of reserves and this is addressed in the paragraphs below.
- 12.15 **A key objective of previous years' medium term financial plans has been to seek to ensure that over the medium term the PCC's base level of spending is capable of being contained within the likely level of available resources in terms of grant funding and reasonable assumptions of income from Council Tax without relying on reserves.**
- 12.16 As a result of the actions taken in previous years the PCC continues to have a level of reserves that can cushion the impact of budget reductions and cut backs in the level of Government grants.
- 12.17 The PCC has indicated that he is prepared to invest monies from reserves to make funding available to increase police officer numbers as evidenced by the commitment relating to priority areas and Hull in connection with the City of Culture. However it is recognised that this could require adjustments to the workforce plans in the event of future reductions in external funding in future years.

## Provisions

12.18 A provision is an amount set aside from revenue funds to provide for a liability which is likely to be incurred but the exact amount and date on which it will arise is uncertain. The PCC retains a number of provisions as detailed below.

### Compensatory Grant Provision

12.19 This provision is maintained to allow the Force and PCC to meet obligations under Police Regulations to reimburse income tax paid on rent allowances by that minority of officers who are still in receipt of this allowance. The provision is reviewed annually in April each year after payments in arrears have been made.

### Contingency Funds

12.20 The Chief Constable also has had access to one contingency, the Force Performance Fund. For 2017/18 and future years the MTRS provides for the Chief Constable to have access to a contingency of £500k each year.

## Budgeted Reserves Position for 2016/17 and future years

12.21 The reserves held are as follows:

Reserve	Estimated Balance at 1 April 2017 £'000
General Reserve	5,193
Performance Improvement Reserve	18,452
Technology and Capability Reserve	5,000
Partnership Reserve	2,500
Road Safety Reserve	0
Risk Management Reserve	1,800
<b>TOTAL (£'000s)</b>	<b>32,945</b>

12.22 The PCC has emphasised the need for strong partnership working, including with criminal justice, community safety and health partners to ensure the best outcomes for communities in terms of reducing crime and improving community safety. The increased balance in the Partnership Reserve will be available to support joint working.

12.23 The General Reserve will be maintained at 3% of the Net Revenue Budget. The level of reserves will continue to be reviewed as the year progresses.

12.24 It is anticipated that the Road Safety Reserve will be fully utilised or transferred by 31 March 2017.

## 13 Indicative Budget Forecasts 2017/18 to 2021/22

13.1 The PCC has once again received briefings and presentations during the year on precept proposals and these discussions have resulted in two alternative scenarios being identified for exemplification within the MTRS. The first option shows the impact of a Council Tax increase of 1.99% in 2017/18 with similar increases in Council Tax in future years. The second option assumes that the Council Tax is frozen in 2017/18 with increases in precept of 2% from 2017/18 onwards.

## 14 Funding Gap and Financial Strategy

14.1 Budget forecasts based on the above assumptions are set out in the attached Appendices. These identify the gap between spending and income from grants and Council Tax as follows after taking account of savings already identified. The illustrations assume that reserves will be used to meet the difference between the gap in any given year and the level of savings planned to be achieved in that year whilst providing a balanced budget at the end of the MTRS period.

14.2 Appendix 1, Option 1, is based upon a Council Tax increase of 1.99% in 2017/18 with 2% increases in later years.

Council Tax increase of 1.99% in 2017/18, rejecting the Governments grant offer and with 2% increases in future years					
	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
<b>Budget Gap</b>	<b>4,124</b>	<b>3,214</b>	<b>2,116</b>	<b>347</b>	<b>439</b>

14.3 Appendix 2, Option 2, is based on a Council Tax freeze in 2017/18 and assumes 2% increases in future years.

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
<b>Budget Gap</b>	<b>5,103</b>	<b>4,274</b>	<b>3,255</b>	<b>1,563</b>	<b>1,738</b>

14.4 A comparison of the above shows that in Option 1, the level of savings required to be achieved by 2021/22 is £10.240m compared with £15,933m for Option 2. The financial projections taking into account the revised savings plans which are estimated to generate £7.770m indicate that support from reserves of £2.470m would be required in respect of Option 1 and £8.163m in connection with Option 2.

14.5 The permanent gap can only be closed by examining the following:

- Savings and efficiencies above those already identified, including wider local, sub-regional and regional collaboration
- Precept increases
- Reassessment of priorities
- Further use of reserves
- External funding / increases in income
- Refinancing /re-phasing of the Capital Programme.

### Savings/Investment

14.6 It must be recognised that policing has never undergone such a long period of budget reductions and the pressure to continue to find savings and efficiencies and to increase the pace of change is unabated.

- 14.7 With the exception of 2016/17, the Force has consistently responded by meeting the challenging efficiency targets that have been set in previous years and has processes in place to actively monitor progress and activity to ensure that they have been delivered.
- 14.8 The MTRS has been updated and indicates that further savings of between £7.770m are expected to be achieved.
- 14.9 The PCC has continued to invest in community safety and victims' services initiatives. The MTRS reflects the fact that funding for main partners has continued to be passported in the main at the same level in previous years. Details of the revised proposals set out in the Police and Crime Plan are discussed above and the funding commitments for 2017/18 have been identified and are reflected in the MTRS. It is increasingly important given the pressures on all parties to find savings that a collaborative approach is taken so that decisions on funding for community safety spending as a whole are open and transparent.

### Council Tax/Precept

- 14.10 At this stage the PCC's preferred option is for an increase in the precept of 1.99%. This would not require a referendum.
- 14.11 Consultations during the year have indicated that albeit with a very small sample, as in previous years, the majority of those expressing a view would be prepared to pay an extra 2% on the precept to help to maintain local policing services.
- 14.12 The provisions of the Localism Act 2011 require Ministers to prescribe, in advance, the level of increase which they will regard as excessive. If any PCC suggests an increase in Council Tax above this level then he/she would need to make arrangements for the billing authorities to hold a referendum. The PCC would have to pay for this. In the event that the vote was in favour, the budget would stand. If the electorate rejected the proposals then a substitute budget assuming the maximum increase would be implemented. In these circumstances, the PCC would also then be responsible for the significant cost of re-billing, which could be in excess of £1 million.
- 14.13 The implications for the Council Taxpayer for each of the options set out above would be as follows:

BAND	Option (1.99% Increase) £	Increase £	Option 2 (no Change) £
A	124.89	2.44	122.45
B	145.70	2.85	142.85
C	166.52	3.26	163.26
<b>D</b>	<b>187.33</b>	<b>3.66</b>	<b>183.67</b>
E	228.96	4.47	224.49
F	270.59	5.29	265.30
G	312.22	6.10	306.12
H	374.66	7.32	367.34

### Use of Reserves

- 14.14 The PCC has reviewed the Reserves Strategy and will continue to do so as part of future revisions of the MTRS and the budget setting process. The basic principle remains i.e. that using reserves to support permanent spending within the base budget is not sustainable in the medium to long term and therefore reliance on the use of reserves to support the base level of spending should be reduced.
- 14.15 The principle of the PIR supporting "spend to save" initiatives and to underpin and support performance is well established. This has been particularly important given that significant staffing

changes take time to implement and carry with them substantial additional one-off costs. Reserves will continue to be used to support business change. In developing the options set out in the MTRS, the PCC intends to mitigate the impact of additional savings by meeting some of the saving requirement each year and providing for one off costs of change whilst maintaining the requirement to arrive at a balanced position over the term of the MTRS.

- 14.16 Consideration needs to be given to the level of contingency required to enable support additional investment and to support business change as well as being available to mitigate the risks associated with the uncertainty over the funding beyond 2017/18. The use of reserves needs to take account of the impact on performance and service implications for the public.
- 14.17 The Partnership Reserve, Road Safety Reserve and Technology and Capability reserve are discussed above.
- 14.18 The Risk Management Reserve is assumed to be retained at its current level and the balance will be kept under review as the year progresses.

## Priorities

14.19 The PCC's three key aims (outcomes) are set out in the Police and Crime Plan and will remain for the whole period of the Plan. Each aim is supported by a number of key deliverables/outputs. These are detailed below:-

14.20 The aims, deliverables and outcomes are detailed below:-

Aim	Deliverables/Outcomes
<b>AIM 1</b>	
To develop increasingly self-sustaining and safe communities in the Humber area	<ul style="list-style-type: none"> <li>i. Fewer victims of crime and anti-social behaviour</li> <li>ii. Provision of services capable of identifying and responding to existing and emerging threats and causes of harm</li> <li>iii. Improved community cohesion</li> <li>iv. Enhanced community capability</li> <li>v. Engaged and empowered communities and public</li> <li>vi. Effective service delivery and partnerships</li> </ul>
<b>AIM 2</b>	
To build public confidence in the agencies involved in creating safer communities	<ul style="list-style-type: none"> <li>i. Effective communication and engagement with communities and the public</li> <li>ii. Increased feeling of safety/security</li> <li>iii. Services delivered in a style and manner that meets community needs and desires</li> <li>iv. Identified and understood routes for the public to access services</li> <li>v. Power passed to communities</li> <li>vi. Agencies evidencing Value for Money in services</li> <li>vii. Transparent accountability mechanisms</li> </ul>
<b>AIM 3</b>	
To provide services to victims and the most vulnerable that meet their needs	<ul style="list-style-type: none"> <li>i. Identification of victims</li> <li>ii. Analysis of vulnerability and victims needs</li> <li>iii. Effective and accessible range of interventions to protect and signpost the vulnerable and support victims</li> </ul>

14.21 There will be a number of key themes with the OPCC establishing a changed role as facilitator of change and delivery whilst representing the public. The Office will become more outward-focussed and seek to identify where value can be added to the delivery of better outcomes for the people of the area and seek to bridge any gaps identified.

14.22 The key themes are:-

- **Strategic Policing Requirement**  
The Strategic Policing Requirement is set by government and each police force must provide sufficient capability to meet its share of a national capability. Nothing in the Plan should be taken as undermining the commitment of Humberside Police to meet the minimum requirement specified.
- **Community Safety Partnerships (CSPs)**  
CSPs are statutory partnership bodies that should oversee the delivery of community safety outcomes in defined areas; there is one in each of our unitary local authority areas. The PCC believes that during recent years their importance has been diminished leaving a gap in the effective coordination of partners attempting to deliver real improvements for communities. It is the Commissioner's intention to re-energise CSPs as the vehicle for coordinating prioritisation and delivery into our communities.
- **Grant Funding**  
Mechanisms governing the provision of grant funding from the Office of the Police and Crime Commissioner will change to reflect the above point, with an emphasis on CSPs assuming more ownership/oversight of activities contributing towards community safety within their respective areas.
- **Equality and Diversity**  
The lack of a specific focus on the subject of 'diversity' does not indicate a lack of importance. The PCC's view is that it should become everyday business and integral to improving the performance of Humberside Police both internally and externally. It will therefore feature as an element in a number of strands or work against a number of the priority areas identified and tracked under the new performance regime designed to measure improvement.
- **Restorative Justice**  
The PCC believes a broadening of a restorative approach, not purely restorative justice focussed on victims and convicted offenders, offers potential to undermine the cultivation of attitudes and behaviour that can cause problems in communities. The PCC will encourage this as a style of intervention wherever appropriate.
- **Devolution**  
The PCC believes Humberside Police is best placed to deliver effective policing services to the people of the Humber area. During future conversations and discussions on regional devolution he will work to maintain the integrity of the current force boundaries.
- **Collaboration**  
The examination of the potential benefits of further or closer collaboration between police forces in the region will continue, with a view to drive out any efficiencies or provide an enhanced capability for the communities in the Humber area. The PCC is of the view that collaboration between forces should not, unless there is an unanswerable argument, lead to the shifting of officers, staff or capability from the Humber area. In his view collaboration means working together better, not merging.

14.23 The Chief Constable will formulate a delivery plan setting out how the outcomes and outputs of the Plan will be delivered and the Chief Executive will develop a delivery plan for the activities of the OPCC.

#### **External Funding**

14.24 The PCC will continue to seek to explore opportunities to obtain general and specific external funding in line with the principles set out in this strategy. However, against the background of widespread reductions in the public sector budgets it will continue to be difficult to obtain additional or even maintain current levels of external funding.

14.25 The Commissioner has signalled his commitment to supporting close partnership working to assist in delivering the outcomes set out in the Police and Crime Plan.

14.26 He is seeking to develop and extend the relationships with the CSPs and local authorities.

14.27 The PCC will continue to seek to maximise the benefits of Regional and Sub-Regional working.

### **Income Generation**

14.28 The Force will continue to maximise opportunities to generate extra income and the PCC will work with partners to maximise the resources available to address crime and community safety issues and to help deliver the Police and Crime Plan.

## **15 Risk Assessment**

15.1 The MTRS contains the most up to date information at the time of drafting but the financial position of the Force and the PCC is dynamic and made more difficult by the Commissioner having wider responsibilities involving a significant number of partners who are also facing similar challenges. The risks have been mitigated in part by the announcements in 2015 and more recently confirming that funding for policing overall police are being protected. However there are still substantial risks associated with the funding for individual PCCs in later years as a result of the impending application of a revised funding formula review and the increasing likelihood that resources will be diverted in increasing amounts towards major national programmes through top slicing.

15.2 In the budget for 2016/17 there were risks associated with the implementation of the operating model. This has now been in operation for some time and the budget for 2017/18 and future years has been informed by the experience in the current financial years both in terms of addressing performance issues and the delivery of the anticipated savings.

15.3 There is a risk that the unidentified gap in savings will not be capable of being closed. The position will be monitored as the year progresses together with the need to review the pace of use of reserves to balance in individual financial years.

15.4 Information has been provided again on the referendum limits and the PCC's preferred precept proposal would not require a public vote. There is no risk therefore of him having to fund a vote and the potential costs of re-billing which could be in excess of £1m based on information from those authorities that have had to re-bill recently.

15.5 Significant work has continued with colleagues within the Region and Sub-Region and with local partners to identify opportunities for further collaboration and to deliver budget savings.

15.6 It should be noted that although the PCC faces a number of significant financial uncertainties he continues to be in a relatively strong position to respond to the challenges ahead.

## **General Balances**

- 15.7 There is a risk that the General Reserve is not sufficient. This is mitigated by:
- The policy governing the level of General Reserve held by the PCC is to maintain this at a minimum of 3% of net revenue spending. If it is considered prudent to reduce the level of General Reserve below this level then this will be considered as the year progresses but at the present time this is highly unlikely
  - The Force and the PCC will continue to strengthen financial controls to ensure that revenue outturn is kept within approved budgets. The challenge remains to ensure that the maximum amount of financial resources is made available to drive operational and business performance, to help to meet the costs of organisational change and to support the delivery of the Police and Crime Plan

## **Pay and Pay Increases**

- 15.8 In the budget announcement following the General Election, the Chancellor of the Exchequer announced that the pay policy of 1% increases for public sector workers would continue for a further four years. The financial projections reflect this position.
- 15.9 Provision has been made for the impact of the single state pension and corresponding loss of contracted out status which will increase employer National Insurance contributions.
- 15.10 Provision has been made for the changes due to the latest triennial actuarial review of the Local Government Pension Scheme at March 2016 which becomes effective from 2017/18.
- 15.11 No increase in employers' contributions in respect of Police Officers beyond the 24.2% applied in 2013/14 has been assumed as the Home Office has restated that although a periodic actuarial review was undertaken showing the need for a contribution of 21.3% the benefit will be retained by Central Government.

## **Price Increases**

- 15.12 Inflation provision in respect of non-pay inflation has been made on a consistent basis for known and anticipated increases in costs. The associated risks have been mitigated by:-
- Reviewing the non-pay elements of the MTRS and increases in previous years
  - Incorporating estimates for charges passed on by the College of Policing and estimates of charges for national IT systems
  - Maintaining centralised pay budgets coupled with the devolution of controllable budgets which acts as an incentive to achieve savings at a local level with planned under spends and any over spends contained within devolved budgets.

## Capital Financing

- 15.13 The risk is that capital financing charges will be greater than forecast. This is mitigated by:
- the MTRS providing for the best estimate of the cost of borrowing
  - making every effort to ensure that borrowing decisions are made at the most advantageous terms through regular monitoring of market rates and advice from the PCC's treasury management consultants and other sources.
  - changes in the variable rate having minimal effect initially as all current debt is at fixed rates and the rates of interest on money invested are very low
  - new borrowing being reviewed as part of a proactive approach to Treasury Management
  - examining the possibility of seeking to gain financial advantages through re-financing of existing debt and debt redemption, if appropriate, in line with the approved Treasury Management Strategy

## Financial Planning

- 15.14 The risk is that a major liability or commitment is currently known but has not been taken into account in the financial planning of the Force and PCC. This is mitigated by:
- Growth identified by the Chief Constable which will be managed through Force governance structures within existing budgets and a fixed contingency of £500k
  - Improved links between financial and workforce planning
  - Regular liaison by senior officers of the Force and the PCC, the existence of the Chief Officer Group and the Senior Leadership Group
  - Arrangements to ensure that Chief Officers, Commanders and Branch Heads are aware of and are carrying out their duties to discharge their obligations in terms of budget monitoring and control
  - Using the Deputy Chief Constable's Delivering Success Conference to enhance the overall internal control environment to better understand the landscape and to target resources
  - Oversight of the implementation of business change and savings with the involvement of OPCC and PCC involvement in Force Boards
  - The Corporate Governance Group arrangements involving senior Force and OPCC officers
  - The involvement of the PCC and Chief Constable in issues at a national level within the APCC and NPCC
  - The involvement of senior officers in national working groups such as APACCE, PACCTs and the NPCC Finance and Resources Coordination Committee.

## **National Funding**

- 15.15 The MTRS incorporates the information contained within the Police Grant Settlement announcement and information on other Government support.
- 15.16 As is normal, details of the support for Counter Terrorism remains outstanding. This generally has a nil net effect as income matches expenditure.
- 15.17 The failure of proposals to change the funding formula for policing has resulted in the Settlement continue to use a damping mechanism that has resulted in all PCCs receiving the same cash reduction in general grant of 1.4% when compared with the current financial year.
- 15.18 There is uncertainty beyond 2017/18 as the Home Office has once again limited the settlement to a single year and there is added uncertainty due to the fact that Ministers have indicated that the formula review will probably be implemented in 2018/19 but no details are available at this time.
- 15.19 The Force will need to continue to consider changes at a national level affecting the Service such as the College of Policing, the National Crime Agency, NPAS, ESN/ESMCP and the financial implications for the Force that flow from them.
- 15.20 The PCC will also have to carefully consider the crime and community safety implications of the cutbacks being made by other public sector partners in response to their funding challenges and the impact of ongoing changes on welfare reform.

## **Capital Programme Implications**

- 15.21 The risk is that the capital programme may be understated, funding will not be available as planned, or that over spending may occur. This is mitigated by the fact that
- The Estate Strategy has been regularly reviewed and is based on professional advice
  - IS/IT strategies are reviewed and are centred around developing information systems and data solutions for the Force. Work to harmonise long term strategies with South Yorkshire Police is continuing where appropriate along with work at a Regional level
  - Work on capital funding sources and affordability underpins capital programme planning
  - Clear decisions are made about the level of prudential borrowing
  - Regular consideration is given to cash flow and the use of internal capital resources when considering the PCC's borrowing and reserves strategies
  - Monthly capital monitoring reports with reports being routinely considered by the Force and in PCC briefings
  - The PCC is represented on the Force's Estates Programme Board and other Force Boards
  - The Prudential Borrowing regime provides added flexibility in terms of financing the capital programme
  - Professional judgments are made on affordability and appropriate control measures as detailed in prudential indicators set annually to be adhered to underpin financing of the capital programme
  - The revenue consequences of the capital programme, including the costs of borrowing, have been included in the MTRS

## **Risk Assessment**

15.22 There is a danger that all risks have not been identified in the MTRS and that major financial consequences may result. This is mitigated by:

- internal risk management arrangements within the Force and the PCC
- comprehensive self and external insurance arrangements being in place
- having a Partnership Reserve available to support working with external agencies involved in crime and community safety activities

15.23 Officers will use local, sub-regional, regional and national working groups to seek to ensure that the potential implications of future levels of funding, interest rates and inflation can be fed into the MTRS as the position becomes clearer.

## **16 Impact Assessment**

16.1 The Force Governance processes include separate impact assessments on demand for and supply of resources. These assessments are then reconciled and recommendations made on the basis of the findings before any management decisions are taken.

## **17 Robustness of Estimates and Adequacy of Reserves**

17.1 Following the Police Reform and Social Responsibility Act 2011 both the Deputy Chief Executive / Treasurer and the Assistant Chief Officer (Support) have responsibilities under s 151 of the Local Government Act 1972. As such, both are required to report on the robustness of the budget and on the adequacy of reserves which the PCC must have regard to when making his decision on the budget and the precept. They can confirm that the budgets set out in both of the options contained within the MTRS are robust and that the level of reserves in each case is adequate.

## **18 Conclusions**

18.1 The MTRS identifies the budget gap and the additional savings required to balance the budget for two Options a 1.99% increase and a freeze in 2017/18 with projected increases of 2% in all future years within the MTRS in both cases

18.2 The two options for precept levels have been considered in line with both the MTRS and the impact on family budgets.

18.3 In order to test public opinion, a consultation exercise was carried out via the PCCs website promoted through social media. Unfortunately, the numbers responding were minimal but once again showed the majority of those expressing a view were prepared to pay 2% more for policing.

18.4 The Government's assumptions in arriving at the Provisional Grant Report for 2017/18, as for 2016/17, assume that all PCCs will increase their precepts by the maximum amount possible without requiring a referendum. If this is done, Ministers have indicated that PCCs will receive a flat cash settlement when compared with 2015/16.

18.5 Despite the levels of external funding being more than could have been anticipated 18 months ago, the PCC will have to meet a range of inflationary, demand and other cost pressures in 2017/18 and the years ahead.

18.6 The recommendation of the Police and Crime Commissioner for Humberside is that the precept is increased in 2017/18 by 1.99% (from £183.67 to £187.33 for a Band D property).