



## **HUMBERSIDE POLICE AND CRIME PANEL**

### **RESPONSE TO THE HUMBERSIDE POLICE AND CRIME COMMISSIONER'S PRECEPT PROPOSALS FOR 2021/22**

#### **PURPOSE OF THE REPORT**

The purpose of this report was to set out the Humberside Police and Crime Panel's formal response to the Humberside Police and Crime Commissioner's precept proposals for 2021/22.

#### **INTRODUCTION**

The Police and Crime Commissioner had a statutory requirement to set an annual Police and Crime budget and, as part of that process, to consult with the Police and Crime Panel regarding any proposals in relation to the council tax precept.

At the meeting of the Police and Crime Panel on 4 February 2021, the Commissioner set out his proposed Police precept for 2021/22 and the Medium Term Resource Strategy for 2021/22 to 2025/26.

#### **ROLE OF THE POLICE AND CRIME PANEL**

Schedule 5 of the Police Reform and Social Responsibility Act (2011) stated that the Commissioner must notify the Police and Crime Panel, by 1 February, of the precept which the Commissioner was proposing to issue for the financial year 2021/22.

Under the requirements of the Act, the Police and Crime Panel must review the proposed precept notified to it and must make a report to the Commissioner on the proposed precept. The report may include recommendations, including recommendations as to the precept that should be issued for the financial year.

The Police and Crime Panel had the power to veto the proposed precept if at least two-thirds of the Police and Crime Panel members (the full membership rather than those present at a meeting) vote in favour of making that decision.

If the Panel vetoed the proposed precept, the report made to the Commissioner must include a statement that the panel has vetoed it.

## **POLICING ELEMENT OF COUNCIL TAX**

As part of the budget setting process, the Commissioner was required to consider whether or not to propose any changes to council tax. The amount of the council tax precept was a decision for the Commissioner who would take account of the views of the Police and Crime Panel and the Government's Council Tax increase limit in making that decision.

The Commissioner had proposed a precept increase of 6.56%. The financial implications for residents are that the Band D Council Tax amount would increase to £243.21 for 2021/22, an increase of £14.99.

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

The Medium-Term Resource Strategy (MTRS) of the Police and Crime Commissioner for Humberside covered a period of five years. It described the financial direction of the organisation and outlines financial pressures.

The MTRS provided options for delivering a sustainable budget and capital programme over the medium term. It also set out how the Commissioner could provide the Chief Constable with the resources to deliver the priorities in the Police and Crime Plan within the challenging financial climate.

The MTRS set the financial context for the Commissioner's revenue budget, capital programme and pre-cepting decisions.

The overall financial strategy sought to deliver the Commissioner's Police and Crime Plan, 2017 - 2021 and meet the requirements of the National Strategic Policing Requirement.

### **Aims of the Strategy**

Members heard that the MTRS assisted in:

- Supporting delivery of the Police and Crime Plan 2017 – 2021;
- Improving financial planning and the financial management of the Commissioner's resources, both revenue and capital;
- Maximising the use of resources available to the Commissioner and Chief Constable, both internal and external;
- Ensuring that the Commissioner and Chief Constable provided value for money and continued to deliver efficiency gains;
- Reviewed the Commissioner's policy on the use of reserves, ensuring the position continued to be sustainable and that there were sufficient resources over the medium term;
- Responding to external pressures, including changes to funding resulting from the Government's annual funding announcements.

## **Principles of the Strategy**

The key principles underlying the Commissioner's MTRS 2020/21 – 2024/25 were:

- (i) Overall expenditure of the Commissioner would be contained within original estimates each year.
- (ii) The Commissioner would maintain a General Reserve of a minimum of 3% of the net revenue budget to cover any major unforeseen expenditure or loss of funding. A flexible approach would be taken to the use of reserve balances above this level where appropriate, balancing the opportunity costs of maintaining reserves against the benefits of alternative approaches.
- (iii) The Commissioner would maintain earmarked reserves for specific purposes only when appropriate, and which were consistent with achieving objectives.
- (iv) The Commissioner would continue to prioritise the achievement of Value for Money, securing economy, efficiency and effectiveness in the use of resources; in establishing the framework for policing within Humberside and; in commissioning and procurement decisions.
- (v) The Commissioner's Chief Finance Officer and the Chief Constable's Chief Finance Officer would prepare a rolling programme of five-year budget forecasts to inform the Commissioner's budget and pre-cepting decisions.
- (vi) The Commissioner, supported by the Commissioner's Chief Finance Officer and Chief Constable, would continue to contribute to national reviews of police funding and take every opportunity to engage in order to pursue the fair and equitable funding of Humberside Police.

## **Reviewing the Strategy**

Members heard that the Commissioner's MTRS review for 2020/21 to 2024/25 had been carried out under the following key themes:

- The financial context in which the Commissioner operates;
- The Commissioner's current financial position;
- The impact of Operation Uplift (the recruitment of 20,000 Police Officers nationally);
- The future budget pressures that the Commissioner will face over the period of the strategy;
- Budget savings;
- The Commissioner's capital programme;
- Reserves policy;
- Risk assessment.

## **Police and Crime Plan including Partnerships**

The successful delivery of the Strategy required the Chief Constable to manage a complex set of resources, demands and priorities whilst reviewing and revising plans to meet changing demand for policing services within the available financial resources.

HMICFRS (Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services) considered that a Force was efficient if it was making the best use of its resources to provide policing services that meet expectation and follow public priorities, and if it was planning and investing wisely for the future.

The Commissioner's MTRS was underpinned by workforce planning and capital programmes which were aligned with the delivery of the Police and Crime Plan priorities and the continued delivery of an efficient and effective police service to the communities of Humberside.

The Commissioner was instrumental in shaping the community safety and partnership landscape in each of the local authority areas. Engagement Officers based in each area ensured that community views were factored into service delivery through local partnerships. Funding was prioritised to the local Community Safety Partnerships, services for victims, co-commissioning of substance misuse services with Public Health and youth early intervention activities.

## **Funding Formula**

The Panel heard that the Funding formula used to distribute Grant between Forces (Police Allocation Formula (PAF)) was introduced in 2006/07 and much of the data used had not been updated. There had been recognition for many years that the formula no longer reflected needs, but previous attempts at reform of the PAF have not come to fruition due to various technical/political considerations. It was anticipated that following the next Comprehensive Spending Review, a detailed review would be undertaken including a full consultation exercise. No change was anticipated to the PAF formula until at least 2022/23 at the earliest and therefore, the MTRS had made no assumptions in this regard.

## **Operation Uplift**

The Panel was informed that the Government had made a commitment to increase police officer numbers nationally by 20,000 by March 2023. The profile for Humberside Police was as follows:

- 2020/21 - 97 Officers;
- 2021/22 - 95 Officers (includes an additional 4 Officers for Regional Organised Crime Units (ROCU));
- 2022/23 - (assumed) 120 Officers.

Funding had been allocated towards the costs of police officer salaries, additional police staff to facilitate the recruitment and training of officers and the necessary kit and equipment they needed.

## **Police Finance Settlement and Council Tax Precept**

Members were informed that the Provisional Police Finance Settlement for 2021/22 was announced on 18 December 2020.

The headlines from the Police Finance Settlement for Humberside were as follows:

- Police core grants of £130.9m
- Legacy grants of £10.0m
- Ringfenced grant of £1.6m relating to achievement of Operation Uplift targets
- Capital grant allocation of £0.2m

The Secretary of State determined the maximum increase PCCs could make to council tax precept without requiring a referendum and in 2021/22 the sum was £15 per year on a Band D property. The Band D council tax precept set by the Commissioner for the current year 2020/21 is £228.22.

The Commissioner had also ran a public consultation on the level of the council tax precept for 2021/22. There had been 1691 responses to the consultation. 69.4% of these responses agreed with a £15 increase in a Band D council tax.

This MTRS as presented included an increase in the precept of £14.99 (6.6%) for a Band D property for 2021/22. A prudent planning assumption had been made regarding the future years 2022/23 to 2025/26 of a 2% increase. Final decisions on the actual precept would be made each year by the Police and Crime Commissioner based on the financial circumstances at the time.

## **Ministry of Justice Grant**

The Ministry of Justice (MOJ) allocated a grant to the Commissioner each year for local commissioning of victim services. The grant was allocated between Police and Crime Commissioners on the basis of population. A total of £1.090m was allocated to the Police and Crime Commissioner for Humberside for 2020/21. The amount for 2021/22 was yet to be confirmed.

The MOJ grant was held outside of the Police General Fund and the Commissioner made decisions on the commissioning of services on an annual basis, within the grant funding available. The commissioning of victim services therefore had no impact on Force budgets.

## **Current 2020/21 Financial Position**

The Commissioner's group budget for 2020/21 was £197.516m. The Period 9 revenue monitoring report showed a projected budget underspend of £0.155m as at 31 December 2020.

<b>2020/21 Revenue Monitoring – Period 9 Position</b>			
	<b>Approved Budget 2020/21</b>	<b>Projected Outturn 2020/21</b>	<b>Variance 2020/21</b>
<b>Group Position</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Chief Constable	188.482	188.447	(0.035)
Police and Crime Commissioner	4.863	4.752	(0.111)
Capital Financing	4.171	4.162	(0.009)
<b>Net Expenditure</b>	<b>197.516</b>	<b>197.361</b>	<b>(0.155)</b>
Central Government Grant	133.196	133.196	-
Council Tax Precept	63.845	63.845	-
<b>Central Grant and Precept Total</b>	<b>197.041</b>	<b>197.041</b>	<b>-</b>
<b>Appropriations (to) / from reserves</b>	<b>0.475</b>	<b>0.320</b>	<b>(0.155)</b>

The group budget was held by the Police and Crime Commissioner who provided financial resources to the Chief Constable to deliver operational policing. The PCC had a small specific budget for funding of partnerships and the OPCC running costs. The Capital Financing budget comprised the revenue provision for repayment of borrowing, interest costs and investment income.

The overall Group forecast represents an underspend of £0.155m.

The underspend against the Chief Constable's revenue budget of £0.035m was primarily due to a re-allocation of ICT budgets following a review. The underspend on the Police and Crime Commissioner's budget was primarily staff vacancies for which the recruitment process had commenced.

The forecast closing position on reserves for 2020/21 is £16.9m, as set out in the table overleaf.

<b>2020/21 Reserves – Period 9 Position</b>			
	<b>Approved 2020/21</b>	<b>Projected 2020/21</b>	<b>Variance 2020/21</b>
<b><u>Group Position</u></b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Opening Balance – General Reserve (01/04/20)	5.8	5.8	-
Planned transfer to/(from) General Reserve	0.3	0.3	-
<b>Forecast Closing Balance (31/03/21)</b>	<b>6.1</b>	<b>6.1</b>	<b>-</b>
Opening Balance – Earmarked Reserves (01/04/20)	11.4	11.4	-
Planned transfer to/(from) Earmarked Reserves	(0.4)	(0.4)	-
<b>Forecast Closing Balance (31/03/21)</b>	<b>10.4</b>	<b>10.8</b>	<b>-</b>
<b>Forecast Closing Balance (31/03/21)</b>	<b>16.9</b>	<b>16.9</b>	<b>-</b>

## **Medium Term Budget Pressures in Humberside**

The Members listened as they were informed that when calculating the medium-term budget projections for Humberside consideration had been given to a number of budget pressures including:

- i. Pay and price increases;
- ii. Budget pressures;
- iii. Revenue implications of the capital programme;
- iv. Other – including the implications of Covid-19.

### **Pay and price increases**

Members were informed that indicative budget forecasts for 2021/22 to 2025/26 reflected the impact of inflation on budgets wherever possible such as energy, business rates and rent increases along with known contract increases. In addition, estimates for future pay awards at 2% had been included.

### **Budget pressures**

The MTRS also included estimates of the impact of the annual cost of officer pay progression under police regulations and the triennial review of the Local Government Pension Scheme (LGPS). Humberside Police would also face financial pressures due to the additional costs incurred following the recruitment of additional Police Officers and Police Staff as a result of Operation Uplift.

### **Revenue implications of the capital programme**

A revised five year capital programme had been produced, which was summarised overleaf. The implications of this programme were fully reflected in the MTRS.

## Medium Term Savings Proposals

Throughout the MTRS period savings and efficiencies would continue to be delivered wherever possible, to sustain the investment in policing, to continue to support local policing services in the face of a challenging financial situation and balance the budget, for example:

- Corporate Programme of efficiency and continuous improvement reviews;
- Non pay savings;
- Savings through procurement through the continued use of national frameworks;
- Maximising income generation wherever possible.

## Capital Estimates and Financing

The following table provided a summary of the 5-year capital programme:

Capital Estimates	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Major and Minor Building Schemes	19.815	1.943	0.520	0.520	0.270	23.068
Information Technology	4.745	3.059	1.509	6.528	0.548	16.389
Vehicles and Equipment	4.013	2.177	1.492	1.342	1.595	10.619
<b>Total</b>	<b>28.573</b>	<b>7.179</b>	<b>3.521</b>	<b>8.390</b>	<b>2.413</b>	<b>50.076</b>

Key areas to note in the proposed programme are:

- **Building Schemes** - Estates refurbishment programme based on operational requirements including the new development of the Melton 2 site;
- **Information Technology** - the Force have a number of Improvement Schemes to deliver change and efficiency through transformation and costs relating to the implementation of the Emergency Services Network (ESN);
- **Vehicles and Equipment** - a rolling programme of vehicle replacement and programmes for upgrading equipment.

## Capital Financing

Capital Estimates	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Forecast Expenditure	28.573	7.179	3.521	8.390	2.413	50.076
<b>Financed by:</b>						
Grants and Contributions	0.187					0.187
Prudential Borrowing	28.386	7.179	3.521	8.390	2.413	49.889
<b>Total Financing</b>	<b>28.573</b>	<b>7.179</b>	<b>3.521</b>	<b>8.390</b>	<b>2.413</b>	<b>50.076</b>



The capital financing approach is to use Prudential borrowing to fund the Capital Programme and as mentioned in paragraph 8.4 the revenue implications of this borrowing is fully reflected in the MTRS Group Budget Forecast.

### Indicative Budget Forecasts 2021/22 to 2025/26

All the budget pressures, budget savings and funding assumptions outlined earlier in this Strategy are summarised below, to show an overall position for the Group representing the combined budget forecasts for the Commissioner and Chief Constable. Having considered the savings proposals and the availability of reserves to support the MTRS an important consideration is the precept proposal for 2021/22. The MTRS includes a precept increase of £14.99 (6.6%) built into the funding for 2021/22, and future increases as set out earlier in this report.

The group budget forecast position is set out in the following table:

MTRS Group Budget Forecast	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
<b>Base budget</b>	198.760	210.611	218.735	223.985	229.037
<b>Budget pressures</b>					
Pay related increases	6.047	3.832	4.166	4.955	5.263
Operation Uplift	2.664	4.922	2.005	0.571	0.615
Increase/(Reduction) in expenditure funded by Earmarked reserves	(0.660)	(2.630)	(0.015)	-	-
Budget pressures/(additional income)	2.868	1.887	(0.209)	1.207	0.261
Revenue impact of capital financing	1.683	1.612	1.053	0.568	(0.508)
<b>Total budget pressures</b>	12.602	9.623	7.000	7.302	5.631
Savings Requirement	(0.750)	(1.500)	(1.750)	(2.250)	(2.500)
<b>Net Budget Requirement</b>	<b>210.611</b>	<b>218.735</b>	<b>223.985</b>	<b>229.037</b>	<b>232.168</b>
Central Government Grant Income	130.918	140.015	140.714	141.418	142.124
Council Tax Precept Support Grant	10.041	10.041	10.041	10.041	10.041
Council Tax Precept Income	66.477	69.161	71.602	74.130	76.747
Council Tax Precept - Collection Fund surplus / (deficit)	(0.222)	0.600	0.600	0.600	0.600
<b>Total Income</b>	<b>207.214</b>	<b>219.817</b>	<b>222.957</b>	<b>226.189</b>	<b>229.512</b>
<b>Funding gap / (surplus) before reserves</b>	<b>3.397</b>	<b>(1.082)</b>	<b>1.028</b>	<b>2.848</b>	<b>2.656</b>
<b>Planned use of reserves:</b>					
Transfer (from)/to Earmarked reserves	(3.397)	1.082	(1.028)	(2.848)	(2.656)
<b>Funding gap / (surplus) after use of reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The Group forecast budget set out above showed how after the planned use of reserves, savings and the precept there was no funding gap for the period of the MTRS, which meets the key principle of the Commissioner’s Strategy that overall expenditure would be delivered within a sustainable budget over the medium term.

The Group forecast budget was allocated as follows between Chief Constable, Police and Crime Commissioner and Capital Financing.

<b>Humberside PCC Group</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Chief Constable	198.816	205.316	209.493	213.957	217.586
Police and Crime Commissioner	5.822	5.834	5.854	5.874	5.894
Capital Financing	5.973	7.585	8.638	9.206	8.688
<b>Total</b>	<b>210.611</b>	<b>218.735</b>	<b>223.985</b>	<b>229.037</b>	<b>232.168</b>

### **Budget Monitoring arrangements**

The Panel heard that the S.151 Officer confirmed that the Commissioner had timely and robust monitoring arrangements. Management Accounts were reported to the Chief Constable and the Police and Crime Commissioner on a monthly basis.

### **Reserves**

#### **Background information on Reserves**

Sections 32 and 43 of the Local Government Finance Act 1992 required billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when preparing budgets.

In establishing reserves, the Commissioner must comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Chief Finance Officer is required as part of the budget setting process to provide a statement on the adequacy of reserves.

Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on Reserves and Balances (LAAP Bulletin No 77 November 2008) and the requirements of the Code suggests twice yearly reviews of reserves. By doing this, the visibility of reserves were increased and consideration of their use was placed at the forefront of the decision-making process. Reserves were cash backed balances, held on the balance sheet until they were spent or released for other purposes. As such, they could only be spent once, and were not part of the base budget.

In addition, CIPFA along with the Home Office recommended as good practice that Police and Crime Commissioners publish an Annual Reserve Strategy Statement. Humberside had published an Annual Reserves Strategy Statement since 2019/20. The statement provided an explanation for each reserve along with its value.

It also included a narrative explaining whether the current and projected level of reserves was appropriate, and if governance arrangements for reserves were adequate and appropriate.

The Commissioner's balance sheet reserves were summarised as follows:

**General Reserves** - a contingency for unexpected events or emergencies;

**Earmarked Reserves** - to meet known or predicted liabilities.

CIPFA guidance issued in June 2003 confirmed that relevant bodies should make their own judgements on such matters, taking into account relevant local circumstances and an assessment of risk and the advice of the Chief Finance Officer.

### Reserves Strategy

The Commissioner must retain adequate reserves so that unexpected budget pressures could be met without adverse impact on the achievement of key objectives and council taxpayers. The Commissioner's policy for reserves and balances was based on a thorough understanding of the organisation's needs and risks. Part of this process was to give a clear explanation of the existing and proposed use of reserves and this was addressed in the paragraphs below.

### General Reserve

The expected General Reserve at 1 April 2021 would be increased to £6.1m equating to 3.0% of the revenue budget. This met one of the key MTRS principles to seek to maintain the General Reserve at 3% of the net revenue budget. The closing General Reserves at 31 March 2026 were estimated to be £7.3m equating to 3% of the net revenue budget.

### Earmarked Reserves

Earmarked Reserves represented funds which had been set aside by the Commissioner for specific purposes. The table below showed the overall strategy for use of reserves over the MTRS period.

MTRS Reserves Forecast	At 1 April 2021 £m	At 1 April 2022 £m	At 1 April 2023 £m	At 1 April 2024 £m	At 1 April 2025 £m	At 1 April 2026 £m
<b>Earmarked Reserves</b>						
Performance Improvement Reserve	7.7	5.9	7.2	6.4	3.4	0.5
Risk Management Reserve	1.9	1.0	0.4	0.3	0.3	0.3
Partnership Reserve	1.2	0.3	0.3	-	-	-
<b>Total Earmarked Reserves</b>	<b>10.8</b>	<b>7.1</b>	<b>7.9</b>	<b>6.7</b>	<b>3.6</b>	<b>0.8</b>
General Reserves	6.1	6.4	6.7	6.9	7.1	7.3
<b>Total Reserves</b>	<b>16.9</b>	<b>13.5</b>	<b>14.6</b>	<b>13.6</b>	<b>10.7</b>	<b>8.1</b>

The Commissioner retained three Earmarked reserves for the following purposes:

- Performance Improvement Reserve – used to support the revenue budget, to help to facilitate business change and pump-prime initiatives, including those that were spend to save;
- Risk Management Reserve – used to provide cover for potential liabilities that had been identified but had not yet crystalized and any shortfall in self-insurance provisions;
- Partnership Reserve – used to support community safety partners and to supplement monies from the Ministry of Justice for victims’ services provision.

**Adequacy of Reserves** – the S.151 Officer confirms that the current reserves held by the Commissioner are adequate. The position on reserves will be kept under continuous review and will be reviewed again, during 2021/22 as part of the Government’s Comprehensive Spending Review announcements during the late part of 2021 and early into 2022. Any material changes will be reported to the Commissioner.

### **Risk Assessment**

The MTRS contains the most up to date information at the time of drafting, but the Commissioner’s financial position is dynamic. A comprehensive financial risk assessment is undertaken for the revenue and capital budget setting process to ensure all risks and uncertainties affecting the Commissioner’s financial position are identified. The Commissioner faces a number of significant financial pressures that could affect the position over the medium term. An assessment of the likelihood and impact of each risk and the management controls in place are shown in the following table:

Risk	Likelihood	Impact	Risk Management
Pay awards and price inflation being higher than anticipated.	Possible	Medium	Budget based on best information available and set at a prudent level.
Failure to deliver planned savings.	Possible	Medium	Revenue monitoring updates to the Commissioner and Chief Constable.
Impact of COVID-19, increased expenditure and reduced income	Likely	Medium	Monitor and reclaim expenditure if possible, budget based on latest information around precept and use any measures available to reduce impact.

Impact of the introduction of the Emergency Services Network	Likely	Medium	Monitor information as it was released and try to secure sustainable funding to mitigate any increased costs.
Further reductions in funding included in the next Comprehensive Spending Review and an unfavourable review of funding formula.	Possible	High	Balance on General Reserve maintained at minimum of 3%; forward planning; regular monitoring.
Future council tax precept rises limited by excessiveness principles determined by the Government.	Likely	Medium	Balance on General Reserve maintained at minimum of 3%; forward planning.
Costs associated with the outcome of the national legal challenge to the Police Pension Scheme (2015) transition arrangements were not met centrally by the Home Office.	Possible	Medium	Balance on General Reserve maintained at minimum of 3%; close budget monitoring; annual review of budget and MTRS; existing Police Pension  Fund arrangements require the Home Office to balance the deficit on the Fund each year through a top-up grant.

**Robustness of Estimates** - the S.151 Officer confirms that the budget estimates have been compiled on a robust and prudent basis.

## DECISION

The Police and Crime Panel considered the Commissioner's proposal to increase the precept for 2021/22, by 6.56 % (from £228.22 to £243.21 for a Band D property, an increase of £14.99).

Having considered the evidence submitted by the Commissioner and Mr Wilson, Chief Finance Officer at the Office of the Police and Crime Commissioner, and their responses to questions from members, it was unanimously agreed that the Humberside Police and Crime Panel support the precept without qualification or comment.