

**POLICE AND CRIME COMMISSIONER  
FOR  
HUMBERSIDE**

**MEDIUM TERM  
RESOURCE STRATEGY**

**2016/17**

**TO**

**2020/21**

**POLICE AND CRIME COMMISSIONER FOR HUMBERSIDE  
MEDIUM TERM RESOURCE STRATEGY 2016/17 – 2020/21**

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## 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 2016/17.
- 1.2 The MTRS provides information on the resources available to support the delivery of the Police and Crime Plan and once again incorporates more 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 now includes the responsibility for commissioning victims' services.
- 1.4 The MTRS therefore continues to incorporate 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, 2016/17, 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 2015 cover only one year. Information for 2016/17 is based on this. Assumptions for 2017/18 and later years are based on the best information at this time using intelligence from Government Statements following the Comprehensive Spending Review (CSR) 2015 announcement on 25 November 2015 and the Settlement.
- 1.7 The Final Police Grant 2016/17 will be announced on 3 February 2016 and considered in Parliament on 10 February 2016.
- 1.8 The Provisional Grant Settlement was accompanied by details of the referendum limits for 2016/17. The limit for most PCCs including the PCC for Humberside is 2%, with 10 PCCs whose precepts are in the lower quartile having added flexibility of being able to increase by £5. Different rules apply in Wales.
- 1.9 Unlike in previous years there are no tax freeze grants available and indeed in statements on protecting funding for Policing, Ministers have made the assumption that all PCCs will increase their precepts by the maximum amount possible without triggering a referendum.
- 1.10 The precept proposal for 2016/17 is subject to consideration by the Police and Crime Panel (PCP) that has a power of veto. The PCP is scheduled to meet on 5 February 2016 to consider the PCC's precept proposal. At a meeting of the PCP on 21 December 2015 the Panel requested information on a number of options and these are set out in this document which have informed the PCC's decision on his preferred precept proposal..
- 1.11 The Minister of State for Policing, Fire, Criminal Justice and victims announced that the PCC for Humberside would receive £1,016,271 next year together with an indicative allocation of £75,710 for Child Sexual Abuse (CSA) services. Previous funding from the Ministry of Justice (MoJ) has been used to expand victims' services and restorative justice services. These services complement the "and Crime" agenda that focuses on victims and preventative upstream initiatives.

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 Police and Crime Plan covers the period 2013 to 2017. This outlines the PCC's long term vision and what he wants to achieve on behalf of those who receive a service from the police or who may need their services in the future. The Plan was subject to wide consultation and was considered by the PCP prior to its publication. The PCP has received and considered annual reports for each of the years to 2014/15.

2.2 In view of the fact that Policing was no longer seen as a "protected service" when Government considered its funding options and was likely therefore to be the subject of a prolonged period of austerity the Chief Constable completed a redesign of the Force, "Building the Future". This was carried out in 2014/15 and implemented in April 2015.

2.3 The PCC continues to work hard with the Chief Constable and other community safety partners and criminal justice agencies to ensure that his key outcomes are delivered.

2.4 The Police and Crime Plan is a strategic document. The following high level outcomes remain in place:

- To reduce crime
- To protect the public and improve safety
- To improve the quality of victims' services

2.5 A range of proposed objectives are set out in the Plan which also comments on enablers and the resources needed to deliver it.

2.6 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 2016/17 to 2020/21. The Strategy takes account of the latest information following the release of the Government's Provisional Police Grant Report on 17 December 2015 which only provides details of the grants for 2016/17.

3.2 After announcements in mid-2015 which suggested that the Chancellor was looking at non-protected services, including policing, to generate savings of 25% to 40% over the next four years. He surprised everyone with his CSR2015 announcement on 25 November 2015 indicating that Policing would be protected in real terms over the period of the CSR. This was followed by statements from the Home Secretary confirming that the overall funding for Policing would be protected in real terms when local income was taken into account. She indicated that central funding would be reduced by 1.3% in real terms over the next four years but that taking into account the ability to raise Council Tax this meant that it was a flat rate settlement for policing as a whole.

- 3.3 The Provisional Settlement reflected these statements and the much better than expected CSR2015 outcome for Policing. In a fundamental change, for the first time, instead of Government pressuring PCCs to freeze precepts, including with inducements of additional grant, Ministers are now building into their forecasts assumptions of maximum increases.
- 3.4 Within the Settlement for 2016/17 it has been confirmed that all PCCs will receive a reduction in grant funding of 0.6%. Ministers have indicated that no PCC will face a cash reduction in spending power if they maximise their precept increases.
- 3.5 The MTRS incorporates details three options in respect of the Council Tax/Precept for 2016/17. A freeze, a 1% increase and an increase of 1.99%, just below the referendum limit of 2%.
- 3.6 Although the CSR provided comfort in relation to the funding available for the Police Service as a whole, concerns remain 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.
- 3.7 The Minister’s statement on the Settlement indicated that in 2016/17 the Home Office will only be making reallocations of £218.4m compared with £159.6m in 2015/16 for the items below:-.

	<b>2015/16</b>	<b>2016/17</b>
	<b>£m</b>	<b>£m</b>
College of Policing	4.6	4.6
Emergency Services Mobile Communications Programme (Airwave replacement)	0	80.0
IPCC	30.0	32.0
Innovation Fund	70.0	55.0
Major Projects (including Home Police Biometrics and National Police Data Programme)	40.0	21.8
Police Special Grant	15.0	25.0
<b>TOTAL</b>	<b>158.6</b>	<b>218.4</b>

- 3.8 In addition, for next year, the Home Office has also created a Transformational Fund of £76.4m to support the development and delivery of specialist capabilities in areas such as Cybercrime and firearms as well as support for digital justice and investigations. Details of how this fund and the component elements, New Transformational Funding (£37.8m), Firearms (£34.0m) and Digital Justice (CJS)/Digital Investigations(DI) (£4.6m) will be allocated have yet to be announced.
- 3.9 The Innovation Fund has reduced and there are concerns about the amount available in 2016/17 after taking account of commitments from previous years. The PCC has made a number of applications for support from the Innovation Fund including joint bids with South Yorkshire including for support for the SPP with a Priority Based Budgeting initiative and partnership initiatives with the Border Agency and with the PCC for North Yorkshire and others in respect of an alcohol abstinence tagging project. Details of successful bids are scheduled to be announced at the end of March 2016.
- 3.10 If there are significant increases in the amounts to be funding in this way, particularly in relation to the substantial investment that is required in respect of the Emergency Services Mobile Communications Programme (ESMCP), the replacement for the Airwave system and the Transformational Fund, then this could substantially reduce the allocations to PCCs who may also have to pick up additional local costs to access the new system.
- 3.11 There is further uncertainty in relation to funding for individual PCCs for future years due to the abandonment of proposals to review the funding formula for policing in November 2015. During 2015/16 the Home Office carried out extensive work to develop revised arrangements for the formula for distributing police resources. The aim was for a revised formula to be implemented for 2016/17.

- 3.12 Following initial consultations and further discussions, the exercise was scrapped after admissions that the data being used was incorrect. At that time Ministers indicated that the formula would be reviewed again in 2016 with a view to having new arrangements in place for 2017/18. Illustrations of the potential distributional impact of the changes proposed during the consultations in 2015 showed extreme volatility in the results with substantial variations in the indicative allocations to individual PCCs. As a result of this, it is not possible at this stage, particularly and the review process has not yet commenced, to predict the likely impact. This represents a significant additional risk.
- 3.13 The development of the “and Crime” agenda remains extremely important for the PCC. In 2014/15 the PCC continued to fund most key partners at the same level as he had supported them in the previous year. In 2015/16 support provided to the Force for drug testing was reduced and further reductions are planned for future years. The PCC continued to provide support for Drug Intervention Programmes (DIPs) in each of the Unitary authority areas and he agreed to give a commit to funding in the longer term with the duration of support linked to new contract periods whilst at the same time looking to benefit from cost reductions within those contracts. Funding support for Youth Offending Teams and Positive Lifestyles delivered by Catch 22 have also continued at the same rate as in previous, years,
- 3.14 The Commissioner gave a commitment prior to the start of this financial year to maintain the amount available for support for Community Safety Partnerships (CSPs) at the same level as in previous years and to passport 50% of the amount allocated directly with the balance being available as a fund for CSPs to bid into. The aim was for bids to be directed towards cross boundary and pan-Humber projects. This has not progressed as originally envisaged. However the PCC has outlined his proposals for partnership support on 2016/17 in letters to CSP Chairs and officer leads.
- 3.15 For 2016/17 and future years the PCC has agreed to maintain budget provision at the current core level, £2.3m, as in previous years. This funding will continue to fund the above initiatives.
- 3.16 The PCC took full responsibility for the commissioning of victims’ services in 2014/15 and he was successful in securing additional funding in that year from the MoJ’s Competed Fund Competed Fund for initiatives on the north and south banks of the Humber to provide more young people’s Independent Sexual Violence Advisers (ISVAs). He has continued to support these activities in addition to funding victims’ and restorative justice services along with a referral service and core support form a combination of MoJ grant and contribution from the Partnership Reserve.
- 3.17 The provision of victims’ services now forms a vitally important part of the PCCs workload. All monies from the MoJ have been fully spent with extra support funded from the Partnership Reserve. Following representations regarding the lack of information on the grant allocation for 2016/17, the Minister of State for Policing, Fire, Criminal Justice and Victims announced that the PCC for Humberside would receive £1,016,271 next year together with an indicative allocation of £75,710 for Child Sexual Abuse (CSA) services in recognition of the extra demand in this area. This compares with an allocation for 2015/16 of £1,028,379. In his letter the Minister recognised the need to provide certainty beyond one year ahead but was unable to confirm allocations for future years.
- 3.18 The PCC has 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. Provision is available for this to continue in 2016/17 and later years.

3.19 The four unitary authorities within the Force area are the billing authorities and they have provided information on the tax base for 2016/17, 255,965 Band D properties compared with 249,060 in 2015/16. This represents an increase of 6,905 properties (2.77%). This is in excess of the amount assumed and is a welcome addition to the income base. A 1% increase in precept/Council Tax would generate c£460k based on this figure.

3.20 They have also provided details of the following estimated collection fund balances:

Collection Fund Balance 31 March 2015 £000		Estimated Collection Fund Balance 31 March 2016 £000
467	East Riding of Yorkshire Council	593
238	Hull City Council	506
35	North East Lincolnshire	68
135	North Lincolnshire	283
<b>875</b>	<b>TOTAL</b>	<b>1450</b>

3.21 It 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.

3.22 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 is reflected in the financial forecasts

3.23 The loss of contracted out status in connection with National Insurance was originally estimated to add £3.3m to the Force budget from 2016/17. This has now been calculated in detail and the revised cost is estimated to be £2.173m.

3.24 Budget forecasts continue to reflect employers' contributions in respect of police pensions at 24.2% and so forces will not benefit from the actuarial valuation which indicated that a rate of 21.3% should be applied. The Home Office will continue to make adjustments through the Pension Fund Account for this so that the benefit goes back to the HM Treasury.

3.25 The assumptions within the MTRS reflect benchmarking at local, regional and national level undertaken by both the Director of Finance and Deputy Chief Executive / Treasurer.

3.26 Three options for the budget for next year and future years are included, based on assumptions of:

- Freezing the Council Tax in 2016/17 with 2% increases in each of the following years
- A 1% increase in 2016/17 with 2% increases in future years
- A 2% increase in 2016/17 with similar increase in each further year of the financial forecast

3.27 Following discussion with the PCC and networking with colleagues in policing around the country these are seen as the most realistic options and reflect discussions at the PCP on 21 December 2015. There is the capacity to model other scenarios in fast time as and when required and sensitivity analysis has already been carried out examining alternative assumptions of grant and inflation along with different staffing projections.

3.28 In the last two years the PCC has expressed his concerns about the impact of ongoing restraint on increases in Council Tax/Precept and the degree to which he has to rely on Government funding. He

continues to believe that the Force belongs to the people and that they should contribute to ensure that policing can be based on a sound financial footing. Whilst the funding settlement for policing is much more favourable than expected, Government emphasis has now changed from seeking to constrain increases in Council tax and offering inducement in terms of grant to freeze to a situation where maximum increases in precept are being assumed in order to protect funding levels. Ministerial statements indicate that if PCCs adopt this approach then they will not suffer cash reductions.

- 3.29 In 2014/15 and 2015/16, the PCC undertook one-off consultation exercises to seek the views of the public on increasing the precept to supplement the feedback that he obtained from the public at his regular surgeries and events throughout the Force area. This work showed that in 2014/15 75% of those responding were prepared to pay 2% more for policing with 74% in favour in 2015/16.
- 3.30 A different approach was adopted for 2016/17. In 2012 the PCC commissioned a local independent research company to undertake a programme of consultation on his behalf. This has gathered information on a quarterly basis since that date. In view of the likelihood that there would be funding reductions in future years it was agreed that the public should be consulted on whether they would support an increase in precept to help to protect the future of local policing as part of this exercise. The results have indicated that 87.5% were in favour in the first quarter of 2015/16, 86.5% in quarter 2 and 81.7% in the period to December 2015, an overall result of 85.2% supporting an increase.
- 3.31 The MTRS is based on the previous version of the Strategy approved by the PCC in February 2015 and submitted to the PCP in support of his precept proposal for 2015/16 with assumptions updated as the year has progressed. These assumptions have now been amended for the information set out in the Provisional Police Grant Settlement for 2015/16 announced on 17 December 2015 and to reflect the latest assessments of this and key factors impacting on future years.
- 3.32 The overall intention remains to be to ensure that assumptions are continuously reviewed to influence and demonstrate the affordability of the financial and resource plans which support delivery of the Police and Crime Plan.
- 3.33 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.
- 3.34 Following approval, the MTRS will be reviewed regularly by the Director of Finance 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 at his submissions sessions. 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.
- 3.35 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.
- 3.36 Importantly it reflects the revised operating model for the Force following the implementation of the Building the Future proposals in April 2015.
- 3.37 The MTRS is a key component in providing the link between operational planning and financial and resource planning. It provides a framework for scrutiny to ensure that plans are robust and that resources are directed toward outcomes and objectives set out in the Police and Crime Plan.
- 3.38 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.



- 3.39 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.
- 3.40 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.
- 3.41 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.
- 3.42 It also provides the backdrop to the increasingly close collaboration with the PCC for South Yorkshire and the South Yorkshire Force with the formal development of a Strategic Partnership. This is now supported by a team led by the Assistant Chief Officer (Support) in his role as Director of the Strategic Partnership Programme. The programme will be key to delivering savings and efficiencies to assist in balancing the budgets of both PCCs next year and in the years ahead.
- 3.43 The PCC and the Force have strived to address the considerable financial challenges they faced in order to develop a planned approach to resolving budget shortfalls whilst seeking to minimise the detrimental impact on performance and service delivery of major financial and operational policy changes. It has proved to be a sound strategy in the past and it is now even more important that all parties work together to see that it is carried on and extended to working with partners who have such a crucial role in delivering the outcomes set out in the Police and Crime Plan. Despite the more favourable financial outlook this approach must continue as significant uncertainty remains beyond 2016/17.

#### **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 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 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 2016/17 to 2020/21 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 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 Director of Finance 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 2016/17 to 2020/21 has involved consideration of:

- The MTRS agreed by the PCC in 2015/16 and subsequent revisions during 2015
- The financial environment in which the Force and PCC operates
- The current financial position
- Funding
- 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 Strategic Partnership Programme with South Yorkshire
- 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 UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 2015 was weak at +0.4% (+2.9% y/y), There was a slight increase in quarter 2 to +0.5%, +0.4% in quarter 3 and +0.5% in the last quarter. On an annual basis GDP grew by 1.9%. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.1%.
- 7.2 Since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK. Bank of England Governor Mark Carney has set three criteria that need to be met before he would consider making a start on increasing Bank Rate. These criteria are patently not being met at the current time, (as he confirmed in a speech on 19 January):
- Quarter-on-quarter GDP growth is above 0.6% i.e. using up spare capacity. This condition was met in Q2 2015, but Q3 came up short and Q4 looks likely to also fall short.
  - Core inflation (stripping out most of the effect of decreases in oil prices), registers a concerted increase towards the MPC's 2% target. This measure was on a steadily decreasing trend since mid-2014 until November 2015 at 1.2%. December 2015 saw a slight increase to 1.4%.
  - Unit wage costs are on a significant increasing trend. This would imply that spare capacity for increases in employment and productivity gains are being exhausted, and that further economic growth will fuel inflationary pressures.
- 7.3 The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. Wage inflation rising significantly above CPI inflation which has been around zero since February has therefore been seen as encouraging. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% year on year. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, subsequent round of falls in fuel and commodity prices which will delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase.
- 7.4 However, with the price of oil having fallen further in January 2016, and with sanctions having been lifted on Iran, enabling it to sell oil freely into international markets, there could well be some further falls still to come in 2016. The price of other commodities exported by emerging countries could also have downside risk and several have seen their currencies already fall by 20-30%, (or more), over the last year. These developments could well lead the Bank of England to lower the pace of increases in inflation in its February 2016 Inflation Report. On the other hand, the start of the national living wage in April 2016 (and further staged increases until 2020), will raise wage inflation; however, it could also result in a decrease in employment so the overall inflationary impact may be muted.

- 7.5 Confidence is another big issue to factor into forecasting. Recent volatility in financial markets could dampen investment decision making as corporates take a more cautious view of prospects in the coming years due to international risks. This could also impact in a slowdown in increases in employment. However, consumers will be enjoying the increase in disposable incomes as a result of falling prices of fuel, food and other imports from emerging countries, so this could well feed through into an increase in consumer expenditure and demand in the UK economy. This could be seen as a silver lining and another could be that the UK will not be affected as much as some other western countries by a slowdown in demand from emerging countries, as the EU and US are our major trading partners.
- 7.6 There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge quantitative easing (QE) is already in place. There are, accordingly, arguments that rates ought to rise sooner and quicker, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would aggressively raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.
- 7.7 The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively over the last year from Q4 2015 to Q4 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008. There has also been an increase in momentum towards holding a referendum on membership of the EU in 2016, rather than in 2017, with Q3 2016 being the current front runner in terms of timing; this could impact on MPC considerations to hold off from a first increase until the uncertainty caused by it has passed.
- 7.8 The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget,
- 7.9 Commentators indicate that economic forecasting remains difficult with so many external influences weighing on the UK. This is important in connection with the PCCs ability to borrow and lend on the money markets and from the Public Works Loans Board (PWLB), the main source of local authority borrowing.
- 7.10 The trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. At some future point in time, an increase in investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.
- 7.11 The overall balance of risks to our Bank Rate forecast is probably seen as on the downside. The downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a flight to safe havens.
  - Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
  - UK economic growth and increases in inflation are weaker than we currently anticipate.
  - Weak growth or recession in the UK's main trading partners - the EU and US.
  - A resurgence of the Eurozone sovereign debt crisis.
  - Recapitalisation of European banks requiring more government financial support.
  - Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.
- 7.12 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

## **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 that the service will be protected therefore provides a welcome relief even though substantial uncertainties still remain. Savings targets have been delivered in the past and due to the forecasts of more austerity to come a cautious approach to spending has been adopted. As a result spending has been constrained and the calls on reserves, here and indeed across most of the service, have been lower than expected.
- 8.3 A challenge now for the PCC for Humberside and many his colleagues and forces is to reassess the savings plans that are already in progress prior to 25 November 2015 which will in many cases have to be unwound and to consider opportunities for investment. This reversal in fortune may well bring its own problems in terms of recruiting with issues around the numbers of potential candidates, training capacity and the churn within the system that could see movements between specials and PCSOs into police officer posts and the effects that this could have on capacity overall.
- 8.4 Budget monitoring has continued with analysis to monitor the implementation of savings plans and identify permanent and temporary fluctuations in the base budget.
- 8.5 The MTRS incorporates assumptions from the latest budget monitoring report and the estimated underspend that budget. Any adjustments will be made through reserves.

## **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 would be applied in conjunction with the outcome of the CSR2015 to the 2016/17 Police Grant Settlement.
- 9.2 In the event the funding formula review was abandoned in November 2015 and this was closely followed by the CSR2015 which surprisingly saw policing protected. The outcome of the CSR therefore was a great deal better than PCCs had been planning for over the next four years.
- 9.3 This was reflected in the Provisional Police Grant Settlement for 2016/17 which was issued as a consultation document on 17 December 2015. Consultation ended on 25 January 2016. The Final Settlement is likely to be announced on 3 February and debated and voted on in Parliament on 10 February 2016.
- 9.4 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.

- 9.5 The actual grant Settlement is once again for one year only, 2016/17. Additional information was provided on Home Office funding in future years but this was insufficient to identify amounts available for individual PCCs. It is possible that more detail may become available in the announcement on 3 February 2016. No details have been released in advance.
- 9.6 More detailed financial information on future years would significantly aid financial planning but in any event the uncertainty around the formula review makes forecasting grant income difficult. The position is also exacerbated by further concerns over the amount of funding that could be diverted to major projects requiring investment such as the ESMCP and for Transformation Fund initiatives reducing the amount available for distribution to PCCs in future years. The Government are being pressed for transparency on this issue.
- 9.7 The Chancellor's statement has created expectations within the media and communities, and it will be necessary to manage those expectations, and explain to partners and the public why there will still be savings requirements and the need to consider increases in Council Tax over the next four years. One of the challenges for 2016/17 will be reconfiguring the cuts proposals which we had already put in train prior to the CSR and Settlement announcements. Reserves will be key in smoothing the path to the new levels over the course of the next few years.
- 9.8 Ministers have indicated that provided precepts are increased by the maximum amount then the Settlement reflects a cash standstill. This means of course that budgets will have to absorb inflation and new cost pressures such as the NIC increase next year and the Apprentices levy in 2017. This is in addition to PCCs and Forces continuing to face additional demands from CSE, cybercrime, and the impact of global events on UK communities. It must also be recognised that many other local services such as Councils, Probation and Justice face bigger cuts and the effect of this is already being seen in some of these areas.
- 9.9 For 2016/17 General Grant has been cut by 0.6% for all individual PCCs as following the abandonment of the formula funding review the Home Office had to apply the same arrangements as in previous years once again.
- 9.10 On the basis of the Government's calculations using a lower Council taxbase assumption (a 0.5% increase as opposed to the real figure of a 2.77% increase) a 2% increase in precept would deliver a 0.3% increase in funding within Humberside. The corresponding figure without a Council Tax increase would show a reduction of 0.4%.
- 9.11 The Provisional Settlement confirmed that the "Legacy Grants", Localisation of Council Tax, Council Tax Compensation Grant and Council Tax Freeze Grant would continue to be received in 2016/17. This has been assumed for future years but there is a possibility that these grants could be consolidated into the main grant in future years and allocated on the basis of the revised formula. The impact of this cannot be assessed at this stage.
- 9.12 The detailed analysis of the provisional settlement compared with 2016/17 is set out below:

2015/16 £	Grant Settlement	2016/17 £
46,836,457	CLG/Home Office Funding	46,569,261
67,631,165	Police Formula Grant	67,245,339
<b>114,467,622</b>	<b>Total Formula Grant</b>	<b>113,814,600</b>
	Legacy Grants	
8,341,108	Localisation of Council Tax	8,341,108
500,390	Council Tax Compensation Grant	500,390
1,199,447	Council Tax Freeze Grant	1,199,447
<b>124,508,567</b>	<b>TOTAL</b>	<b>123,855,545</b>

The billing authorities have provided the following information in respect of their calculations of the 2016/17 tax base:



<b>Tax base 2015/16 (Band D properties)</b>	<b>Unitary Authority</b>	<b>Tax base 2016/17 (Band D properties)</b>
109,047.51	East Riding of Yorkshire Council	111,185.30
54,756.00	Kingston upon Hull City Council	56,965.00
40,153.00	North East Lincolnshire Council	41,325.60
45,103.10	North Lincolnshire Council	46,489.10
<b>249,059.61</b>	<b>TOTAL</b>	<b>255,965.00</b>

9.13 The increase in the number of Band D properties of 6,905 is far greater than anticipated and will generate additional Council Tax revenues which will offset the loss of grant. It should be noted that the increase of 2.77% is well in excess of the 0.5% used by the Government in its forecast of local income in the statements with the Grant Settlement for 2016/17.

9.14 The PCC has been informed that the estimated Collection Fund surpluses at the end of 2015/16 will be £1.450m. This is substantially more than in previous years. Any deficit 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 “and Crime” agenda**

9.15 The PCC has once again earmarked resources for partnerships in 2016/17 within the base budget and he has access to his Partnership Reserve.

9.16 In 2015/16, the Commissioner maintained the same base budget of £2.3m to support for partnership activities. Discussions have continued during the year with partners and longer term commitments to support substance misuse interventions linked to their commissioning timetable and tender profiles have been made with the PCC sharing in the benefits of service efficiencies and reduced costs. Funding support for the Youth Offending Teams has continued and as indicated above proposals for provide funding for CSPs have been shared with CSP Chairs and lead officers. YOT funding and support for youth intervention and engagement programmes will continue.

9.17 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 for which funding was secured for one year from the MoJ’s Competed Fund from within an allocation of £1.028m in 2015/16 topped up with community safety budget provision and the use of 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. These include provision for known and predicted pay awards following the announcement that public sector pay awards will be limited to 1% for a further four years. The additional costs associated with changes in National Insurance have also been included in the estimated pay budgets for 2016/17 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 provision also includes the recently announced apprenticeship levy which is anticipated to cost and extra £350k from 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 two force collaboration with South Yorkshire Police which started with Human Resources and IT/IS has continuing to gather pace with the formation of a Strategic Partnership. This followed joint investment in mobile IT supported by Home Office funding from the Innovation Fund. Other initiatives such as the introduction of a shared Enterprise Resource Planning (ERP) system in connection with back office systems and processes is driving this agenda alongside the need for the identification of savings and efficiencies whilst seeking service improvements when possible.
- 10.7 Savings are being delivered from the IS and HR collaborations and the services are maturing so the base savings are recurrent. IS are continuing to deliver increased savings through integration of the IS infrastructure and use of contracts entered into jointly with Local Government Yorkshire and Humberside.
- 10.8 The aim of the Strategic Partnership is to share operational and support services with the aim of protecting community policing. The budget for 2016/17 includes a prudent level of new savings because of the Joint Special Operations Unit going live on the 1 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.
- 10.9 Similarly to support the Strategic Partnership Programme a pilot of Priority Based Budgeting supported by the consultancy EY is to be undertaken. This is the subject of an Innovation Fund bid. It is assumed that the work will be more than covered from the savings that accrue from it. In the coming months the Programme Director will have completed the initial scoping and visioning work and it is probable that the assumptions around savings accruing from the Strategic Partnership Programme.
- 10.10 In addition to the SPP, 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.

## **Building the Future/Savings Plans**

- 10.11 The Chief Constable carried out a comprehensive review of all aspects of Force activity with the Building the Future programme. The new operating model described below was implemented in April 2015, with the Hub element which is such a key component being introduced in March 2015.
- 10.12 Budget reductions in previous years have been successfully driven by the CSR 2015 Savings Plan overseen by a Force Board and monitored by the PCC. Savings from this plan were fully delivered. It was superseded by Building the Future. The Building the Future plan was designed to make the most significant contributions to closing the budget gap in the years ahead.
- 10.13 The MTRS contains the most up to date and detailed estimates of the realistic costs and savings information on the residual savings plans and on the financial projections and staffing assumptions in respect of Building the Future.
- 10.14 However following the CSR announcement discussions have taken place taking into account the revised budget forecasts and it has been agreed that there has been an opportunity to reassess the original plans for reductions in staff numbers.

## **Resource Planning**

- 10.15 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. 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 In our proposals in the MTRS for 2015/16 to 2019/20 reported to the PCP we assumed a baseline establishment of 3,309 at 1 April 2014, made up of 1,650 police officers and 1,659 police staff (including 310 PCSOs) to be reduced 251 made up of 103 police officers and 148 police staff (including 40 PCSOs). The forecast also reflected a further loss of a further 208 posts in 2015/16 made up of 53 police officers and 155 police staff (including 14 PCSOs).
- 10.18 Following a reappraisal of the position, it is now proposed that the resource planning assumptions should be based upon maintaining the current establishment for police officers. This means that there will be 1521 police officers, an increase of 27, over and above the original projections for 2016/17. The MTRS assumes that this will continue.
- 10.19 The commitment to invest in maintaining the number of police officers at a higher level than previously budgeted for will enable neighbourhood policing to be protected and for communities to have named officers and PCSOs. It will also enable additional resources to be available in areas of increasing demand such as Cybercrime, fraud and for protecting vulnerable people.
- 10.20 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.

## 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.

Capital	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Capital Expenditure					
Estate Strategy	3,932	1,371	1,820	500	0
IT Equipment	6,157	4,054	1,888	1,456	1,012
Vehicle/ Equipment*	3,330	831	819	689	1,147
Asset Replacement Plan	400	401	381	499	0
<b>TOTAL</b>	<b>13,819</b>	<b>6,658</b>	<b>4,907</b>	<b>3,144</b>	<b>2,159</b>
Financing					
Grant*	1,050	1,050	1,050	1,050	1,050
Specific Capital Grant	28	28	54	50	0
Revenue	0	5	95	155	0
Loan	12,741	5,574	3,708	1,878	1,109
Capital Receipts**	0	0	0	0	0
<b>TOTAL</b>	<b>13,819</b>	<b>6,657</b>	<b>4,907</b>	<b>3,144</b>	<b>2,159</b>

Note:- \* Includes advancing the Proton replacement programme

\*\* Details of the capital grant for 2016/17

\*\* Funding from capital receipts will only be assumed when there is certainty about the timing and amounts involved.

11.2 The capital programme will continue to assist in the delivery of front line policing services. Asset rationalisation is continuing with a number of sites disposed of in 2015/16 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 Programme now includes provision for replacement assets previously charged to revenue following a review of arrangements for equipment replacement and the development of asset management plans in connection with issues such as firearms and other specialist equipment,

11.5 Nationally the Police Capital Grant has reduced from £120m (with £10m going to NPAS) in 2015/16 to £82m (with £16.5m going to NPAS) in 2016.17. This represents a 40% reduction. Details of the capital grant allocations to individual PCCs have not been announced. The information is likely to become available with the Final Police Grant report on 3 February 2016.

- 11.6 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.
- 11.7 The main source of funding for capital will continue to be prudential borrowing.
- 11.8 The PCC has again been actively promoting asset rationalisation, joint working and co-location of services with other public and voluntary sector partners.
- 11.9 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**

- 11.10 The PCC will, as indicated above, predominantly utilise prudential borrowing as the means of funding the capital programme.
- 11.11 The Treasury Management Strategy Statement (TMSS) approved by the PCC in March 2015 provided information on current borrowing levels and set out 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 (PWLB) so far in 2015/16, and based on current cash flow projections borrowing is unlikely to be required by 31 March 2016. The PCC and the Joint Independent Audit Committee (JIAC) members have access to information on a monthly basis on treasury management activity produced by external advisers, Capita Treasury Solutions. The JIAC reviews treasury management reports prior to consideration by the PCC.
- 11.12 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.
- 11.13 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.
- 11.14 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, Partnerships and the Road Safety 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.

12.5 The Partnership Reserve is available 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 the CCRF that remains unspent at the year end.

12.6 Access to the Partnership Reserve and monies set aside to fund the CCRF 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.

12.7 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.

12.8 A Risk Management Reserve (RMR) is retained for specified issues and a Road Safety Reserve was created in 2015/16.

12.9 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.

12.10 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

12.11 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.

12.12 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.

**12.13 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.**

12.14 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. The surprising CSR2015 announcement and Provisional Police Grant Settlement 2016/17 and the associated budget forecasts for future years have meant that there has been a significant improvement in the overall financial position. Up to 25 November 2015 it was anticipated that the reserves available would be needed in the period to 2019/20 to support business change and the revenue budget over that period.

12.15 This was based on last year's MTRS which indicated that savings of £35.6m would need to be delivered over the 5 years of the forecast with £24m required from 2016/17 onwards. The forecast savings following the change in position are considerably lower which means that the PCC is in a position to support the Chief Constable with additional investment and with the ability to protect the number of police officers at the level of the current establishment. The MTRS includes revised assumptions on staffing and the creation of a new Technology and Capability Fund as well as a Partnership Reserve top up.

### **Provisions**

12.16 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**

12.17 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. At 31 March 2015 this provision was £95k.

### **Voluntary Redundancy and Early Retirement (VER) Provision**

12.18 At 31 March 2015, £989k was held in the provision in respect of amounts expected to be paid under the VER scheme.

### **Contingency Funds**

12.19 The Chief Constable also has access to one contingency, the Force Performance Fund created by identifying in year savings. As part of the Annual Accounts closedown procedure, the Contingency Fund is cleared to zero with any surplus funding being transferred to the PIR.

## Budgeted Reserves Position for 2015/16 and future years

12.20 The reserves held are as follows:

Reserve	Estimated Balance at 1 April 2016 £'000
General Reserve	5,185
Performance Improvement Reserve	23,056
Partnership Reserve	1,000
Road Safety reserve	758
Risk Management Reserve	1,800
<b>TOTAL (£'000s)</b>	<b>31,799</b>

12.21 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 balance in the Partnership Reserve will be available to support joint working.

12.22 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.

12.23 A further reserve, the Road Safety Reserve has been created in 2015/16 to identify funding available for transport related initiatives as a result of identifying the income from traffic related training courses other than speed awareness courses. This forms part of a review of the arrangements for Safer Roads Humber which is in the process of being concluded.

### 13 Indicative Budget Forecasts 2016/17 to 2020/21

13.1 The PCC has once again received a series of presentations during the year and discussions have resulted in two alternative scenarios being identified for exemplification within the MTRS. The first option shows the impact of a Council Tax freeze in 2015/16 with 2% increases in Council Tax in future years. The second option assumes that the Council Tax is increased by 1% in 2016/17 with 2% increases thereafter and the third option represents a 2% in 2016/17 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 freeze in 2016/17 with 2% increases in later years.

Council Tax freeze in 2016/17 and 2% in future years					
	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
<b>Budget Gap</b>	<b>1,715</b>	<b>4,929</b>	<b>5,875</b>	<b>6,576</b>	<b>7,623</b>

14.3 Appendix 2, Option 2, is based on an increase in Council Tax of 1% in 2016/17 and assumes 2% increases in future years.

Council Tax increase of 2% in 2015/16, rejecting the Governments grant offer and with 2% increases in future years					
	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
<b>Budget Gap</b>	<b>1,246</b>	<b>4,429</b>	<b>5,342</b>	<b>6,005</b>	<b>7,011</b>

14.4 Appendix 3, Option 3, is based on an increase in Council Tax of 2% in 2016/17 and assumes 2% increases in future years.

Council Tax increase of 2% in 2015/16, rejecting the Governments grant offer and with 2% increases in future years					
	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
<b>Budget Gap</b>	<b>777</b>	<b>3,943</b>	<b>4,801</b>	<b>5,423</b>	<b>6,388</b>

14.5 A comparison of the above shows that in Option 1, the level of savings required to be achieved by 2020/21 is £7.623m compared with £7.011m for Option 2 and £6.388m for option 3.

14.6 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.

14.7 The development of the SPP and its ability to deliver future savings is dependent on the success if the venture. It is important that a clear vision and roadmap is agreed in the next few months to facilitate the development of a sound medium term resourcing strategy that identifies specific savings to contribute to closing the budget gap. It is anticipated that the required budget savings will be achieved by a combination of the outcomes of the SPP, Priority Based Budgeting and new local reviews.

14.8 The outline plans to achieve the required savings involve investment in transformational technology and increased collaboration. This is complex and the Force has faced will continue to address the challenge

whilst balancing operational need and performance means. This means that it is probably inevitable some rephrasing will occur and in these circumstances there will be the potential for there to be calls on reserves to smooth out implementations plans. In the short term the budget gap can be covered by the use of reserves

- 14.9 It will be essential that implementation plans and workforce plans are actively monitored as in the unlikely event that the savings do not materialise the decision to maintain police officer numbers may need to be revisited.

### **Savings/Investment**

- 14.10 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.
- 14.11 The Force has consistently responded to 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.
- 14.12 Savings targets have been achieved to date and the Chief Constable redesign of the Force operating model has been implemented.
- 14.13 The MTRS has been updated and indicates that further savings between £6.4m and £7.6m on top of those already made will be required over the period to 2020/21.
- 14.14 Criminals are getting ahead of the game and it is essential that funding is available for investment in new technology, equipment and training so that the Force can increase the capability of its officers to redress this position. Consequently the PCC proposes to create Technology and Capability Fund by setting aside £5m within the Performance Improvement Reserve in 2016/17 for this purpose. The position for future years will be dependent on the demand and impact next year. The Fund will also provide budget cover for the PCC's contribution to the costs of any successful Innovation Fund bids and indeed allow projects to proceed if the bids are unsuccessful.
- 14.15 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 as that inherited on his election. This position will remain although the mechanisms will change for how this amount will be allocated to individual partners in order to achieve the maximum benefit from this investment.
- 14.9 As indicated above, discussions are taking place with key partners on how to establish arrangements to establish a basis for allocating funding for 2015/16 and if possible for a longer term. The PCC recognises the difficulties that uncertainty causes in terms of planning and the concerns of staff whose jobs rely on this funding. It is important however 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 85.2% of respondents 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 (no Change) £	Option 2 £	Increase £	Option 3 £	Increase £
A	120.05	121.25	1.20	122.45	2.40
B	140.06	141.46	1.40	142.85	2.79
C	160.07	161.67	1.60	163.26	3.19
<b>D</b>	<b>180.08</b>	<b>181.88</b>	<b>1.80</b>	<b>183.67</b>	<b>3.59</b>
E	220.10	222.30	2.20	224.49	4.39
F	260.12	262.72	2.60	265.30	5.18
G	300.13	303.13	3.00	306.12	5.99
H	360.16	363.76	3.60	367.34	7.18

#### 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.

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 2016/17. The use of reserves needs to take account of the impact on performance and service implications for the public.

14.17 The PIR has been used to support the delivery of savings plans. The existing savings plans, together with budget reductions already identified within the SPP savings have been factored into the MTRS. The budget gaps referred to above are after taking account of these reductions which are estimated at £6.442m. It is assumed that further saving identified by the SPP and PBB together with other local reviews will close and meet this gap in the medium term. Where savings are not delivered there will be additional calls on the PIR

14.18 In view of the more favourable financial position, it has now been assumed that elements of the PIR can be further earmarked to support additional investment in key areas. The MTRS assumes that £5m will be made available in a Technology and Capability Fund. In addition, it is proposed that the Partnership Reserve should be topped up to a £1m to support and encourage partnership working in order to assist in delivering the outcomes set out in the Police and Crime Plan.

14.19 The newly created Road Safety Reserve is discussed above.

14.20 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**

14.21 The outcomes and supporting objectives set out in the Police and Crime Plan. These are detailed below:-

OUTCOMES		
Reduce Crime	Protect the Public and Improve Safety	Improve the Quality of Victims Services
SUPPORTING OBJECTIVES		
<ul style="list-style-type: none"> <li>• Reduce Violent Crime</li> <li>• Target Resources at Drugs, Alcohol and Mental Health</li> <li>• Target Offenders and Places (such as crime and ASB hotspots)</li> <li>• Increase Visibility, Availability and Accessibility of Police and other services</li> </ul>	<ul style="list-style-type: none"> <li>• Manage Dangerous Offenders</li> <li>• Meet Obligations to National Threats</li> <li>• Protect, Children, Youth and Vulnerable Adults</li> <li>• Empower and Enable Local Communities to work together with the police &amp; other agencies to solve problems locally</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce Repeat Victimisation</li> <li>• Support Victim Recovery</li> <li>• Expand Restorative Justice and Community Payback so that offenders are seen to pay for their crimes in local communities</li> <li>• Ensure a Prompt and Effective response from the police and other services to calls for service.</li> </ul>

14.22 The Chief Constable has implemented the redesign of the Force with the aim of maximising the resources available to deliver the outcomes and objectives set out in the Police and Crime Plan.

14.23 The Police and Crime Plan has been reviewed but it has not been considered necessary to change it significantly and so the above outcomes and supporting objectives remain in place.

**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 has continued to maintain relationships with the Local Strategic Partnerships (LSPs) and Community Safety Partnerships (CSPs) and local authorities.

14.27 The PCC will continue to seek to maximise the benefits of Regional and Sub-Regional working, particularly in connection with the SPP.

## **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 the CSR2015 which saw funding for policing overall police being protected. Given that in the summer of 2015 the Service was being asked to consider savings of between 25% and 40% this was far better than envisaged. However there are still substantial risks associated with the funding for individual PCCs in 2017/18 and later years as a result of the delay in implementing the formula review and the potential for resources to be diverted towards major national programmes through “top slicing/reallocations”
- 15.2 In the budget for 2015/16 there were risks associated with the implementation of the operating model. This has now been in operation for almost 10 months and the budget for 2016/17 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 this year 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. The work with South Yorkshire has seen the arrangements formalised with the development of the Strategic Partnership and the SPP. The MTRS will need to continue to be revised as the year progresses to reflect the financial implications of this activity.
- 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 particularly in view of the better than anticipated CSR2015 for policing overall.

## **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. As previously stated, 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 from 2016/17. Although representations have been made that this should come back to Forces, and PCCs this will not happen.
- 15.10 No provision has been made at this stage for changes to the employers' superannuation contributions in relation to the Local Government Pension Scheme triennial review at March 2016 which became 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
  - Aligning assumptions with those being used in the budget forecasts in South Yorkshire where appropriate
  - Incorporating details of increased 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 in FBM and within existing budgets
  - 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 grant of 0.6% when compared with the current financial year.
- 15.18 There is uncertainty beyond 2016/17 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 be undertaken in 2016 and implemented in 2017/18 but no details are available.
- 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, 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 a key action to support the SPP. Work at a Regional level is continuing
  - 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 Director of Finance 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 following conclusions can reasonably be drawn:-

- The PCC and the Force remain in a stable position with financial management processes remain fundamentally sound.
- The MTRS remains a key tool for the PCC in planning budgets within a medium term financial context.
- The financial position has significantly improved by the decision to protect policing in the CSR2015 in November 2015 prior to which the Police Service had been asked to look for further savings of between 25% to 40% on top of the budget reductions that have already been made since 2010. The protection is for the service overall and assumes increases in local income. The amounts available for PCCs will be affected by changes to the top slicing for key initiatives.
- Reference has been made to the assumptions made by the Office of Budget Responsibility in relation assumptions in the underlying economic analysis supporting the CSR2015, assumptions that are already coming under pressure in the months since the announcement. If the assumptions prove to be overoptimistic and have to be revised then this could have an adverse effect on allocations in future years.
- The position has also improved as a result of higher than anticipated increases in the Council Tax base that has seen an increase of 6,905 Band D properties (2.77%) together with higher estimated Collection Fund surpluses than seen in previous years.
- In the Provisional Police Grant Report 2016/17 the Government has announced that all PCCs will receive a reduction of 0.6% in general Government Grant funding next year when compared with 2015/16.
- Referendum principles have been announced with the PCC for Humberside limited to a maximum increase of 2% (the flexibility for PCCs whose precepts are in the lower quartile to raise by £5 does not apply in Humberside).
- In a substantial change in approach Government Ministers have moved away from encouraging PCCs to limit increases or freeze Council Tax/Precept, including with the offer of freeze grants, to building in assumptions that the Council Tax/Precepts will be increased by the maximum amount possible without triggering a referendum.
- Ministers have indicated that there will be no real term reductions in spending power if PCCs recommend the maximum increase in precept.
- The Home Secretary has made it clear that she sees the need to continue to make savings and efficiencies to enable reinvestment and reform to continue.
- The Home Office brought forward proposals to change the funding formula for distributing police resources in 2015 but the process was abandoned in November 2015 when it was identified that on correct data had been used. Exemplifications provided suggested substantial variations between the allocations under the current formula arrangements and that proposed. Following

the abandonment, Ministers indicated that the process would now be revisited in 2016 with the aim of implementing it in 2017/18. To date there is little information on how the review of the formula will be undertaken and how any resulting revisions, including transitional arrangements will apply. There is therefore no information on which to base assumptions of the impact in 2017/18 and later years.

- In addition to this uncertainty there is no information on the approach that will be taken on legacy grants in terms of whether they will continue to be allocated on the same basis as previously or incorporated into the amount to be distributed via the new formula.
- The amount available within the Settlement for PCCs are affected by “top-slicing” or “reallocations” made by the Home Office to cover major initiatives. In addition to the amounts committed previously to the Innovation Fund and other initiatives, the amounts include ongoing provision for Counter Terrorism, increased provision for the ESMCP and a new Transformation Fund to support Counter Terrorism increased capability in areas such as firearms, Cybercrime, cross border working and digital Criminal Justice systems. It is known that the ESMCP requires substantial investment in future years and the areas identified can only grow. There is no information at this stage on the amounts that are likely to be top sliced in future years.
- For 2016/17 and later years the PCC has the challenge of balancing the need to provide support for the “and Crime” agenda, including the increasing commitments in respect of victims’ services, at the same time as the Force and all partners are facing extreme budget pressures.
- Following a reappraisal of the position, it is now proposed that the resource planning assumptions should be based upon maintaining the current establishment for police officers. This means that there will be 1521 police officers, an increase of 27, over and above the original projections for 2016/17. The MTRS assumes that this will continue.
- Humberside like many PCCs have built up substantial reserves with plans to use them to support business change and revenue budgets through what was envisaged to be a long period of austerity as they and Forces continued to implement plans for making substantial savings. This position has changed significantly with the unexpected CSR2015 announcement.
- In view of the more favourable financial position, it has now been assumed that elements of the PIR can be further earmarked to support additional investment in key areas. The MTRS assumes that £5m will be made available in a Technology and Capability Fund. In addition, it is proposed that the Partnership Reserve should be topped up to a £1m to support and encourage partnership working in order to assist in delivering the outcomes set out in the Police and Crime Plan.
- The Government’s failed proposals for changes to the formula review in 2015 suggested that consideration would be given to the level of reserves held by PCCs when allocations were being considered. This was widely criticised particularly as surveys suggested that the level of reserves would reduce over the next 4 years by over 66% based on their planned use. No information is available as to whether reserves will be incorporated into the new review.
- The Force new operating model developed in response to the likelihood of continuing budget constraints was implemented in April 2015.
- Throughout the year the PCC has incorporated questions into his regular public consultation exercises to see if the public were prepared to pay 2% more for policing. This shows that XX% of those responding would be prepared to pay the extra amount.
- There are options available for setting the budget and precept for 2016/17 and three have been presented within the MTRS, a freeze. A 1% increase and an increase of 1.99%.
- The PCC’s preferred proposal is to for an increase in precept of 1.99%.