

HUMBER POLICE AND CRIME PANEL

POLICE PRECEPT FOR 2014/15 AND MEDIUM TERM FINANCIAL STRATEGY 2014/15-2018/19

DATE	4 February 2014
REPORT OF	Chief Executive of the Office of the Police and Crime Commissioner for Humberside
SUBJECT	Police Precept Proposals for 2014/15
STATUS	Open

EXECUTIVE SUMMARY

The purpose of this report is to set out details of options for the precept for 2014/15 being considered by the Police and Crime Commissioner for Humberside (the Commissioner) for consultation with the Police and Crime Panel (the Panel). The report is supported by the Commissioner's Medium Term Financial Strategy (MTFS) document covering the period 2014/15 to 2018/19. This provides detailed information on the revenue and capital budget assumptions used in formulating the Strategy and sets out details of the options being considered by the Commissioner when making the decision on his precept proposal.

RECOMMENDATION(S)

It is recommended that the Police and Crime Panel:-

- (a) Note the timescales and arrangements for considering the precept proposal
- (b) Note the issues considered in the Police and Crime Commissioner's Medium Term Financial Strategy 2014/15 to 2018/19 and
- (c) Discuss the options being considered by the Commissioner;
- (d) Endorse the Commissioner's preferred option of increasing the precept for 2014/15, by 1.99% (from £173.12 to £176.57 for a Band D property), the increase that he consulted upon and that appears to have significant public support, provided this does not breach the limit for a referendum and
- (e) Note that if the preferred option does exceed the limit, he would propose that the precept is increased by 0.01% less than the maximum amount permissible that would not require a referendum (e.g. £175.70 for a Band D property if the limit set by DCLG is 1.5%).

1. BACKGROUND

- 1.1. This is the second year that the Panel considered the proposed precept recommended by the Commissioner.
- 1.2. There has been no change to the statutory timetable for the development of the precept proposals by Police and Crime Commissioners and for scrutiny by Police and Crime Panels. This remains as detailed in the Police and Crime Panel (Precepts and Chief Constable Appointments) Regulations 2012 (SI No.2271).
- 1.3. The timetable for consideration of the precept, including the Panel's power of veto is as follows:-
 - By 1 February: The Commissioner is required to notify the Panel of his proposed precept
 - By 8 February: The Panel is required to review the proposed precept and make a report to the Commissioner. The Panel can propose that the precept be issued, make recommendations regarding the precept level, or veto with a two thirds majority. If the Panel does not veto the proposed precept the Commissioner must have regard to the report and recommendations of the Panel and give the Panel a response to them
 - By 15 February: If the Panel vetoes the original precept the Commissioner must notify the Panel of the revised precept
 - By 22 February: The Panel must review the revised precept and make a second report to the Commissioner accepting or rejecting the revision and make recommendations
 - By 1 March: The Commissioner must give the Panel a response to its second report and issue the precept. If the second proposal is rejected by the Panel this does not prevent the Commissioner from issuing the revised precept as the precept for the financial year
- 1.4. If the Panel decides that a second report is necessary then arrangements will have to be made for additional meetings of the Panel to consider revised proposals. This will need to have regard to the arrangements within the four unitary authorities within the Humberside Force area for the approval of their respective budgets and Council Tax proposals for 2014/15 and the logistics of billing. It should be noted that the dates set out in the regulations take precedence over any local arrangements.

2. POLICE AND CRIME PLAN AND THE MTFS

- 2.1. The decision on the precept needs to be made in the context of a medium term financial plan as it impacts on future years. This is in line with good practice and has been the established practice locally for many years as Panel Members who were formerly Humberside Police Authority Members can attest to. The precept proposal and budget considerations set out in this report are made after having regard to a five year financial forecast set out within the MTFS. These forecasts are based on stated assumptions and on the best information at this time. The MTFS recognises that there is continued uncertainty beyond 2014/15 given that the Police Grant Settlement from

Government covers only the next financial year. As with all Government departments the Home Office has to contribute to restoring a balance in public expenditure as the age of austerity continues. Given indications of reductions in Departmental Expenditure Limits announced by the Chancellor, we know that there will be reductions in Government support in future years. However, the Home Secretary has indicated that she will not give details of the Police Grant in 2015/16 until a full review of all elements of her Departmental budget has been completed. Any announcement is unlikely to be made before the summer of 2014.

- 2.2. The MTFS identifies the resources that will underpin the delivery of the Police and Crime Plan 2013-2017. Panel Members have considered the annual report for 2012/13. An update report on 2013/14 was considered at the last meeting of the Panel in December 2013 together with a briefing on the scale of the emerging financial challenge based on the information available at that time.
- 2.3. In addition, work is continuing on a fundamental review of the Police Funding Formula. Preparatory work has commenced and the new arrangements could be introduced from 2016/17. This adds to the uncertainty in the later years of the MTFS. Based on past experience of formula changes it is unlikely that these will result in material changes in funding within the period of the MTFS as some form of damping is likely to have to be applied and remain in place in some form for a considerable period if there is a considerable shift in resources.
- 2.4. Service and financial planning continue to be linked to the three public facing long term 'outcomes' set out in the Police and Crime Plan:
 - Reduce crime
 - Protect the public and improve safety
 - Improve the quality of victims' services.
- 2.5. These outcomes have been retained and provide the long term perspective and consistent view of what the Commissioner is seeking to achieve for the public. They continue to be underpinned by shorter term objectives. These provide the immediate focus for the police and partners. The Plan will be reviewed in mid-2014 as part of the preparation of the annual report for 2013/14 which will be presented to the Panel later this year.
- 2.6. The issues being considered in relation to this year's precept proposals are set out in this report. This takes into account discussions with the Chief Constable and key stakeholders.
- 2.7. In late 2013 the Commissioner undertook a large scale public consultation exercise. In addition, information was gathered at his regular surgeries and events throughout the Force area. Work on the consultation exercise was commissioned by the Commissioner utilising SMSR Ltd., an independent research company. It gathered residents' views on how policing can be transformed to meet the challenge of increasing spending pressures and

reduced levels of financial support from the Government. A key question for the public was whether they would support an increase in the precept of 2% (equivalent to around 6 pence per week for a Band D property) to help to maintain the numbers of police officers and PCSOs and to enable the Force to invest in more technology so more of officers' time could be spent on the beat.

- 2.8. 1,277 residents were consulted as part of this exercise. The consultees were spread across the four unitary authorities within the Force area. This included a mix of members of the general public and former members of the Commissioner's citizens' panel. Respondents were informed that if the level of precept which they paid towards policing were to increase, the reductions in police officers and PCSOs would be minimised and police services could be modernised.
- 2.9. 75% of respondents said that they would be willing to pay an extra amount. Almost a fifth, 18%, said they would not, with 7% undecided. Support for an increase was stronger for Hull respondents at 80% with the lowest level, 73%, being registered by residents of North East Lincolnshire.
- 2.10. The face-to-face discussions during street surgeries and public events have allowed the Commissioner to have a more balanced dialogue on police funding with a large number of local people. Generally they were in favour of paying more to protect services.

3. 2013/14 PRECEPT

- 3.1. For 2013/14 the Commissioner recommended a Council Tax freeze and accepted the grant offered by the Government to those authorities that did not increase in the year. The precept proposal was considered by the Panel at its meeting on 6 February 2013 (minute PCP.22 refers).
- 3.2. The Band D precept for 2013/14 was £173.12. This compares with the England and Wales average of £169 and is around the median level.

4. PROVISIONAL POLICE GRANT SETTLEMENT

- 4.1. The Provisional Police Grant Settlement for 2014/15 was announced on 18 December 2013. This set out details of the funding that will be made available to the Commissioner in 2014/15. The Settlement is a consultation document. The consultation ended on 23 January 2014. Officers of the Office of the Police and Crime Commissioner (OPCC) and the Force have contributed to a combined response to the consultation from the Police and Crime Commissioners' Treasurers' Society (PaCCTs). Based on the experience of previous years, the final figures are unlikely to change significantly. 5 February 2014 is believed to be the date when information will be confirmed.
- 4.2. Particular reference was made in the response to the very serious concerns that the Government has not announced the principles to be applied in respect of increases in Council Tax/Precept in 2014/15 that would require a referendum. This timing is clearly unfortunate and at odds with the timetable

for the presentation by Police and Crime Commissioners of precept proposals to Police and Crime Panels.

- 4.3. It is once again unfortunate that the Settlement was received very late with the Home Office having to consider detailed allocations after the Autumn Statement. It only provides information on 2014/15. No information is available on grants for 2015/16 or beyond and there is no intelligence on which assumptions built into the MTFs can be quality assured but they represent the best estimates based on professional judgement. This lack of certainty is concerning and adds to the difficulty in producing accurate financial projections. Nevertheless there have been strong and consistent signals from the Chancellor of the Exchequer since the Autumn Statement that the austerity measures for spending departments and public services are set to continue across all of the financial years described by the current MTFs.
- 4.4. There have been no changes to the damping mechanism. This is designed to protect those who would lose substantial amounts of grant if the existing funding were to be applied without intervention. The Home Secretary has protected policing generally from an additional reduction resulting in a 3.3% cut in 2014/15. This has been welcomed. However, the amount of top slicing in 2014/15 has significantly increased. This is due in the main to funding being directed towards a number of national initiatives. This includes the transfer of resources to the Independent Police Complaints Commission (IPCC) and investment in Her Majesty's Inspector of Constabulary (HMIC) together with the creation of an Innovation Fund of £50m.
- 4.5. The combination of these decisions and damping has left all Police and Crime Commissioners facing a cash reduction in grants of 4.8% when compared with 2013/14. For as long as Central Government decides to dampen the effects of the formula by having a regime of floors and ceilings that is self financing, it is very unlikely that positive changes in Government grants will be forthcoming and certainly none can be built into the MTFs.
- 4.6. As indicated above, the Home Office has been in discussions on the proposed review of the funding formula for policing for some time. It had been suggested that this could be introduced in 2015/16 but this is no longer a possibility.
- 4.7. For 2014/15, as indicated in 2013, the Community Safety Fund grant has been subsumed into the Police Main Grant. In 2013/14 this grant to the Commissioner for Humberside was £2.316m. It followed the cessation of a range of Home Office grants.
- 4.8. Despite a 27% cut in the amount available nationally (£90m in 2013/14 compared with £123m in 2012/13) the Commissioner agreed to support the organisations that previously received monies direct from Government at the same level as the funding received in 2012/13 to protect services. This involved the use of £276k of monies from his Partnership Reserve. The Commissioner has indicated that he is prepared to continue to invest this and more in 2014/15 in this the 'and Crime' agenda. The aim would be to support his stated intention of getting upstream of crime. However, he believes that the

passporting arrangements applied in the current year need to change. Discussions are currently under way with partners on how to get the best outcomes from these resources and to demonstrate value for money for the public.

- 4.9. The Commissioner will continue to receive a significant specific grant, paid direct by the Home Office from 2014/15 in compensation for loss of Council Tax as a result of reductions in the tax base following changes to the way in which Council Tax Benefits are administered by local councils.
- 4.10. In 2013/14, the Commissioner benefited from a share in a transitional grant as a result of schemes in Hull, North East Lincolnshire and North Lincolnshire meeting criteria set by the Government for their Local Council Tax Benefit arrangements. (The East Riding of Yorkshire Council scheme is not eligible for the grant.) The transitional grant is no longer available.
- 4.11. The precept proposals detailed in the MTFs set out a balanced position by 2018/19. As last year, they assume a significant degree of support from monies held in the Performance Improvement Reserve (PIR). The intention is for this to be used in a way that makes annual savings targets achievable. Further savings in addition to those already planned will be required.
- 4.12. Residual PIR balances will be available to underwrite the position if the proposed savings targets cannot be met and/or further reductions in Government funding that are not currently contemplated in the MTFs have to be addressed.
- 4.13. The existing arrangements for tracking the identification and delivery of savings by the Chief Constable that involve the implementation of a CSR Savings Plan use the Integrated Business Management (IBM) process.
- 4.14. This will continue but the process has been simplified and re-designated as the Force Business Management process (FBM).
- 4.15. The MTFs have been and will be kept under review so that the assumptions contained within them are continually tested and brought up to date. The financial plans have to remain flexible to respond quickly to changes that adversely affect the funding gap.
- 4.16. The FBM identifies issues to be considered over a 4 to 48 months. It is used to highlight key decisions that are then included in the Commissioner's Forward Plan. This is available on his website and is available to the Panel. It can be used to help to develop the Panel's future work programme.
- 4.17. Although the Commissioner has lost resources as a result of the creation of the Innovation Fund, he has submitted a joint bid with the South Yorkshire Commissioner, Shaun Wright, for funding from this source to support a new approach to mobile information, performance management and visibility. The bid is for part of a "Precursor Fund" totalling £20m in 2013/14. The Commissioners were informed in mid-January 2014 that £1m of non recurrent

funding has been approved in respect of the joint bid, subject to it being spent in this financial year.

- 4.18. Further bids for resources from the main Innovation Fund of £50m a year that will be available from 2014/15 are being prepared. Details of how to access these funds have yet to be released.
- 4.19. In 2013/14, the Commissioner reviewed the budget for the OPCC. As a result, he identified savings of £185k against the original estimate for the total cost of £1.4m for the year. The original budget was based on the costs of the Police Authority. In 2012/13 he carried forward an underspend into 2013/14 of £224k with a view to this providing additional resources for the Community Safety Fund/Crime Reduction Grant Scheme referred to in his manifesto. The resources identified will enable him to create a multi-year scheme which will provide funding for both revenue and capital projects. This will be called the Commissioner's Crime Reduction Fund (CCR Fund).
- 4.20. The monies identified will be supplemented with funds generated by the sale of Pacific Exchange if and when the building is sold. As this will be a capital receipt it will only be available for capital projects.
- 4.21. The scheme will also include monies generated via the sale of lost and seized property under the Police Property Act which will be available to charitable organisations. These monies will be capable of being used on revenue or capital initiatives.
- 4.22. The Commissioner is continuing to look at ways of reducing the cost of his office. This includes relocation from Pacific Exchange following the sale, staffing reductions and reducing the cost of the Chief Executive. In addition, his proposals, agreed in principle by the Home Secretary, in relation to the second stage of the transfer to the Office of the Police and Crime Commissioner include the setting up of a shared services arrangement with the Force to avoid duplication of functions and offer opportunities for more efficiencies and savings.
- 4.23. Police and Crime Commissioners will be responsible for commissioning Victims' Services from 1 October 2014. Ministers recently announced details of allocations available for Victim Support Services and Restorative Justice. These allocations are for 2013/14, 2014/15 and 2015/16. Monies in 2013/14 are not ring-fenced but are intended for capability and capacity building and Restorative Justice. The allocations for future years include details of the amounts that will be top-sliced for referral services. For the purposes of the budget forecasts, it has been assumed that expenditure incurred will be equal to income received.

5. COUNCIL TAX INCOME

- 5.1. In 2013 the Government announced another incentive scheme with an offer of additional grants in return for freezing Council Tax/Precepts. This followed earlier schemes in the years 2011 and 2012. The former Humberside Police

Authority along with all other police, fire and local authorities agreed to freeze the Council Tax in 2011/12. The Commissioner agreed not to increase the precept in 2013/14. The grants available to support these decisions have been built into grants for 2014/15 and 2015/16.

- 5.2. If a Police and Crime Commissioner agrees to freeze in 2014/15 and 2015/16 he or she will receive a grant of the equivalent of a 1% increase in Council Tax. This will be paid for two years for a freeze in 2014/15 and in 2015/16 for not increasing the precept in that year. Clearly, any decision to freeze and take non-recurrent funding has a long term impact in that it reduces the permanent income base.
- 5.3. This year the Government has yet to announce the referendum limits that will apply for 2014/15. The Chancellor of the Exchequer had previously suggested a general limit of 2%, but this has yet to be confirmed. The Commissioner consulted on a 1.99% increase on the basis of this information.
- 5.4. If a decision is made to increase the precept by any amount more than the prescribed limit, however small, this will trigger a referendum. The referendum would have to take place in May, after the bills have been issued.
- 5.5. In 2013/14 Police and Crime Commissioners, fire authorities and district councils whose current Council Tax levels were in the lower quartile in their class had some flexibility in that they were able to increase their Council Tax/Precept by up to £5, even where this was in excess of the general limit of 2%. Some Commissioners who benefitted have consulted on the basis that this flexibility would be available again next year.
- 5.6. In the event of a referendum there would be considerable uncertainty and the potential for rebilling if the vote was lost. The Commissioner would have to meet all of the costs associated with the referendum and any rebilling exercise which would be in excess of £1m.
- 5.7. As indicated above there is widespread concern about the absence of any announcement of the referendum principles. This places Police and Crime Commissioners in an extremely difficult position given the deadlines that they have to work to when finalising their precept proposals. Many have already consulted in good faith on levels of increase which may now result in a referendum if implemented. This Panel meeting has had to be rescheduled and at the time of writing this report no announcement has yet been made. Consequently, it is necessary to provide the Panel with details of the models of the potential options as opposed to making a definitive proposal.

6. COUNCIL TAX/BUDGET OPTIONS

- 6.1. Budget forecasts based on the assumptions set out below are detailed in the Appendices attached to the MTFS. The budget for expenditure includes an assumption that the support for partners previously supported by the Community Safety Fund Grant of £2.316m and funding from the Partnership

Reserve in 2013/14 will remain at the same level in 2014/15 despite the 4.8% reduction in Police Main Grant.

- 6.2. Having identified the savings requirement when formulating the MTFs for 2013/14 - 2017/18, and recognising that further substantial reductions in spending would be required in future years, the Commissioner asked the Chief Constable to redesign the Force so that it was sustainable and capable of providing the best possible policing service to local communities with the projected level of resources available.
- 6.3. As a result of the additional savings requirement arising from a reassessment following the December 2013 Grant Settlement and with the prospect of the age of austerity continuing for longer than originally intended, this has proved timely.
- 6.4. Currently, the Chief Constable is at the planning stage in developing the new operating model. Work to integrate the proposed changes around the Force will be widely consulted upon with the changes implemented on a phased basis by 1 April 2015. In doing this, the Commissioner and the Chief Constable are very keen to ensure that the public and partners are involved.
- 6.5. The Commissioner has modelled a number of different options in developing his precept proposals. These identify the gap between estimated spending and income from grants, Council Tax and income from charges, taking account of CSR2015 savings already identified. The models assume that reserves will be used to meet the budget gap in each of the financial years after taking account of savings. The detailed financial modelling includes funding to enable necessary business change which will deliver the required savings. Accumulated reserves are not simply deployed to spread the savings requirement.
- 6.6. It is good practice for the Commissioner, through the MTFs, to provide financial flexibility to make difficult business changes in a measured and proportionate way. However this should not be taken as an indication that difficult decisions to deliver the challenging but necessary business changes will be deferred.
- 6.7. Option 1 is based upon a Council Tax freeze in 2014/15, allowing the Commissioner to receive the Council Tax Freeze Grant. 2% precept increases are modelled for later years.
- 6.8. Option 2 is based on an increase in Council Tax of 2% in 2014/15 and assumes 2% increases in future years. This reflects the proposal for 2014/15 used in the public consultation.
- 6.9. Option 3 is based on an assumption of a referendum limit of 1.5% in 2014/15. On the basis that any reduction in referendum limit is extremely unlikely to be reversed in future, this option also models 1.5% increases in future years. This has been added as a result of suggestions in recent days by DCLG Ministers

that this could be the specified level for all billing and precepting authorities in the referendum principles for 2014/15.

- 6.10. A comparison of the above shows that in Option 1, the level of savings required to be achieved by 2018/19 is £32.3m compared with £31.3m for Option 2 and £32.5m in Option 3.

7. RESERVES

- 7.1. The Commissioner has indicated that he will continue to operate with a General Reserve and three earmarked reserves, the Performance Improvement Reserve (PIR), Risk Management Reserve and Partnership Reserve. He has also agreed to reaffirm the policy of maintaining the General Reserve at 3% of the Net Revenue Budget.
- 7.2. All of the Options assume use of the PIR to support the revenue budget in working towards a balanced position at the end of the MTFS period.
- 7.3. Option 1 would leave a balance in the PIR of £4.9m with £7.1m for Option 2 and £5.4m for Option 3. This is judged to give us limited flexibility in order to deal with further reductions in grant funding and/or reductions in referendum limits. Recent intelligence suggests that there will be further downward pressure placed on public spending by the next Government as part of a strategy to bring UK public finances into surplus.
- 7.4. The Commissioner intends to continue to utilise the unspent balance in the Partnership Reserve to support partnership working. It is not currently anticipated that additional savings from spending on policing services will be required.

8. RISK MANAGEMENT

- 8.1. The Commissioner has to set a balanced budget in order to be able to raise the funding necessary to finance policing and crime and community safety initiatives.
- 8.2. The level of precept is a matter for the Commissioner and is subject to consideration, comment and possible veto by the Panel. The MTFS and this report illustrates the implications of the three options that have been considered by the Commissioner and presented in this report.
- 8.3. The Force has already delivered substantial business change through the Choices and CSR 2015 Savings Programmes. The levels of budget reductions achieved to date have met the targets set in each year and so the calls on reserves to support the revenue budget have been limited.
- 8.4. As a result the Commissioner continues to have access to reserves and can maintain the established practice of implementing savings initiatives in a planned and orderly manner whilst seeking to sustain performance.

- 8.5. In the event that spending pressures increase beyond those anticipated within the MTFs the Commissioner recognises that there may be further calls on reserves beyond those already proposed.
- 8.6. The MTFs models levels of savings and reserve balances for each of the options. The lack of information on the level of increase in precept that would trigger a referendum is a significant risk. However this risk has been recognised and mitigated in the recommendations presented to the Panel in this report.

9. CAPITAL PROGRAMME/FUNDING

- 9.1. The following table outlines the estimated costs of the current programme over the next five financial years.
- 9.2. Work has continued with local authority and other partners to identify opportunities for joint working and asset rationalisation in order to reduce costs and to generate capital receipts. For estate related capital spending, the estimated spending on the Melton project (which is the only remaining major capital scheme) is included in the Estates Strategy budget heading. Going forward, there is no provision built into the capital programme for additional estates related projects. The assumption is that any new schemes will be funded from capital receipts generated through rationalisation of the existing estate.

Capital	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Capital Expenditure					
Estate Strategy	7,330	5,266	1,944	626	0
IT Equipment	3,725	3,150	1,776	1,590	1,542
Vehicle/ Equipment	930	870	863	622	901
TOTAL	11,985	9,286	4,583	2,838	2,443
Financing					
Grant	1,700	1,700	1,700	1,700	1,700
Loan	10,285	7,586	2,883	1,138	743
Capital Receipts*					
TOTAL	11,985	9,286	4,583	2,838	2,443

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

10. COLLABORATION

- 10.1. The MTFs incorporates the latest assumptions of spending in connection with collaboration across Yorkshire and the Humber, including the effect of changing to a lead force delivery model in September 2013. The budget

projections also incorporate financial assumptions in connection with joint working with South Yorkshire OPCC and South Yorkshire Police. This currently involves IT and Human Resources.

- 10.2. Provision has also been made for costs associated with national products and services such as those now provided by the College of Policing that were previously provided by the National Police Improvement Agency. Whilst the Commissioner and the Chief Constable are supportive of the National Police Air Service (NPAS), local circumstances mean that the Humberside Police helicopter will operate outside of the national arrangements at least until 2016. The budget forecasts reflect this.
- 10.3. The arrangements for the provisional support for Community Safety partners and the 'and Crime' agenda have continued with increased intensity given the increased importance of partnership work.
- 10.4. The Commissioner has already been engaged in collaboration with local authority and other public, private and voluntary and community sector partners.

11. S.151 OFFICER RESPONSIBILITIES

- 11.1. The Police Reform and Social Responsibility Act 2011 gave the Deputy Chief Executive and Treasurer and the Assistant Chief Officer (Support) responsibilities under s 151 of the Local Government Act 1972. As such, both are required to report on their view of the robustness of the budget and the assumptions that underpin it and on the adequacy of reserves. The Commissioner must have regard to these views when making his decision on the budget and the precept.
- 11.2. The officers can confirm that the budgets set out in all of the options contained within the MTFs are robust and that the level of reserves in each case is adequate.

12. FINANCIAL IMPLICATIONS

- 12.1. The financial information in connection with each of the options exemplified for the precept proposal for 2014/15 and the assumptions for later years are set out in this report and are covered in detail in the MTFs. Each option provides information on the level of savings required to balance the budget over the medium term and comments on the potential use of reserves.

13. CONCLUSIONS OF THE COMMISSIONER

Background

- 13.1. It is estimated by the end of 2013/14 £28.3m will have been saved from policing budgets since 2010. These savings were delivered through successive programmes of managed business change. The continuation of the age of austerity and the requirement for policing to make its contribution to

restoring the public finances means that the scale of the financial pressures on the organisation in the future are greater than the challenges that we have seen to date.

- 13.2. Last year I proposed a Council Tax freeze, but indicated that I would review this position for future years based on the latest information available. The new Chief Constable was appointed in April 2013. Following this, I asked her to come forward with proposals to redesign the Force so that it was sustainable, recognising the extending and deepening financial challenge, and capable of properly protecting the public within the level of resources available.
- 13.3. Currently, the Chief Constable is at the planning stage in developing the new operating model. Work to integrate the proposed changes around the Force will be widely consulted upon. Implementation will be on a phased basis. In doing this, I and the Chief Constable are very keen to ensure that the public and partners are involved in achieving a successful change to the Force operating model.
- 13.4. I have undertaken extensive public consultation on proposals to increase the precept in 2014/15 by up to 2%, the anticipated referendum limit, to help to limit reductions in Police Officer and PCSO numbers and to enable the force to invest more in technology. There was substantial support for the proposal with 75% of respondents being in favour of paying more for policing on this basis. The result reinforced the message that I received in my personal contact with local residents across the Force area.
- 13.5. I am concerned that, despite my political mandate, I will be subject to ongoing restrictions on increases in precept in future years. This will mean greater dependency on Government funding, which currently funds 75% of my budget. I believe that as the Force belongs to local people it is important that they remain significant stakeholders in this essential service. The recent consultation process appears to indicate that the public are prepared to pay more to protect policing.
- 13.6. The impact of the one-year settlement announced in December 2013 and recurrent financial pressures requires substantial additional savings to be made over and above the budget reductions already planned by the Force.
- 13.7. Whilst welcoming that the Home Secretary has protected policing from further cuts beyond those previously announced, I, like all of my fellow Commissioners, have had to plan for a 4.8% cash reduction in Government grants (more than 7% in real terms). This is due primarily to Ministers top-slicing budgets for national initiatives. Regrettably some of this money is being diverted from policing to more inspection which in addition to moving money from front-line policing will tie up scarce force resources. Other resources are aimed at strengthening the IPCC and whilst this is undoubtedly important, the amount of funding transferred is disproportionate. The Force will still have a substantial workload and will not be able to reduce resources by an amount equivalent to the funding loss. This will generate another unwelcome budget pressure.

- 13.8. The potential amount to be generated by a 1% increase in precept is £423k.
- 13.9. The funding settlement confirmed that the monies being received this year by me in respect of the Community Safety Fund Grant, £2.316m, have been incorporated into the Main Police Grant. I recognise the importance of getting upstream of crime and the clear need to work with partners. I have signalled my intention to maintain and indeed increase the support for partnership working where this can be demonstrated as having a positive impact in addressing crime and community safety issues. However, I intend to cease passporting funding and move to a combination of grants, commissioning and bids to help to ensure that I get the maximum return on this investment.
- 13.10. The Government had announced that there would be a fundamental review of the funding formula during 2013/14 on the way in which resources are allocated to Police and Crime Commissioners. Progress on this has been slow and it is now unlikely to be capable of being introduced before 2016/17 at the earliest. This adds to the uncertainty in longer term financial projections but given the continuing need to dampen the effects of change the implications may not be significant over the period described by the MTFS.
- 13.11. I will have responsibility for commissioning Victims' Services with effect from 1 October 2014. Funding allocations have been announced and plans are being developed. For the purposes of the financial projections this new responsibility has been assumed to be cost neutral.
- 13.12. The Government has announced plans for an Innovation Fund that Commissioners and Forces can bid into. I in conjunction with my South Yorkshire counterpart have submitted a bid on mobile technology for monies from a "Precursor Fund" launched in 2013/14. £1m has been approved for this joint scheme which must be spent in this financial year. It will be shared equally between the two Commissioners and will be used to purchase equipment that will enable greater mobile and agile working.

Current position

- 13.13. Last year I was very conscious that although I had amassed a considerable amount of knowledge in the short time since the election, I needed more time to analyse fully all aspects of Force activities and partnership working. I was not prepared to go to the taxpayer as a first port of call for additional finance but am now satisfied that all potential cost saving opportunities are being explored. I am also mindful that I have to have regard for the impact of future demands on the service as well as current requirements. I have now reached the point where I consider that it is important to request a modest increase in support from local people.
- 13.14. I have already asked the Chief Constable to redesign the Force and am in the process of working with partners to identify new ways of working to maximise the benefits of my investment in the 'and Crime' part of my role

- 13.15. The Police and Crime Plan set out my vision for making communities safer. Resources available as detailed in this report must be used wisely to help to achieve the aspirations and I recognise how dependent I am on partners in many instances to realise my goals. I have therefore signalled my intent to maintain and possibly increase support for partnership working but to do things differently.
- 13.16. The appointment of the new Chief Constable provided the opportunity to review the current programme of change and consider new and innovative ways of working. She has already had a positive impact and has come forward with proposals to reconfigure the Force. Plans are being developed along with an implementation programme designed to see the changes come to fruition by April 2015.
- 13.17. The Medium Term Financial Strategy identifies the additional savings required. It highlights the use of reserves to support business change and to ease the burden in each of the financial years from 2014/15 onwards. This continues the past practice of utilising reserves to enable budget reductions to be introduced in a planned and managed way. This is particularly important when the changes are significant and require a long lead-in period to implementation. I recognise however that my options are becoming increasingly restricted.
- 13.18. I am currently developing plans for taking on the responsibility for commissioning Victims' Services from October 2014.
- 13.19. I have considered alternative options for increases to the Council Tax and freezing it for a second year in succession. I continue to acknowledge that any increase in family budgets would be unwelcome but in order to test public opinion I have carried out an extensive consultation exercise with local residents to determine whether or not they were prepared to pay more to help to protect and modernise how the Force operates. The outcome of this exercise shows that a significant majority of those questioned and responding would be prepared to pay 2% more in 2014/15 (£3.45 per year).
- 13.20. Unfortunately the Government has not announced the referendum principles that will be applied in 2014/15. As a result this report has to outline a range of options.
- 13.21. I have considered all of the information presented to me by my advisers, the overall financial position and options detailed in the Medium Term Financial Strategy along with the public consultation results. I have also had feedback from local people at the regular street surgeries and public meetings that I have held and attended during the year. I am extremely mindful of the need for financial stability. I am determined to ensure that policing in the Force area is based on solid foundations underpinned by robust medium term financial planning.
- 13.22. Taking all of this into account, and having carefully considered all the circumstances, my preferred option is to increase the precept by 1.99%.

However, I am unable to recommend this definitively to the Panel in the absence of the information on the referendum limit from DCLG. In the event that the limit is set at a level which would result in a referendum if this proposal is approved, then I would wish to recommend and implement an increase but would not wish to breach the limit set by Central Government.

13.23. The MTFS models three options, including the preferred option, an increase of 1.5% and a freeze in Council Tax in 2014/15.

13.24. As Police and Crime Commissioner for Humberside, I request that the Panel endorses my preferred option of increasing the precept for 2014/15 by 1.99% (from £173.12 to £176.57 for a Band D property) provided that this does not breach the referendum limit. This is the option that I consulted on and which received significant public support. If this proposed precept would exceed the referendum limit, I would propose that the precept is increased by 0.01% less than the maximum amount permissible without requiring a referendum.

13.25. I look forward to receiving your feedback on his proposals.

14. BACKGROUND PAPERS

The Police and Crime Commissioners Medium Term Financial Strategy 2014/15 to 2018/19 and Appendices.

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CHIEF EXECUTIVE
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**POLICE AND CRIME COMMISSIONER
FOR
HUMBERSIDE**

**MEDIUM TERM
FINANCIAL STRATEGY**

2014/15

TO

2018/19

**HUMBERSIDE PCC
MEDIUM TERM FINANCIAL STRATEGY 2014/15 – 2018/19**

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1 Introduction

- 1.1 This is the second Medium Term Financial Strategy (MTFS) to be prepared by the Police and Crime Commissioner for Humberside (PCC).
- 1.2 The Medium Term Financial Strategy (MTFS) provides information on the resources available to support the delivery of the Police and Crime Plan.
- 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.
- 1.4 This year the MTFS includes more information on spending plans in connection with collaboration with partners on community safety issues. It follows confirmation that the Community Safety Fund Grant which amounts to £2.316m in 2013/14 has now been incorporated in to the Police Main Grant from 2014/15. It also provides details of the PCC’s plans in connection with the development of a multi-year Community Safety Fund/Crime Reduction Grant Scheme, which will be known as the Commissioner’s Crime Reduction Fund (CCR Fund). In addition, it contains details of the latest information on funding for Victims’ Services as the PCC will take on the responsibility for commissioning these services from 1 October 2014.
- 1.5 After taking into consideration the above issues, the options within the MTFS are those presented to the PCC in developing his proposals for the precept next year. These options are reflected in the first year, 2014/15, in the illustrations shown later in this document and in the Appendices. Assumptions for future years are indicative at this stage as the Police Grant Settlement announced in December 2013 was for one year only. Information on 2015/16 is unlikely to become available until mid-2014 at the earliest and only after the Home Secretary has carried out a full review of Home Office budgets.
- 1.6 The precept proposal for 2014/15 is subject to consideration by the Police and Crime Panel (PCP) that has a power of veto. The PCP was scheduled to meet on 22 January 2014 to consider the PCC’s precept proposal. However, this had to be cancelled due to the fact that the Government has not announced details of the principles in respect of the referendum limits that will be applied in 2014/15. The meeting has now been rescheduled for 4 February 2014.
- 1.7 The arrangements are that the PCP has to receive the precept proposal by 1 February 2014. The PCP must then consider the PCC’s proposal and respond with its views by 8 February. It 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 2014.

2 Police and Crime Plan

- 2.1 The Police and Crime Plan agreed and published last year 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 publication in April 2013. The PCP has also considered and annual report in respect of the delivery of the Plan in 2012/13 and received a progress report on 2013/14 in November 2013 together with a financial update.
- 2.2 The PCC has continued to work closely with the Chief Constable to develop plans for the redesign of the Force in response to the continuing and prolonged austerity measures, with

policing having to make its contribution to restoring the public finances. At the same time he has recognised that major restructuring and re-engineering programmes that have been and continue to be implemented in response to CSR 2010 to create a more cost effective and customer focused policing service exist and are already under way.

- 2.3 The PCC has worked 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 that identifies the following high level outcomes:-
- 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 MTFS once again incorporates a 5-year financial forecast, including both revenue and capital. This enables the PCC to take a view on the resources needed to deliver the Plan and how it can be financed. It also provides a basis for negotiations with key partners who will play an increasingly significant part alongside the Force in ensuring that the high level outcomes are achieved.

3 Purpose of the Medium Term Financial Strategy

- 3.1 This MTFS sets out comprehensive and detailed plans covering the period 2014/15 to 2018/19. The Strategy takes account of the latest information following the release of the Government's Provisional Funding Settlement on 18 December 2013. This provided details of the Police Main Grant for one year only, 2014/15. There is therefore considerable uncertainty about some key pieces of information needed to assist budget planning for 2015/16 and later years. No detailed information has been provided for 2015/16 and the position has been exacerbated by the Government's failure to publish details of the referendum principles that will apply to Council Tax/Precepts increases for the next financial year.
- 3.2 In addition, the Home Secretary has indicated that she wants to undertake a full review of Home Office budgets before making allocations for 2015/16. It is once again a concern that that Grant information has been provided late and that it is only for one year. This seriously inhibits accurate financial planning at a time when changes that require long lead in times have to be considered and implemented. Given the protection already afforded to policing within the Home Office there are very real concerns as to how practical it can be to take further resources from the non-policing elements within her Department to sustain this approach in the future.
- 3.3 There is yet more uncertainty in later years due to the fact that the Home Office has been considering changes to the funding formula for policing for some time but there has been little progress and this is now thought extremely unlikely to be capable of being implemented before 2016/17 at the earliest.
- 3.4 What is clear however is that the age of austerity will continue for longer than anticipated with further substantial financial challenges ahead as the Government seeks to run public finances with a small surplus in the future.
- 3.5 The General Election in 2015 also adds to the uncertainty given that it limits the coalition Government's ability to commit to long term plans.
- 3.6 In 2014/15 the Home Secretary has once again acted to protect funding for policing. This is welcomed. However, although she has restricted the headline reduction next year to 3.3%

and ensured that there are no further cuts next year in addition to the amounts announced previously, significant amounts have been top sliced for national initiatives. This, combined with damping, has resulted in all PCCs receiving a cash terms reduction in grant of 4.8% next year. The top slicing was anticipated in relation to the transfer of financial resources to the Independent Police Complaints Commission (IPCC) and for the creation of a £50m Innovation Fund however further monies have been diverted to fund HMIC and for other projects.

- 3.7 The PCC has made a joint bid with the South Yorkshire PCC to a “Precursor Fund”, launched in 2013/14, to the main Innovation Fund. This bid is to support new innovative approaches to mobile information, performance management and visibility. The bid has been successful with £1m funding in 2013/14 being approved. This grant will have to be spent by 31 March 2014.
- 3.8 Following changes to funding for local authorities, implemented this year, policing will continue to stand outside the arrangements for Business Rate Retention. As previously reported, in the main, from 2014/15 onwards, grants will come to PCCs direct from the Home Office.
- 3.9 The Government’s moves to localise the Council Tax and to change the way in which Council Tax Benefits (CTB) are administered and delivered have now been implemented. The PCC will continue to receive grant funding to compensate for reductions in the taxbase following CTB moving to a discount based approach as opposed to a payment based system. A by-product of this is that the amount raised from the precept is substantially less than it was previously.
- 3.10 In 2013/14 the PCC benefited from a share of a transitional grant payable to local authorities whose local CTB schemes met the Government’s eligibility criteria for support. All of unitary authorities in the Force area with the exception of the East Riding of Yorkshire Council implemented schemes that were eligible. These schemes are currently under review but there is no further grant available next year in connection with them.
- 3.11 As outlined in last year’s MTFs, the changes in the taxbase increase the “gearing effect” in relation to the amounts that can be raised from local taxpayers. The Council Tax/Precept now represents a smaller proportion of the total budget. This results in marginal increases in spending having a disproportionate effect in terms of possible increases in Council Tax. A 1% increase in Council Tax for policing in 2014/15 will now generate £423k.
- 3.12 The changes have also impacted on Collection Fund balances. It was anticipated that there would be difficulties in collecting monies from residents who had not had to pay Council Tax previously and this was reflected in estimates of collection rates for 2013/14. Information has now been received from the billing authorities and the estimated Collection Fund balances at 31 March 2014 are as follows:-

Collection Fund Balance 31 March 2013 £000		Estimated Collection Fund Balance 31 March 2014 £000
172	East Riding of Yorkshire Council	459
39	Hull City Council	170
87	North East Lincolnshire	21
41	North Lincolnshire	0
339	TOTAL	650

- 3.13 Government has once again moved to offer a grant, to local authorities that freeze their Council Tax next year at 2013/14 levels. The grant is equivalent to a 1% increase based on the 2013/14 taxbase but details of the actual amounts have yet to be announced. The grant will be paid for 2 years. Those PCCs that choose to freeze again in 2015/16 will receive a similar grant for that year.

- 3.14 In accordance with the provisions of the Localism Act 2011, the Department of Communities and Local Government (DCLG) is required to set out details of the principles in relation to the limit for requiring a local referendum in respect of increases in Council Tax/Precept. The only information available at this time regarding the limit is that the principles will be announced in January and that they will be subject to Parliamentary approval. The last date for this information to become available is thought to be 5 February 2014, the date when the final Grant Settlement information is expected to be confirmed. Clearly this is after the date of the PCP and beyond the date by which PCCs have to have their budgets finalised. This is obviously unacceptable and strong representations have had to be made to the Home Secretary on the matter.
- 3.15 Members will recall that the limit for 2013/14 for most local authorities and PCCs was 2% but there was flexibility to raise Council Tax and precepts by up to £5 for those whose council tax level was in the lower quartile in their class of authority. Members will also be aware that the Chancellor, in statements in June, pointed to the limit being 2% once again. Home Office officials have indicated since that date that there was still a possibility of this kind of flexibility to be available next year. As a result of this information, PCCs have consulted in good faith on increases of 2% and on higher increases where they benefitted from the flexibility last year. The position has been made more complicated in recent days by DCLG Ministers suggesting that the referendum limit may be 1.5% and not 2% as previously indicated.
- 3.16 When the budget was set for 2013/14 and following on from consideration of the results of the Winsor Review into Police Officer and Police Staff terms and conditions it was assumed that savings would accrue from the implementation of the recommendations within the report. Whilst most of the recommendations in respect of police officers have been implemented, with the costs and savings being reflected in the assumptions within the MTFs, this has not been the case in connection with police staff. Little progress has been made on changes for police staff. The Home Secretary cannot impose conditions on police staff in the same way as she can with police officers. Changes have to be agreed by negotiation via the Police Staff Council. At the present time there is no sign of progress to agreement in the foreseeable future. As this is the case the anticipated savings have not been achieved and consequently the MTFs has been amended accordingly.
- 3.17 Also at the time of last year's MTFs, officers indicated that announcements regarding the single state pension would be closely monitored to assess the impact on the PCC's future budgets. It is now clear that the attendant loss of contracted out status will add £3.3m to Force budgets from 2016/17. This has now been included within the MTFs as, despite intensive lobbying, it now seems certain that this funding will be retained by HM Treasury.
- 3.18 Developing the "and Crime" agenda has been a critical for the PCC. Last year the PCC decided to allocate £2.592m to partners to enable them to continue with their work at the same level as they had in 2012/13 when they received funding direct from the Home Office and the Ministry of Justice. This has supported Drug Intervention Programmes (DIP), Drug Testing, Community Safety Grant, Youth Offending Teams (Crime and Substance Misuse) and Positive Lifestyles.
- 3.19 Unfortunately, the Home Office did not provide details of the actual levels of grants being paid in 2012/13. The PCC commented on this last year and it was subsequently revealed that although the Home Office had funded schemes totalling £123m in 2012/13, only £90m had been made available to PCCs in 2013/14. £2.316m was allocated to Humberside. As a result the PCC had to use £276k from his Partnership Reserve to maintain support to partners at the same level as in the previous year.
- 3.20 In addition, the PCC maintained the commitments to partners made by the former Police Authority in respect of funding for projects to tackle alcohol issues in three of the four unitary authority areas. The effect of this has been taken into account in the forecasts of the level of reserves in future years.

- 3.21 For 2014/15, the PCC has already indicated that he believes that better outcomes can be achieved by moving away from an arrangement which merely passes funding at the same or a similar level to that provided in previous years. He wants to move to a more targeted approach. As a result partners have been informed and discussions are underway with key stakeholders in each of the four unitary authority areas to determine how to get the best return on this investment. It seems likely that this will result in a combination of grants, commissioning and bidding processes. The PCC has set funds aside next year within the MTFs and assumptions on use of the Partnership Reserve in order for these discussions to progress meaningfully and to back the process. He has also indicated that he would be prepared to provide further support if this is needed and as long as this can be shown to be effective and provide value for money solutions.
- 3.22 The PCC will take on the added responsibility for commissioning Victims' Services from October 2014. Funding allocations have recently been announced. Monies have been made available in advance in 2013/14 for capability and capacity building and Restorative Justice initiatives. A significant amount of the monies being made available in 2014/15 and later years will have to be committed to referral arrangements. This is currently provided by way of a national referral scheme.
- 3.23 The PCC stated his intention to create the CCR Fund to enable organisations and communities to have access to funding for local schemes to support the delivery of the outcomes in his Police and Crime Plan. In 2012/13 he earmarked an underspend of £224k for this purpose. Following a review of the budget for the OPCC, which was maintained this year at the same level as the budget for the Police Authority in 2012/13, he has identified permanent annual savings of £185k to support the scheme. Using these resources, the PCC has agreed to a multi-year funding package, which will enable him to support capital and revenue initiatives each year. These funds will be supplemented with capital receipts from the sale of Pacific Exchange if and when the building is sold. The capital receipts from the sale of the current base can only be spent on capital projects. There is however some flexibility in that the one-off carry forward monies earmarked for capital in the first instance could also be made available for revenue funding.
- 3.24 Last year the MTFs referred to the fact that the transition to the PCC was at Stage 1 with the second stage to be implemented at 1 April 2014. In September 2013, the PCC submitted his proposals to the Home Secretary regarding the future employment arrangements between himself and the Chief Constable in relation to police staff. The proposals which will see the bulk of staff transfer to the Chief Constable received approval in principle in December 2013. They are subject to a formal scheme which must meet technical criteria set by the Home Secretary. The scheme has to be submitted by 3 March 2014. This is unlikely to be problematic and will not have any material budgetary impact but the proposals include the setting-up of a shared service arrangement with the Force to avoid duplication of functions and offer opportunities for further efficiencies.
- 3.25 The PCC is continuing to look at ways of reducing the cost of his office. This includes relocation from Pacific Exchange following the sale, staffing reductions and reducing the cost of the Chief Executive.
- 3.26 The assumptions within the MTFs reflect networking at local, regional and national level undertaken by both the Assistant Chief Officer (Support) and Deputy Chief Executive and Treasurer.
- 3.27 Three options for the budget for next year and future years are included, based on assumptions of:
- Freezing the Council Tax in 2014/15, taking the Council Tax Freeze Grant in that year and in 2015/16, with 2% increases in each of the following years;

- A 2% increase in 2014/15 rejecting the grant with similar increases in each further year of the financial forecast; and
 - A 1.5% increase next year with 1.5% increases in the years thereafter as it is unlikely that limits will increase in future years if the limit is reduced for 2014/15.
- 3.28 Following discussion with the PCC, networking with colleagues in policing around the country and liaison with local unitary authorities, these are seen as the most realistic options. There is the capacity to model other scenarios in fast time as and when required.
- 3.29 The PCC is concerned about the impact of continuing restraint on increases in Council Tax/Precept which will result in increased reliance on Government funding. He believes that the Force belongs to the people and that they should contribute to ensure that policing can be based on sound financial foundations.
- 3.30 In late 2013 the PCC undertook a large scale public consultation exercise. In addition to information gathered at the PCC's regular surgeries and events throughout the Force area, work was commissioned by the PCC utilising SMSR Ltd., an independent research company. It gathered residents' views on how policing can be transformed to meet the challenge of increasing spending pressures and reduced levels of financial support from the Government. A key question for the public was whether they would support an increase in the precept of 2% (equivalent to around 6 pence per week for a Band D property) to help to maintain the numbers of police officers and PCSOs and to enable the Force to invest in more technology so more of officers' time could be spent on the beat.
- 3.31 1,277 residents were consulted as part of this exercise. The consultees were spread across the four unitary authorities within the Force area. This included a mix of members of the general public and former members of the PCC's citizens' panel. Respondents were informed that if the level of precept which they paid towards policing were to increase, the reductions in police officers and PCSOs would be minimised and police services could be modernised.
- 3.32 75% of respondents said that they would be willing to pay an additional 6p per week, broadly the weekly increase for a 2% precept rise. Almost a fifth, 18%, said they would not with 7% undecided. Support for an increase was stronger for Hull respondents at 80% with the lowest level, 73%, being registered by residents of North East Lincolnshire.
- 3.33 The MTFs is based on the previous version approved by the PCC in February and submitted to the PCP in support of his precept proposal for 2013/14 and the further updates considered as the year has progressed. The PCP was briefed at the end of November on the latest estimates of the scale of the financial challenge. This briefing used information from the latest version of the MTFs at that time. This of course pre-dated the information announced in the Grant Settlement in December 2013.
- 3.34 The Strategy will inform resource management within the Force. The Force Business Management (FBM) process, a derivation of the Integrated Business Management (IBM) approach used previously, takes into account the financial implications of key strategies for Human Resources, IT/IS and Estates. The overall intention is to continuously review and demonstrate the affordability of these plans which support delivery of the Police and Crime Plan.
- 3.35 In 2013 further work has been undertaken to formulate proposals for the "and Crime" aspects of the PCC's responsibilities. The monies that he has indicated to partners that he is prepared to set aside and make available for partnership working have been incorporated into the MTFs and forecasts of the use of the Partnership Reserve to aid transparency in dealing with key stakeholders.
- 3.36 The MTFs covers a period of 5 years. It has two firm foundations: 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.

- 3.37 Following approval, the MTFS will be reviewed regularly by the Assistant Chief Officer (Support) and Deputy Chief Executive and Treasurer, by the Corporate Governance Group (CGG) as well as the Chief Officer Group and via the new internal governance arrangements which include the Force Leadership Team introduced by the Chief Constable. 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 the “and Crime” spending plans, as well as reviewing the costs of the Office of the PCC (OPCC).
- 3.38 The document reflects formal and informal discussions with PCC and with stakeholders. The review arrangements reflect the dynamic nature of policing and its context. It is recognised that there is a need for the Force and the PCC to be able to respond in terms of the ability to resource additional demands upon this 24/7 service. They also have to be capable of reacting to changes emanating from external factors.
- 3.39 Importantly it incorporates details of the outcomes from the FBM process and the latest information on progress made in delivering savings as part of the CSR 2015 Savings Plan.
- 3.40 The MTFS 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.
- 3.41 It acts as a catalyst for business change. Having identified the savings requirement when formulating the MTFS for 2013/14 - 2017/18, and recognising that further substantial reductions in spending would be required in future years, the PCC asked the Chief Constable to redesign the Force and proposals are currently at the planning stage. The financial strategy will provide the basis for considering, quality assuring and prioritising resource allocation as part of this process.
- 3.42 The MTFS to describe the financial direction of the Force, Community Safety partners and the OPCC and attempts to capture known and estimated information on external funding, financial pressures and development needs as well as seeking to encompass risks with financial consequences over the 5 year period.
- 3.43 The MTFS provides options over the medium term for delivering a sustainable revenue budget and capital programme. It also and provides the background for setting prudential indicators on capital financing which enables the PCC to determine how capital spending can be paid for.
- 3.44 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, as well as considering issues arising from the Force’s and their own strategic intelligence assessments.
- 3.45 The MTFS is one of a number of key shared enterprises between the Force, PCC and partners. Notwithstanding the 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 order to assess the impact of budget options on the Force and partners as well as assisting in seeking to enhance the ability to deliver the best possible service to local communities.
- 3.46 The PCC and the Force have strived to be prepared to address the financial challenges ahead. The 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 must continue. It has proved to be a sound approach in the past. 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.

4. Benefits of the Strategy

4.1 The MTFS 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
- 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 Office of the Police and Crime Commissioner 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 is used efficiently and effectively
- Allowing the development of longer term budgets and strategic thinking
- 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 cuts 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.
- Working through the full implications of Stage 2 transition
- Informing treasury management decisions and determining prudential indicators.
- Providing information to improve and influence national, 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 MTFS 2014/15 to 2018/19 are designed:

- (i) To work with the Chief Constable to ensure that using the FBM and other Force processes, resources are directed to objectives aimed at achieving the Police and Crime Plan;
- (ii) To contain overall Force and PCC expenditure within original estimates each year;
- (iii) To agree proposals for funding allocations to partners and for other initiatives that support the delivery of the Plan;
- (iv) To set and deliver a balanced budget and maintain the intelligent use of reserves;

- (v) To aim to manage financial risks and seek to meet the financial challenge arising from spending pressures and continuing reductions 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 PCC has expressly decided to maintain this General Reserve level);
- (vi) To maintain Earmarked Reserves for specific purposes which are consistent with best practice and used in line with the principles set out in the MTFs and to review balances at least annually;
- (vii) To ensure that the PCC responds to the challenge of holding the Chief Constable to account for delivering an effective service during what is now an extending and deepening period of austerity and specifically that financial viability is maintained and the service provides the best value for money with the resources available;
- (viii) To provide a basis for setting and monitoring the achievement of savings and efficiency targets;
- (ix) To seek to rationalise the approach to efficiency and value for money, building on the work that has already achieved substantial savings via the CSR 2015 Savings Plan to deliver savings identified utilising the FBM and other Force processes;
- (x) 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;
- (xi) To provide resources to support Regional and sub-Regional joint working to maximise efficiency gains through the implementation of appropriate efficiency and productivity programmes;
- (xii) 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;
- (xiii) To consider Government initiatives to promote the freezing of the Council Tax in 2014/15 and later years within the context of the medium term implications for the Force and the PCC;
- (xiv) 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;
- (xv) To use prudential borrowing and other means of financing to support the capital programme as part of its Treasury Management Strategy;
- (xvi) 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 ACPO and the College of Policing;
- (xvii) To ensure that the Assistant Chief Officer (Support) and Deputy Chief Executive and Treasurer continue to prepare a rolling programme of 5 year budget forecasts;
- (xviii) To explore opportunities to secure external funding, sponsorship and other income generation to support the objectives set out in the Police and Crime Plan and,

- (xix) 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 MTFs for 2014/15 to 2018/197/18 has involved consideration of:-

- The MTFs agreed by the PCC in 2013/14 and subsequent revisions during 2013;
- The current financial position;
- The financial environment in which the Force and PCC operates;
- Future budget pressures which the Force and PCC are likely to face over the period of the Strategy;
- 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 initiatives, to improve resilience and to achieve savings;
- 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;
- The introduction of a grant to support a further freezes in the level of Council Tax in 2014/15 and 2015/16;
- Announcements on referendums on the level of precepts in accordance with the Localism Act;
- Local partnership initiatives including of the use of commissioning, community safety funding, crime reduction grants, total place and community budgets;
- The transfer of the responsibility for the commissioning of Victims' Services to PCCs in 2014/15;
- The continuing ever increasing emphasis on efficiency, productivity and value for money in policing;

- The requirement for the PCC to implement Stage 2 transition; and
- To take account of changes to Police Officer and Police Staff terms and conditions and to public sector pensions.

7 Financial Environment

7.1 Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth strongly rebounded in 2013 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+0.8%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the August and November quarterly Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8%, (2015 unchanged at 2.3%). The November Report stated that: -

“In the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand. But significant headwinds — both at home and abroad — remain, and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise. That underpins the MPC’s intention to maintain the exceptionally stimulative stance of monetary policy until there has been a substantial reduction in the degree of economic slack. The pace at which that slack is eroded, and the durability of the recovery, will depend on the extent to which productivity picks up alongside demand. Productivity growth has risen in recent quarters, although unemployment has fallen by slightly more than expected on the back of strong output growth.”

7.2 Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

7.3 The Bank of England issued forward guidance in August which stated that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly quarter 4 2014 in November. The UK unemployment rate has already fallen to 7.4% on the three month rate to October 2013 (although the rate in October alone was actually 7.0%). The Bank’s guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that there is potential for a significant amount of GDP growth to be accommodated without a major reduction in unemployment. However, it has been particularly encouraging that the strong economic growth in 2013 has also been accompanied by a rapid increase in employment and forward hiring indicators are also currently very positive. It is therefore increasingly likely that early in 2014, the MPC will need to amend its forward guidance by reducing its 7.0% threshold rate and/or by adding further wording similar to the Fed’s move in December.

- 7.4 While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS) was extended to encourage banks to expand lending to small and medium size enterprises. The second phase of Help to Buy aimed at supporting the purchase of second hand properties, will also start in earnest in January 2014. These measures have been so successful in boosting the supply of credit for mortgages, and so of increasing house purchases, (though levels are still far below the pre-crisis level), that the Bank of England announced at the end of November that the FLS for mortgages would end in February 2014. While there have been concerns that these schemes are creating a bubble in the housing market, house price increases outside of London and the south-east have been much weaker. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.
- 7.5 Inflation has fallen from a peak of 3.1% in June 2013 to 2.1% in November. It is expected to remain near to the 2% target level over the MPC's two year time horizon.
- 7.6 The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.
- 7.7 Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.
- 7.8 There could well be volatility in gilt yields over the next year as financial markets anticipate further tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, while the political deadlock and infighting between Democrats and Republicans over the budget has almost been resolved the raising of the debt limit, has only been kicked down the road. A final resolution of these issues could have a significant effect on gilt yields during 2014.
- 7.9 The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.
- 7.10 The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.
- 7.11 Interest rate forecasts will be based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most

consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.

- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the raising of the US debt ceiling.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.
- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

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 remains in a position where he has options on how to address the deepening financial challenges ahead in a managed way, however these are becoming increasingly limited.
- 8.2 Savings targets have been delivered and the calls on reserves are expected to be lower than originally planned.
- 8.3 The Force is underspending in 2013/14, with monies being returned to reserves for use in future years. The budget monitoring report as at Period 8 (November 2013), indicates that there will be an estimated underspend of £613k this year. This is after a mid-year budget review which transferred £1.7m to the Force Performance Fund and £0.7m to the Performance Improvement Reserve. The mid-year budget review assesses areas that are underspending in 2013/14 to identify one off savings in the current financial year and to re-base approved budgets for permanent savings. The latter contribute to savings targets.
- 8.4 FBM has continued to instil a process of managing budget reductions. The culture where managers are more adept in finding solutions and the practice of working within existing resources to address demands for service has increasingly become embedded.
- 8.5 The MTFS contains the most up to date and detailed estimates of the realistic costs and savings information on the CSR 2015 Savings Plan, overseen by the CSR Implementation Board and reviewed at the Integrated Supply stage of the FBM Process.

9 Funding

- 9.1 The Provisional Police Grant Settlement for 2014/15 was issued as a consultation document on 18 December 2013. Consultation ended on 23 January 2014. The Deputy Chief Executive and Treasurer and the Assistant Chief Officer (Support) contributed to the PaCCTs response to the consultation. The Final Settlement is likely to be announced in early February 2014.
- 9.2 In the past there have rarely been changes between the Provisional and Final Settlements and so the amounts of Government Grant estimated for the purpose of the MTFS 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.
- 9.3 Once again, it is unfortunate that there is no information for future years as this would aid financial planning considerably. The Home Secretary has indicated that she will provide information for 2015/16 at some stage during 2014/15 but only after she has carried out a full review of her department's budgets and spending.
- 9.4 In a statement in June 2013, the Chancellor announced the outcomes of the 2013 Spending Review. This included funding for English local authorities that freeze, or reduce, their Council Tax in 2014/15 who will receive a grant equivalent to a 1% increase in Council Tax in the average Band D Council Tax multiplied by the 2013/14 taxbase in both 2014/15 and 2015/16. He also confirmed that authorities that choose to freeze in 2015/16 will receive an amount equivalent to a 1% increase in 2015/16 only. Details of the exact amounts to be paid have yet to be confirmed.
- 9.5 All police authorities qualified for the Council Tax freeze grant in 2011/12 and the PCC accepted the grant in 2013/14. The 2013 Review confirmed that the payments in respect of both of these decisions will continue to be paid until 2015/16. Payment has been transferred from DCLG to the Home Office to simplify police funding arrangements.

- 9.6 The PCC is receiving a new grant in 2013/14 to compensate for the loss of Council Tax income as a result of the reduction in the taxbase due to changes arising from the CTB arrangements. This together with the earlier tax freeze grants will continue as "Legacy Council Tax Grant". In 2014/15 these grants total £10.041m.
- 9.7 The lack of information on the trigger point for a referendum in connection with increases in Council Tax/Precept is discussed above.
- 9.8 The billing authorities have provided the following information in respect of their calculations of the 2014/15 taxbase:-

Taxbase 2013/14 (Band D properties)	Unitary Authority	Taxbase 2014/15 (Band D properties)
106359.76	East Riding of Yorkshire Council	107540.77
52150.00	Kingston upon Hull	53416.00
39035.00	North East Lincolnshire Council	39324.50
44030.20	North Lincolnshire Council	44447.60
241,574.96	TOTAL	244,728.87

- 9.9 The increase in the number of Band D properties is welcome and will generate additional Council Tax revenues which will offset some of the loss of grant.
- 9.10 The PCC has been informed that the estimated Collection Fund surpluses at the end of 2013/14 total £650k. Surpluses are only assumed when it is clear that they are likely to be achieved. Any deficits on Collection Funds would have to be made up by taking them into account in the decision on Council Tax/Precept in the following year.
- 9.11 The Provisional Police Grant Settlement has confirmed that the Community Safety Fund grant allocation received in 2013/14 of £2.316m will be incorporated into the Police Main Grant next year.
- 9.12 The PCC has informed key partners that he is prepared to earmark resources for partnership funding in 2014/15. This comprises £2.3m from within the base budget and a further £276k from the Partnership Reserve.
- 9.13 Discussions are underway with those key partners on how to move to a more collaborative, innovative and integrated approach to the distribution of funds in 2014/15 and later years as opposed to the arrangements for 2013/14 which simply passported amounts across based on historic levels of funding. The PCC believes that this will enable this funding to have a bigger impact.
- 9.14 The Commissioner has received details of funding allocations for victim support in 2014/15 and 2015/16. This includes funding for Victims' Services. It also included un-ringfenced monies for Restorative Justice. The PCC has to have access to a referral service and a significant proportion of the allocation will be needed to pay for this service. Consideration is also being given to the use of funding allocated in 2013/14 provided for capability and capacity building and Restorative Justice projects in the current year.
- 9.15 Reference is made above to the top slicing of funding nationally to create a £50m Innovation Fund. This Fund will be available in 2014/15 and later years. In late 2013, the Home Office gave details of a "Pre-Cursor Fund" totalling some £20m that PCC's and Force's could bid for. £1m of non-recurring expenditure from "Pre Cursor Fund" monies has been approved for spending in the current financial year in respect of a joint bid submitted in conjunction with the

PCC for South Yorkshire. Further bids are being developed for 2014/15 but details of the bidding process have yet to be announced.

10 Medium Term Budget Pressures

- 10.1 The MTFs has previously recognised that there would be requests for new growth. However, the FBM process has meant that requests for additional funding coming forward have been very limited. Any growth now has to be met from savings in existing budgets.
- 10.2 The options set out in this document continue to provide for amounts previously agreed that have ongoing revenue implications. Police officers and staff have received their first pay increases in three years, 1% from September 2013. The projections include provision for the effects of these settlements and contingency amounts for future awards based on a 1% increase in 2014 and 2015 with 2% increases in later years.
- 10.3 Budget provision has been made for known price increases but there is no general contingency for inflation.
- 10.4 The projections include provision for both the capital financing and revenue consequences of capital spending.
- 10.5 No specific additional provision has been made at this stage for any additional spending arising from policing special events, e.g. the Tour de France where the Regional Collaboration Board is receiving regular reports.
- 10.6 Similarly no provision has been made for the cost of PCC elections in May 2016 as it is assumed at this stage that these costs will be met by Government.

Protective Services/Regional and Sub-Regional Working

- 10.7 The MTFs 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 4x4 basis and with South Yorkshire on a 2x2 basis.
- 10.8 The 4x4 Yorkshire and the Humber Region activity moved to a lead force arrangement from September 2013. Humberside has the lead for underwater search and public order.
- 10.9 The 2x2 collaboration with South Yorkshire Police which started with Human Resources and IT/IS is now gathering pace and the success of the joint Innovation Fund bid referred to above is a reflection of the progress that is being made
- 10.10 Investment is also being made jointly in the relation to an Enterprise Resource Planning (ERP) process which supports delivery of savings and service improvements as well as providing wider benefits to all parties here and in South Yorkshire.

Damping

- 10.11 Home Office Ministers signalled last year that they intended to continue with the damping arrangements used in previous years which involves floors and ceilings with gainers paying into the floor to subsidise those that would lose out if the formula was applied without limitation. As a result, for 2014/15, all PCCs will receive a similar grant reduction of 4.8% in cash terms, equivalent to a 7% real terms reduction..
- 10.12 This is a frustration for those who will have to continue to forego support as they have to continue to pay to maintain areas where the loss of grant that would make them potentially unsustainable.
- 10.13 The PCC for Humberside contributed to the floor by giving up £3.7m in grant in 2013/14.

10.14 The arrangement has also been a significant inhibitor in terms of curbing enthusiasm for the revisions to the funding formula referred to above.

10.15 The detailed analysis of the provisional settlement compared with 2013/14 is set out below:-

2013/14 £	Grant Settlement	2014/15 £
50,978,295	CLG/Home Office Funding	48,591,238
73,372,064	Police Formula Grant	72,040,138
124,350,359	Total Formula Grant	120,631,376
2,2316,000	Specific Grant (community Safety Fund Grant)	0
	Legacy Grants	
8,315,056	Localisation of Council Tax	8,341,108
503,018	Council Tax Compensation Grant	500,390
1,199,447	Council Tax Freeze Grant	1,199,447
136,683,880	TOTAL	130,672,321

CSR 2015 Savings Plan

10.16 The CSR 2015 Savings Plan has been overseen by a Force Board. The OPCC has continued to monitor progress. The programme of savings has informed the PCC's Forward Plan to ensure that key decisions are timetabled into the decision making process. A new savings programme, incorporating the remaining proposals in this Plan will commence from 1 April 2014.

Integrated Business Management (IBM)/Force Business Management (FBM)

10.17 Throughout 2013, the Force continued to use the IBM process which was extended to support the delivery of the CSR savings plan as well given its role in making decisions on how best to achieve business change. The process has been reviewed, simplified and rebranded as Force Business Management (FBM). It identifies significant matters that will affect the Force looking forward over a 4 to 48 month timescale. It forecasts the likely demand on the force and, where appropriate, redistributes resources to re-shape the organisation to meet those demands.

Budget Management/Monitoring

10.18 Budget monitoring has continued on a 4-weekly basis with the central Finance Unit undertaking a Review and Revise process to quality assure commentaries and financial projections from local budget holders. This intelligence has provided a basis for the mid-year budget review.

10.19 The PCC has been informed of the budget position on a regular basis. Full details of the reports and commentaries from budget holders have been made available on the Force intranet.

10.20 The MTFS incorporates assumptions from the budget monitoring report for Period 8 (to 30 November 2013), which will be adjusted to reflect the most recent information from Period 9 and adjustments will be carried forward through PIR.

10.21 As indicated in the MTFS, it is anticipated that the balance available within the PIR at 31 March 2014 will be £24.623m.

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	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure					
Estate Strategy	7,330	5,266	1,944	626	0
IT Equipment	3,725	3,150	1,776	1,590	1,542
Vehicle/ Equipment	930	870	863	622	901
TOTAL	11,985	9,286	4,583	2,838	2,443
Financing					
Grant	1,700	1,700	1,700	1,700	1,700
Loan	10,285	7,586	2,883	1,138	743
Capital Receipts	0	0	0	0	0
TOTAL	11,985	9,286	4,583	2,838	2,443

11.2 The capital programme will continue to be important in assisting in the delivery of front line policing services. The new custody facilities and D Division Headquarters at Clough Road has been completed together with the Osborne Street Police Station. The decanting of staff from Queens Gardens Police Station has almost been completed.

11.3 Work has started on the new corporate building at Melton which will incorporate a joint vehicle workshop with the Force working alongside the Humberside Fire and Rescue Service. This building will also house various specialist services and will allow staff to be relocated from overcrowded and leased accommodation across the Force area.

11.4 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 and Treasurer represent the PCC on the Estates Board.

11.5 The main source of funding for capital will be prudential borrowing. Capital grant and available capital receipts from the disposals of surplus properties, with the exception of Pacific Exchange, will also be used to finance expenditure or for debt redemption as and when they are received.

11.6 The PCC has actively been promoting for asset rationalisation, joint working and co-location of services with other public and voluntary sector partners. Arrangements are in hand to relocate the Police Station at Hessle into the library and discussions are underway about relocation the station at Hornsea into the Leisure Centre. A memorandum of understanding has been signed with Hull City Council in connection with the preparation of a development brief for the combined site fronting George Street, Queens Gardens and Guildhall Road.

11.7 Pacific Exchange was placed on the market with a view to using the capital receipt to create a grant scheme to provide funding for projects of a capital nature that help reduce crime. An offer for the building has been accepted, subject to contract, and details of negotiations are continuing with the potential purchaser.

- 11.8 Meetings have continued to be held with each of the four unitary authorities 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.
- 11.9 As part of the Police Grant Settlement the Government announced a Capital Grant for 2014/15 of £1.7m.
- 11.10 Capital allocations nationally have once again been top sliced by £10m for this to be made available to the National Police Air Service (NPAS). Whilst the PCC and the Chief Constable are supportive of the NPAS arrangement, the PCC has agreed that Humberside Police will stay out of the national scheme for the time being. This is due to exceptional local circumstances, including the fact that the Force's helicopter is leased. The position will be reviewed when the lease expires in 2016. In the meantime, NPAS and Humberside Police have arrangements in place to provide mutual support to one another when necessary.
- 11.11 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.

Impact of Prudential Borrowing on the Budget Position

- 11.12 The PCC will, as indicated above, utilise prudential borrowing as the principal means of funding the capital programme. Taking account of anticipated slippage to be carried forward from 2013/14, the estimated capital budget requirement for 2014/15 is shown at £11.985m
- 11.13 The assumptions in relation to capital funding from Government in the form of capital grant reflects the Settlement announcement for 2014/15 with projections for 2015/16 onwards.
- 11.14 The Treasury Management Strategy Statement (TMSS) approved by the PCC in March 2013 provided information on current borrowing levels 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 but it is anticipated that external borrowing, either from the Public Works Loans Board (PWLB), the principal lender to local authorities, or from the money markets will be required to be drawn down before the end of this financial year. The PCC and the Joint Independent Audit Committee members have access to information on a monthly basis on treasury management activity produced by external advisers, Capita Asset Services, whose contract was removed during the year following a tender exercise.
- 11.15 Cashflow forecasting at a detailed level has continued. The MTFS information is supported by high-level projections of the PCC's cash flows. Assumptions of interest payable and interest receivable included within the MTFS are based on these cashflow forecasts. Detailed cashflow information is essential as the basis for determining when the PCC will have to borrow. New borrowing was undertaken in 2012/13 with £7.5m in PWLB loans being taken at the end of the financial year reducing long term borrowing cost. The cash position is reviewed at monthly Investment Review Meetings as set out in the TMSS.
- 11.16 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 MTFS reflects updated calculations of the MRP required in respect of past and proposed capital spending. New borrowing will be taken in accordance with the agreed policy.

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 three main purposes:
- a) A contingency to cushion the impact of unexpected events or emergencies.
 - b) A working balance to help cushion the impact of uneven cash flows and to avoid unnecessary temporary borrowing.
 - c) 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 and Partnership Reserves).
- 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) and b) 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 balance in the Partnership Reserve is estimated to be £483k at 1 April 2014 following additional support being provided to community safety partners in 2013/14 and taking into account the ongoing commitments made by the former Police Authority. Funding within the Reserve can continue to be used to support partnership projects that can help to deliver the outcomes in the PCC's Police and Crime Plan and will be used as the vehicle to carry forward funding for the PCC's CCR Fund.
- 12.6 Access to the Partnership Reserve and monies set aside to fund the CCR Fund 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 a simple substitute for existing funding that is being withdrawn as a result of budget cuts elsewhere.
- 12.7 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 and improving performance will be important considerations. In addition it could enable new and innovative initiatives to be progressed and evaluated. As a result, the PCC may, over time, want to make additional transfers from the PIR to the Partnership Reserve to carry on this work if it proves successful.
- 12.8 The Risk Management Reserve (RMR) is retained for specified issues.
- 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. Police Authorities have generally worked on figures for general reserves of between 2% and 5% of net revenue spending. 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, 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 MTFs 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 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 should be based on a thorough understanding of its 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 successive years' MTFs 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 has a level of reserves that can cushion against the severity of cuts in Government grants. The biggest issues now are the prospect of further cuts due to the extension of the age of austerity, the impact of changes in the funding formula and continued restrictions on increases in Council Tax/Precepts.

Provisions

12.15 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

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

Contingency Funds

12.17 The PCC has sanctioned the retention of a number of contingency items described below.

12.18 Pay budgets are cash limited and a contingency fund is maintained within the budget to meet the annual pay and price inflationary costs incurred by the Force and the OPCC.

- 12.19 Each year, as part of the Annual Accounts closedown procedure, the Contingency Fund is cleared to zero with any surplus funding now being transferred to the Performance Improvement Reserve.
- 12.20 The Chief Constable also has access to one contingency sum within the base budget in the form of the Force Performance Fund. Underspends are transferred into this fund as the year progresses.

Budgeted Reserves Position for 2013/14 and future years

- 12.21 The reserves held are as follows:-

Reserve	Balance at 1 April 2013 £'000
Performance Improvement Reserve	25,053
General Reserve	5,360
Risk Management Reserve	1,800
Partnership Reserve*	759
TOTAL (£'000s)	32,972

- 12.22 The PCC has emphasised the need for strong partnership working, including with criminal justice, community safety and health partners to ensure the best outcomes for communities in terms of reducing crime and improving community safety. The balance in the Partnership Reserve will be available to support joint working.
- 12.23 The General Reserve will be maintained at 3% of the Net Revenue Budget. The level of reserves will continue to be reviewed as the year progresses.

13. Indicative Budget Forecasts 2014/15 to 2018/19

- 13.1 The PCC has received a series of presentations during the year and discussions have resulted in three alternative scenarios being identified for exemplification within the MTFS. The first option shows the impact of a Council Tax freeze in 2014/15 accepting the 1% grant for 2 years and assuming 2% increases in Council Tax in future years. The second option assumes that the Council Tax is increased by 2% in 2014/15, rejecting the freeze grant, with increases in precept of 2% from 2015/16 onwards. The third sets out the implications of a 1.5% increase in precept in 2014/15 with 1.5% increases in future years.

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 MTFS period.
- 14.2 Appendix 1, Option 1, is based upon a Council Tax freeze in 2014/15, accepting the compensatory grant offer in the year and in 2015/6 equivalent to a 1% increase in Council Tax with 2% increases in later years.

Council Tax freeze in 2014/15 and 2% in future years					
	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Budget Gap	12,598	13,385	10,354	5,664	1,918
Existing Estimated Savings	2,963				
Additional Savings Requirement	3,822	11,954	7,083	4,601	1,918
Total savings	6,785	11,954	7,083	4,601	1,918
Proposed Use of Reserves	5,813	1,431	3,271	1,063	
TOTAL	12,598	13,385	10,354	5,664	1,918

14.3 Appendix 2, Option 2, is based on an increase in Council Tax of 2% in 2014/15, rejecting the compensatory grant and assumes 2% increases in future years'.

Council Tax increase of 2% in 2014/15, rejecting the Governments grant offer and with 2% increases in future years					
	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Budget Gap	12,249	12,990	9,333	4,900	1,707
Existing Estimated Savings	2,963				
Additional Savings Requirement	3,822	11,954	6,770	4,081	1,707
Total savings	6,785	11,954	6,770	4,081	1,707
Proposed Use of Reserves	5,464	1,036	2,563	819	
TOTAL	12,249	12,990	9,333	4,900	1,707

14.4 Appendix 3, Option 3, is based upon a Council Tax increase of 1.5% in 2014/15, rejecting the compensatory grant offer in the year and in 2015/6 equivalent to a 1% increase in Council Tax and with 1.5% increases in later years.

Council Tax increase of 1.5% in 2014/15 rejecting the Governments grant offer and 1.5% in future years					
	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Budget Gap	12,464	13,448	10,160	5,573	1,946
Existing Estimated Savings	2,963				
Additional Savings Requirement	3,822	11,954	7,165	4,692	1,946
Total savings	6,785	11,954	7,165	4,692	1,946
Proposed Use of Reserves	5,679	1,494	2,995	881	
TOTAL	12,464	13,448	10,160	5,573	1,946

14.5 A comparison of the above shows that in Option 1, the level of savings required to be achieved by 2018/19 is £32.312m compared with £31.262m for Option 2, and £32.515m for Option 3.

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

- Additional savings and efficiencies
- Precept increases
- Reassessment of priorities
- Further use of reserves
- External funding / increases in income
- Refinancing/re-phasing of the Capital Programme.

Savings and Efficiencies

14.7 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.

14.8 Whilst savings targets have been achieved to date, it is becoming increasingly difficult to generate further savings as these are inevitably now having to focus more on frontline services.

14.9 The PCC remains in a difficult position in relation to dealing with budget reductions that are likely to be required in the wider field of community safety. He has decided that, for 2014/15, better outcomes can be achieved by moving away from an arrangement which merely passports funding at the same or a similar level to that provided in previous years. He wants to move to a more targeted approach. As a result partners have been informed and discussions are underway with key stakeholders in each of the four unitary authority areas to determine how to get the best return on this investment.

Council Tax /Precept

14.10 At this stage the PCC's preferred option is to increase the Council tax in 2014/15 by 1.99% and not to take advantage of the freeze grant on offer, payable for 2 years equivalent to a 1% increase. However, this proposal cannot be confirmed in the absence of certainty about the referendum principles that will be applied to increases next year.

14.11 At the Police and Crime Panel last year he indicated that he would give careful consideration to increasing the precept this year. His preferred proposal is in line with the level of increase set out in the public consultation exercise. This received substantial support with 75% of respondents indicating that they would be prepared to pay extra to assist in limiting reductions in the numbers of police officers and PSCOs and to help to modernise the Force.

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.

14.13 Ministers have yet to announce the referendum principles for 2014/15. At this stage therefore, the level of increase that would trigger a referendum is not yet known. It has therefore been necessary to exemplify other potential options as opposed to recommending a definitive proposal which could require a referendum. The preferred option of a 1.99% increase, together with a freeze, as the assumption of a universal restriction to require a referendum for any increase cannot be totally discounted and 1.5% which reflects the suggestion in recent

DCLG Ministerial statements as a possibility have been modelled to assess the impact of each one.

- 14.14 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	115.41	117.71	2.30	117.13	1.72
B	134.65	137.33	2.68	136.66	2.01
C	153.88	156.95	3.07	156.18	2.30
D	173.12	176.57	3.45	175.70	2.58
E	211.59	215.81	4.22	214.74	3.15
F	250.06	255.05	4.99	253.79	3.73
G	288.53	294.28	5.75	292.83	4.30
H	346.24	353.14	6.90	351.40	5.16

Use of Reserves

- 14.15 The PCC has reviewed the Reserves Strategy and will continue to do so as part of future revisions of the MTFs 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.
- 14.16 The principle of the PIR supporting “spend to save” initiatives and to underpin and support performance during the period of implementation of the CSR 2015 Savings Plan has been established. This has been particularly important given the CSR Plan involves significant staffing changes which take time to implement and carry with them substantial additional one-off costs. Reserves will continue to be used to support the changes needed as the Force redesign is implemented. In developing the options set out in the MTFs, the PCC intends to mitigate the impact of additional savings by meeting a proportion of the saving requirement in 2014/15 and later years whilst maintaining the requirement to arrive at a balanced position over the term of the MTFs.
- 14.17 Applying this to all options would leave estimated balances of £4.9m for Option 1, £7.6m for Option 2 and £5.4m for Option 3 in the PIR at the end of 2018/19. Consideration needs to be given to the level of contingency required to enable any further budget reductions in future years arising from assumptions not contained within the MTFs to continue to be addressed in a planned and carefully managed way whilst taking account of the impact on performance and service implications for the public. The Partnership Reserve is discussed above and it is suggested that the balance in this reserve should be used in a similar way as it has been previously, i.e. to support and facilitate transition in the way partners can contribute to delivering the outcomes set out in the Police and Crime Plan.
- 14.18 The Risk Management Reserve is retained at its current level and the balance will be kept under review as the year progresses.

Reassessment of Priorities

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

14.20 The Force and the OPCC have developed Delivery and Corporate Plans, which will incorporate the outcomes and objectives.

14.21 It is not considered necessary the Plan needs significant amendment at this stage and so the above outcomes and supporting objectives will remain in place. The position will be formally reviewed as part of the arrangements for preparing the annual report for 2013/14 which will be completed and submitted to the PCP for consideration later this year.

External Funding

14.22 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. This is evidenced by the successful bid for monies from the Pre-cursor Innovation Fund. However, it is clear that with the whole of the public sector continuing to face severe cuts and the general economic downturn it will inevitably be more difficult to obtain additional or even maintaining current levels of external funding.

14.23 The Commissioner recognises that as deepening public sector cuts take effect against the background of increasing demands for service that close partnership working will be essential if the outcomes set out in the Police and Crime Plan are to be achieved.

14.24 He has sought to establish good relationships with the Local Strategic Partnerships (LSPs) and Community Safety Partnerships (CSPs) and local authorities so that he can be in the best position to address this wider agenda. A number of summits have been held with partners to

establish the best way of dealing with challenges in key areas such as violent crime, adult re-offending pathways and youth crime. Discussions have taken place with all of the local authorities within the Force area and there is support for the development of a pan-Humber strategic group to examine partnership working and to help to shape the detailed proposals and address issues arising from the Force redesign.

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

Income Generation

- 14.26 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 MTFs 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.
- 15.2 The absence of information on the referendum limits represents a major risk insofar as the preferred precept proposal and the one that the PCC has consulted upon could still give rise to a vote if the eventual level set out by the Government is less than 2%. This is mitigated by considering and having available alternative options but the situation is far from satisfactory as in the event of a referendum the PCC would be exposed to the risk of having to fund the vote and also to 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.
- 15.3 Significant work has continued with colleagues within the Region and Sub-Region and with local partners and the MTFs will need to continue to be revised as the year progresses.
- 15.4 It should be noted that although the PCC faces a number of significant financial uncertainties he remains in a relatively strong position to respond to the challenges ahead.

General Balances

- 15.5 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 and to support the delivery of the Police and Crime Plan..

Pay and Pay Increases

- 15.6 Financial projections reflect the latest information on agreed pay awards with realistic suggestions for future years that are comparable with the assumptions being used across the sector based on peer reviews.

- 15.7 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 by an estimated £3.3m.
- 15.8 The financial projections also include provision for the increased employers' superannuation contributions following the Local Government Pension Scheme triennial review at March 2013 with the new contribution rate being applied from 1 April 2014.
- 15.9 No increase in employers' contributions in respect of Police Officers beyond the 24.2% applied in 2013/14 has been assumed.

Price Increases

- 15.10 At this stage no provision has been made for non pay inflation other than for known increases in costs already identified. This is mitigated by:
- the non pay elements of the MTFS having been reviewed and increased in previous years
 - incorporating details of increased charges passed on by the College of Policing (formerly the NPIA)
 - 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. This promotes proactive local budget management and allows for some flexibility of operation.

Capital Financing

- 15.11 The risk is that capital financing charges will be greater than forecast. This is mitigated by:
- the MTFS 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 will be considered on an ongoing basis in line with the approved Treasury Management Strategy.

Financial Planning

- 15.12 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;
 - Linked financial and workforce planning;
 - Regular liaison by senior officers of the Force and the PCC, the existence of the Chief Officer Group (COG) and the Force Leadership Team, together with reporting to the PCC with the aim of strengthening and coordinating the financial planning by both the PCC and Chief Constable;

- Arrangements to ensure that Chief Officers, Divisional 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 Force Performance Conference to enhance the overall internal control environment;
- Oversight of the implementation of business change and savings by a Project Board including representation from the OPCC and PCC involvement in the FBM process.
- Revised corporate governance arrangements being agreed with the creation of a Corporate Governance Group and a supporting co-ordination group made up of senior Force and OPCC officers.

National Funding

- 15.13 The MTFS incorporates the information contained within the Police Grant Settlement announcement and information on other Government support. Details of the support for Counter Terrorism remains outstanding but this generally has a nil net effect as income matches expenditure. The Settlement includes continued use of a damping mechanism that has resulted in all PCCs receiving a cash reduction in main grant of 4.8% in 2014/15 when compared with the current financial year. There is uncertainty beyond 2014/15 as the Home Office has indicated that she intends to carry out a full review her Departmental budget before announcing details of allocations for 2015/16.
- 15.14 The Home Secretary has commissioned a review of the funding formula. The formula review was intended to commence during 2013/14 but work has been delayed and it now seems unlikely that any new proposals would be capable of being implemented before 2016/17.
- 15.15 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, the National IT Company and the National Police Air Service and the financial implications for the Force that flow from them.
- 15.16 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 changes arising from welfare reform.

Capital Programme Implications

- 15.17 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 external professional advice;
 - IS/IT strategies are reviewed and are centred around developing information systems and data solutions for the Force and work to harmonise long term strategies with South Yorkshire Police and 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 are produced as part of a well established process and reports will be considered routinely by the Force as part of the FBM process 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; and
- The revenue consequences of the capital programme, including the costs of borrowing, have been included in the MTFS

Risk Assessment

- 15.18 There is a danger that all risks have not been identified in the MTFS 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 and
 - having a Partnership Reserve available to support working with external agencies involved in crime and community safety activities
- 15.19 The consequences of the investments held in the UK subsidiaries of the Heritable and Kaupthing Singer and Friedlander Icelandic banks in the MTFS reflect the latest assessment of recovery and accounting requirements. Updates on recovery of monies in respect of these investments have been set out regularly in treasury management reports. These reports will continue to be presented to the Joint Internal Audit Committee and to the PCC.
- 15.20 Officers will use local, regional and national working groups to seek to ensure that the potential implications of future levels of funding, interest rates and inflations can be fed into the MTFS as the position becomes clearer

16 Impact Assessment

- 16.1 The FBM process, through which decisions will be taken regarding the scale and timing of savings to be delivered from the CSR 2015 Plan, includes 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 and Treasurer and the Assistant Chief Officer (Support) have responsibilities under s 151 of the Local Government Act 1972. As such, both are required to report on the robustness of the budget and on the adequacy of reserves which the PCC must have regard to when making his decision on the budget and the precept. They can confirm that the budgets set out in all of the options contained within the MTFS 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 relatively good and stable financial position but this is becoming increasingly challenging as it is for all of those involved in policing;
 - The Force's and the PCC's financial management processes remain fundamentally sound;
 - The MTFS remains a key tool for the PCC in planning budgets within a medium term financial context;
 - All PCCs will receive a reduction of 4.8% in Government funding when compared with 2013/14;

- It is unacceptable that key information on the referendum limits for 2014/15 have still not been announced and that the eventual level of increase that will be required to be put to the electorate could be lower than the indicative information that PCCs relied upon when undertaking public consultation on their proposals;
- For 2014/15 and later years the PCC has the challenge of managing Community Safety Funding which partner agencies have placed reliance on in the past whilst recognising the difficulties of balancing making available resources to the Force and for the “and Crime agenda” against a need for substantial further budget reductions;
- The CSR presented significant challenges for the Force and PCC and all of the indications are that the future will be even more challenging;
- There is continuing uncertainty over future funding with no information available on 2015/16 Home Office allocations but statements that the age of austerity will last for longer than originally anticipated are likely to give rise to further reductions;
- Considerable assurance can be taken from the achievements of the Force in making savings to date with over £28.3m of savings estimated to be made by 31 March 2014;
- The Force have established tried and tested business processes that have generated savings in response to previous targets;
- The Force has made significant progress in meeting the savings challenge of the CSR without there being an adverse effect on performance.
- The Force’s work that is underway to develop a new policing model in response to the constraints on resources;
- The PCC has undertaken a public consultation exercise to test support for a proposal to increase the precept which has received a positive response with a significant majority of those who responded supportive and indicating that they would be prepared to pay more if this helped to limit reductions in the numbers of police officers and PCSOs and to invest in new technology.
- There are options available for setting the budget and precept for 2014/15 but these may be affected by announcements on referendum principles that have yet to be made and
- The PCC’s preferred proposal is to increase the precept by 1.99% but he is still in a position where he may have to consider alternative options in light of the failure of the Government to provide key information on restrictions on Council Tax/Precept increases.

18.2 The financial implications of each of the options are detailed in the report.

POLICE & CRIME COMMISSIONER FOR HUMBERSIDE
REVENUE BUDGET FORECAST 2014/15 TO 2018/19 (OPTION 1)

APPENDIX 1

	2014/15	2015/16	2016/17	2017/18	2018/19
	£k	£k	£k	£k	£k
BUDGET REQUIREMENT					
Previous Year's Budget Requirement	178,530	180,002	171,834	171,352	170,216
Pay & Pensions	4,302	2,146	5,127	3,309	2,914
Other Pressures	3,663	1,679	1,474	156	195
Regional Savings/Costs	292	(39)			
GAP	(12,598)	(13,385)	(10,354)	(5,664)	(1,918)
GAP funded from Reserves	5,813	1,431	3,271	1,063	
TOTAL BUDGET REQUIREMENT	180,002	171,834	171,352	170,216	171,407

	2014/15	2015/16	2016/17	2017/18	2018/19
	£k	£k	£k	£k	£k
FUNDING POSITION					
Police Revenue Grant	72,040	69,446	68,748	68,748	69,439
DCLG Formula Funding	48,591	47,051	46,580	46,580	47,046
Council Tax Grant	8,341	8,315	8,315	8,315	8,315
Council Tax	43,017	43,391	44,438	45,510	46,607
Council Tax Freeze Grant	2,200	2,200			
TOTAL PERMANENT FUNDING	174,189	170,403	168,081	169,153	171,407
Base Funded From Reserves	5,813	1,431	3,271	1,063	
TOTAL TEMPORARY FUNDING	5,813	1,431	3,271	1,063	
TOTAL FUNDING	180,002	171,834	171,352	170,216	171,407

	2014/15	2015/16	2016/17	2017/18	2018/19
	£k	£k	£k	£k	£k
SAVINGS PLAN SUMMARY					
GAP	(12,598)	(13,385)	(10,354)	(5,664)	(1,918)
CSR SAVINGS PLAN					
Estimated CSR Savings	2,963				
Additional Savings	3,822	11,954	7,083	4,601	1,918
SAVINGS PLAN	6,785	11,954	7,083	4,601	1,918
Base Funded From Reserves	5,813	1,431	3,271	1,063	
TOTAL FUNDING SURPLUS/(DEFICIT)					

POLICE & CRIME COMMISSIONER FOR HUMBERSIDE
REVENUE BUDGET FORECAST 2014/15 TO 2018/19 (OPTION 2)

APPENDIX 2

	2014/15	2015/16	2016/17	2017/18	2018/19
	£k	£k	£k	£k	£k
BUDGET REQUIREMENT					
Previous Year's Budget Requirement	178,530	179,998	171,804	171,530	170,879
Pay & Pensions	4,302	2,134	5,043	3,309	2,986
Other Pressures	3,659	1,665	1,453	121	179
Regional Savings\Costs	292	(39)			
GAP	(12,249)	(12,990)	(9,333)	(4,900)	(1,707)
GAP funded from Reserves	5,464	1,036	2,563	819	
TOTAL BUDGET REQUIREMENT	179,998	171,804	171,530	170,879	172,337

	2014/15	2015/16	2016/17	2017/18	2018/19
	£k	£k	£k	£k	£k
FUNDING POSITION					
Police Revenue Grant	72,040	69,446	68,748	68,748	69,439
DCLG Formula Funding	48,591	47,051	46,580	46,580	47,046
Council Tax Grant	8,341	8,315	8,315	8,315	8,315
Council Tax	43,862	44,256	45,324	46,417	47,537
Council Tax Freeze Grant	1,700	1,700			
TOTAL PERMANENT FUNDING	174,534	170,768	168,967	170,060	172,337
Base Funded From Reserves	5,464	1,036	2,563	819	
TOTAL TEMPORARY FUNDING	5,464	1,036	2,563	819	
TOTAL FUNDING	179,998	171,804	171,530	170,879	172,337

	2014/15	2015/16	2016/17	2017/18	2018/19
	£k	£k	£k	£k	£k
SAVINGS PLAN SUMMARY					
GAP	(12,249)	(12,990)	(9,333)	(4,900)	(1,707)
CSR SAVINGS PLAN					
Estimated CSR Savings	2,963				
Additional Savings	3,822	11,954	6,770	4,081	1,707
SAVINGS PLAN	6,785	11,954	6,770	4,081	1,707
Base Funded From Reserves	5,464	1,036	2,563	819	
TOTAL FUNDING SURPLUS/(DEFICIT)					

POLICE & CRIME COMMISSIONER FOR HUMBERSIDE
REVENUE BUDGET FORECAST 2014/15 TO 2018/19 (OPTION 3)

APPENDIX 3

	2014/15	2015/16	2016/17	2017/18	2018/19
	£k	£k	£k	£k	£k
BUDGET REQUIREMENT					
Previous Year's Budget Requirement	178,530	180,000	171,829	171,301	170,042
Pay & Pensions	4,302	2,146	5,163	3,285	2,902
Other Pressures	3,661	1,676	1,474	148	190
Regional Savings\Costs	292	(39)			
GAP	(12,464)	(13,448)	(10,160)	(5,573)	(1,946)
GAP funded from Reserves	5,679	1,494	2,995	881	
TOTAL BUDGET REQUIREMENT	180,000	171,829	171,301	170,042	171,188

	2014/15	2015/16	2016/17	2017/18	2018/19
	£k	£k	£k	£k	£k
FUNDING POSITION					
Police Revenue Grant	72,040	69,446	68,748	68,748	69,439
DCLG Formula Funding	48,591	47,051	46,580	46,580	47,046
Council Tax Grant	8,341	8,315	8,315	8,315	8,315
Council Tax	43,649	43,823	44,663	45,518	46,388
Council Tax Freeze Grant	1,700	1,700			
TOTAL PERMANENT FUNDING	174,321	170,335	168,306	169,161	171,188
Base Funded From Reserves	5,679	1,494	2,995	881	
TOTAL TEMPORARY FUNDING	5,679	1,494	2,995	881	
TOTAL FUNDING	180,000	171,829	171,301	170,042	171,188

	2014/15	2015/16	2016/17	2017/18	2018/19
	£k	£k	£k	£k	£k
SAVINGS PLAN SUMMARY					
GAP	(12,464)	(13,448)	(10,160)	(5,573)	(1,946)
CSR SAVINGS PLAN					
Estimated CSR Savings	2,963				
Additional Savings	3,822	11,954	7,165	4,692	1,946
SAVINGS PLAN	6,785	11,954	7,165	4,692	1,946
Base Funded From Reserves	5,679	1,494	2,995	881	
TOTAL FUNDING SURPLUS/(DEFICIT)					