

MEETINGS: Police & Crime Panel	DATE: 4 th February 2021	AGENDA NO:
DEPARTMENT: PCC's Office - Finance	AUTHORS: Paul Butler – PCC CFO	
NAME OF PAPER: 2021/22 Medium Term Financial Plan, Precept and Budget Requirement		

1. RECOMMENDATION

The Police and Crime Panel is asked to consider and support the following recommendation that will be tabled at the Police and Crime Board on 4th February 2021.

That the Police and Crime Commissioner for Avon and Somerset (PCC) considers the budget proposals and background information covered in the Medium Term Financial Plan and approves, subject to consultation with the Police and Crime Panel:-

- i. A revenue budget requirement for 21/22 of £340.780m¹*
- ii. An initial capital plan for 21/22 of £21.263m*
- iii. Funded in part by a proposed council tax precept to be levied in respect of general expenses of £138.614m (equivalent to a Council Tax Band D of £242.81 – an increase of £15 on 2020/21), to be apportioned to each collecting authority according to the following table:-*

	Tax Base (No.)	Precept £'000	%
Bath and North East Somerset Council	66,712	16,198	11.7%
Bristol City Council	127,950	31,068	22.4%
North Somerset Council	78,739	19,119	13.8%
South Gloucestershire Council	98,044	23,806	17.2%
Mendip District Council	41,338	10,037	7.2%
Sedgemoor District Council	40,991	9,953	7.2%
South Somerset District Council	61,153	14,849	10.7%
Somerset West and Taunton Deane Council	55,948	13,585	9.8%
TOTAL	570,875	138,614	100.0%

2. PURPOSE OF REPORT AND BACKGROUND

Our Medium Term Financial Plan (MTFP) sets out the financial plans for both revenue and capital budgets over the next five years. It is prepared:-

- following discussions and consultation with budget holders;

¹ There remains some ambiguity around the correct accounting treatment for some of the one off council tax grants expected to be received in 21/22 and therefore the final budget requirement may be subject to some changes as we achieve greater clarity.

- in conjunction with service and workforce planning; and
- through ongoing conversations between the PCC and the Chief Constable.

This paper reflects the draft police and local government settlement detail (which are subject to ongoing consultation but not expected to materially change) and the council tax position supplied to us by our local billing authorities (which in some cases remains subject to final confirmation).

3. COUNCIL TAX CONSIDERATIONS AND PUBLIC CONSULTATION

The final plan reflects an **increase in council tax of £15 in 2021/22**, representing the maximum increase permitted without incurring the cost and risk of a local referendum. The decision to increase the precept by £15 is reflective of:-

- The need to provide additional funding of £1.2m in 21/22 on top of the extra grant funding (+£9.4m) provided in order to support the plans to deliver the uplift in officer numbers that achieve the government's target by March 2023;
- The opportunity to recruit beyond the national target with a plan which will realise a forecast of **3,221 officers, 115 more than national target, by the end of the 2021/22** financial year, rather than slow down these plans in line with lower than expected national targets;
- The **views of the public**, as expressed through a range of ongoing public engagement activity. Returns from the online and telephone surveys indicate that a majority of respondents support an increase, but with a significant minority wanting a freeze. A detailed analysis of opinion, including from the postal survey, will be provided to the Panel in an additional paper; and
- The **views of the Chief Constable**, who has expressed his opinion in writing to the PCC.

In reaching the conclusion to increase the precept by the maximum amount permissible and thereby to deliver the revenue plans described below, alternative options were considered, with the main alternative scenario being an increase of 5% (+£11.39 for an average band d property). This scenario was modelled, with the following conclusions:-

- The difference for an average band d household between the two scenarios is £3.61 p.a. or £0.30p per month;
- A 5% precept increase would initially generate £2.1m less in funding in 21/22 compared to the maximum increase, rising to a difference to £2.3m by 25/26 as a consequence of future increases being against a lower starting point;
- At a 5% increase we would be unable to maintain our current officer recruitment momentum and would need to slow down our recruitment plans, targeting a forecast of 3,152 officers which would be 69 fewer officers than a £15 increase would support;
- The maximum council tax increase would offer some additional security when entering into the uncertainty of a new spending review where difficult decisions will be needed to reset public finances following the consequences of our response to the Covid-19 pandemic.

From 2021/22 onwards our plans assume annual increase of 1.99% p.a. The impact on the average band d policing precept over the course of the MTFP period is as follows:

	Actual	MTFP				
	20/21 £p	21/22 £p	22/23 £p	23/24 £p	24/25 £p	25/26 £p
Av. Band D Precept	£227.81p	£242.81p	£247.64	£252.57p	£257.60p	£262.72p
Annual increase %		+6.6%	+2.0%	+2.0%	+2.0%	+2.0%
Annual increase £p		£15.00p	£4.83p	£4.93p	£5.03p	£5.13p

4. REVENUE PLAN HEADLINES

Our MTFP forecasts the following position:-

	Forecast				
	21/22 £'000	22/23 £'000	23/24 £'000	24/25 £'000	25/26 £'000
Budget requirement	348,041	358,952	372,507	382,451	393,312
Less; Total funding	(340,780)	(351,258)	(362,016)	(371,341)	(380,093)
(Surplus)/Deficit before savings	7,261	7,694	10,491	11,110	13,219
Savings	(7,261)	(7,694)	(8,606)	(7,756)	(5,761)
(Surplus)/Deficit after savings	-	-	1,885	3,354	7,458

In summary we are forecasting a balanced position for the next 2 years followed by a deficit position of £1.9m in 23/24 rising to £7.5m in 25/26. Within this we have accounted for:-

- The delivery of an **extra 450² police officers by September 2022**, six months ahead of the March 2023 target date, with plans in 2021/22 to use these extra officers to:-
 - Invest in our **investigative capacity**, building on an evidence base established through our **Operations Bluestone, Ruby and Topaz**, to improve outcomes for victims of the most traumatic and life changing crimes of rape and sexual offences, child abuse and child exploitation;
 - Strengthen our capacity to manage those persistent and repeat offenders who commit the greatest proportion of crime in our communities by using our officer uplift plans to invest in the establishment of an **Integrated Offender Management hub in each of our local authority areas**, thereby increasing the cohort of offenders receiving intensive, multi-agency, 360 degree management to the optimum level for maximum impact in crime and harm reduction;
 - Extending the temporary capacity that supports our Operation Remedy team

² 450 is the total forecast extra officers expected through the Government's officer uplift programme.

for a further 12 months, building on their existing successes and allowing us the time to use our uplift plans to **sustainably embed new and dedicated proactive 'remedy' teams across each of our 5 local authority areas**, providing greater capacity to 'pursue' offenders allied to neighbourhood, offender management and the violence reduction units;

- An increase to our revenue contributions to **support capital investment** across our digital capabilities, as well as our estate, fleet and equipment requirements;
- Increases to **national IT charges** from the Home Office and for the **National Police Air Service** in line with charging mechanisms from April 2021;
- Support for enhanced capacity and structures within our IT Directorate, permanent funding for our out of court disposals operations, training and development of new detectives and for a new mobile policing application to further support digital mobilisation.

In 2010 Avon and Somerset had a budgeted establishment of over 3,300 officers, which reduced to a low point of around 2,500. This investment will return officer numbers to 3,106 by March 2022.

The key assumptions that underpin this forecast include:-

- Increases in **revenue grant funding +£33.9m by 25/26** to both support the cost of delivering the uplift in officer numbers and provide for an annual inflationary pay increases forecast with effect from 2022/23;
- Increases in **council tax funding +£26.4m by 25/26** achieved through both increases to the precept (see above) and movements in tax base in line with forecasts being made across our local authorities;
- Inflationary and incremental adjustments to **officer and staff pay** of a pay freeze (or £250 if earning less than £24k) in 21/22 thereafter assuming an increase of 2.5% p.a. – an increase in cost of **+£4.5m** in 21/22 rising to **+£33.2m** p.a. by 25/26;
- Increases to our **pensions costs** to provide for current and anticipated future deficits in our staff and officer pension schemes, as well as inflationary increases for injury pensions – an increase in cost of **+£0.5m** in 21/22, increasing to **+£3.4m** by 25/26;
- Inflationary increases to **non-pay costs** of 2.0%³ across the MTFP - an increase in cost of **+£1.6m** in 21/22 rising to **+£6.5m** p.a. by 25/26;
- Increases in our **cost of capital investments**, recognising both growth in direct revenue funding of capital spend as well as increased costs associated with future planned borrowing – an increase of **+£0.4m** in 21/22 rising to **+£0.6m** p.a. by 25/26;
- **Investment and growth** across the Constabulary, predominantly focussed on realising the planned uplift in officer numbers as detailed above. Our total planned investments are forecast to cost **+£15.7m** in 21/22 rising to **+£24.0m** p.a. by 25/26;
- Realisation of new **revenue savings and adjustments** of **-£7.3m p.a.** in 2021/22, with further movements in these expected over the course of the MTFP period.

³ 2.0% p.a. general inflation; 3.0% p.a. for utilities; 21/22 freeze, rising for fuel costs rising to 2.5% p.a; and 3.9% p.a. for business rates

5. CAPITAL PLAN HEADLINES AND RESERVES

The draft capital programme forecasts the following position:-

	20/21	21/22	22/23	23/24	24/25	25/26
	£'000	£'000	£'000	£'000	£'000	£'000
Forecast Capital Expenditure	9,319	21,263	20,772	21,605	12,512	7,960
Less; Forecast Capital Funding	9,319	21,263	20,772	21,187	12,512	7,960
Deficit	-	-	-	418	-	-

In summary we are forecasting:-

- Total capital expenditure of £93.4m over this financial year, and the next 5 years;
- Total capital funding of £93.0m over the same period;
- Resulting in a shortfall of £0.4m in 23/24 at this point in our planning process.

Some of the key areas of capital investment are:-

- **ICT Asset replacement** – the plan includes £25.4m for the ongoing replacement of IT assets, which include both end user devices (e.g. laptops, mobile phones, body worn video cameras) as well as IT infrastructure (e.g. networks, security and storage);
- **Fleet replacement** – the plan includes £16.6m for the ongoing replacement of our fleet of vehicles;
- **Emergency Services Network (ESN)** – the plan includes £12.2m to implement this national airwave (police radios) replacement programme. The timing and value of this project remains the subject of significant ambiguity at this point in our planning, with the expectation of the final business case being available in Q1 21/22;
- **Corporate systems** – the plan includes an estimate of £8.0m to replace our Enterprise Resource Planning (ERP) system which provides for HR, financial and procurement capabilities;
- **New Yeovil police station** – the plan includes £6.2m investment to support this project to re-provision a new fit for purpose police station on our existing site.

Our plans will remain subject to ongoing review, particularly in relation to national programmes as the outlook for these becomes clearer.

Our Capital funding forecasts assume:-

- A freeze in our Home Office **capital grant** funding (confirmed in the 21/22 settlement announcements), at £0.3m p.a.
- An uplift to our recurring **contribution from revenue budgets** to help compensate for this loss of capital grant. Our revenue budgets will support an annual recurring contribution of £7m towards capital projects;
- After an initial increase in our **capital reserves** to £19.8m at the end of 20/21 we forecast that these reserves will be fully used by the end of 22/23;
- Use of **Capital receipts**, after being realised through the sale of buildings and other assets. This will exhaust all current planned opportunities to generate receipts from the sale of buildings in our estate;

- **Borrowing** a further £14.6m of borrowing is planned, of which £1.3m will be taken by the end of the 2019/20 financial year. This borrowing will be used to fund our investment in longer life assets (e.g. buildings). The revenue cost of this borrowing has been built into our revenue forecasts.

6. RESERVES AND MANAGEMENT OF FINANCIAL RISK

Decisions on **reserves** will be taken once the 2019/20 outturn position is clear, but within this context the following plans are being developed:-

- New PCC fund – we plan to set aside £1m in earmarked reserves to provide initial funds to support a new PCC in progressing their priorities within their first year in office;
- General fund – the OPCC CFO has reviewed the general fund risk assessment, and through consultation with the Constabulary CFO and PCC has proposed an increase to the general fund from £9m to £12m at March 2021 to manage the risk arising from the potential economic disruption caused by COVID-19. The proposed general fund balance represents 3.4% of 20/21 Net Revenue Expenditure;
- Capital funding – to the extent we are able to we plan to utilise any available funds to support ongoing capital investment, and it is on this basis that we have prepared our capital plans.

As reported in our financial statements at the end of March 2020 the PCC had total usable reserves of £49.0m. This level of reserves is substantially reduced from their peak £60 million in 2015 and the Avon & Somerset level remains very close to the national average level held by PCCs as % of revenue spend.

Our MTFP forecasts an initial increase in the level of reserves at the end of 2020/21, in line with the above proposals. This is then forecast to reduce substantially over the two years to a recurring level of c. £22m by March 2024.

Our plans recognise a number of **risks** in relation to financial planning. These include:-

- Grant Funding – The grant funding confirmed in the settlement only provides information for 21/22, with the value of future grant funding to be determined through the Spending Review expected to happen over the Summer of 2021. We have made assumptions that funding will continue to grow to both support the cost of delivering the officer uplift, as well as for an inflationary pressures to enable us to manage increases in existing costs. If our assumptions are inaccurate our plans will need to be revised;
- Funding formula – police grant funding is distributed in accordance with a historic formula, which has been widely discredited as effective. This may be reviewed during the course of the MTFP, affecting Avon & Somerset's allocation of main grant. Any weighting of the formula further away from population will see reductions in funding;
- Capital Plan – is currently forecasting a small deficit in year 3 after using all existing capital reserves and capital receipts, and after sustainable increase to our revenue funding for capital and a material uplift in borrowing (see above);
- Pension costs – Pressures on employers' contributions continue to increase. Both

officer and staff employer contribution rates increased at the last valuation, and in light of the wider economic situation and the consequences of the recent age discrimination ruling, we expect pension liabilities to increase in coming years. We have provisioned in our forecasts for increases to staff pay costs here, but recognise that increases to officer pensions costs will need to be resolved in consultation with the government;

- Pay and inflation – we have provided (see above) for pay awards and inflation but there remains a risk of pay awards outstripping the increases in grant and precept funding;
- National Police Programmes (e.g. ESN) – the scope and ambition of National programmes is increasing. This includes several initiatives which have already seen both delays and rising costs, some of which could be passed onto individual PCCs.

7. EQUALITY ANALYSIS

All business cases in support of change, both with revenue and capital implications are subject to an equality impact assessment. This way we can ensure that those decisions on how we allocate our funding across budgets and plans are cognisant of equality issues.

8. SUSTAINABILITY

Sustainability is important in regard to ensuring the organisation is living within both its financial limits (financial sustainability) as well as within its environmental limits through ensuring effective and efficient use of natural resources. In fulfilling the objectives in terms of financial sustainability, this report, and our regular quarterly financial reports, ensure we are able to maintain a good overview of our financial sustainability. Wider environmental sustainability considerations are also accounted for within the budget and capital programme.

9. PCC'S CONSIDERATIONS IN MAKING THIS DECISION

The PCC has carefully considered the various issues and assumptions set out in the MTFP in presenting this budget and council tax proposal to the panel. In particular she has considered the following factors:

- The Government's announcement in 2019 of an additional 20,000 police officers (Operation Uplift) has understandably set expectations of significant (and immediate) improvements in the policing service nationally. This is despite the Home Office funded Uplift programme only starting in the current financial year, it being a 3 year programme and under the Police Constable Degree Apprenticeship scheme Police Constables only becoming fully qualified after 3 years meaning the full impact of the Uplift scheme will not be delivered until 2026 even on the original timetable. This budget will enable Avon and Somerset to maintain the originally announced profile of recruitment and maintain momentum in its improvement programme;
- The Government provides 59% of the Avon and Somerset budget from central

Government grant – 41% comes from local council taxation (the percentage coming from local taxation has increased significantly in the last 10 years as Government has on occasions reduced or frozen its contribution – it was only 32% of the total Avon and Somerset budget in 2011). The central Government grant element has been frozen for next year and so PCCs need to increase the council tax by significantly more than inflation in order to keep pace with inflation in the budget as a whole. When announcing the police settlement in December the Home Office included the full council increase in each area in the announcement seemingly assuming PCCs would take the full entitlement;

- Given the timing of the police settlement announcement and the paper submission timetable to the panel it was not possible to complete the budget consultation process when this paper was finalised. At the time of finalisation it was clear from the telephone survey results that there was still support for a substantial increase in council tax to support improved policing but it was also clear that the negative financial outlook and uncertainty had reduced people’s willingness to support an increase from previous years and this was particularly the case in the online survey where a significant minority did not support a rise. The PCC has taken account of this and balanced that against the public expectation of improvements in policing from a timely implementation of Operation Uplift and the overall financial impact on households of the different levels of increase - the difference for an average band d household between the 5% and 6.6% scenarios is 30p per month. A more up to date consultation paper will be presented as a late paper;
- The PCC and her team have worked closely with the Chief Constable on the design of the improvement programme to ensure it meets the requirement to deliver a tangible and noticeable improvement in police and crime services for local people and the PCC believes that the emphasis on proactive offender targeting through Operation Remedy, the enhancement of the Integrated Offender Management scheme and the investment in investigative capacity in particular are key steps in enabling this improvement. This is further supported by the survey carried out by the OPCC which (while a majority supported the enforcement approach during the pandemic) contained a significant majority who wanted more enforcement activity.