

POLICE & CRIME PANEL – 4 FEBRUARY 2020

2020/21 BUDGET, PRECEPT AND MEDIUM TERM FINANCIAL STRATEGY

REPORT BY CHIEF FINANCE OFFICER

PURPOSE OF THE PAPER

To set out the Police and Crime Commissioner's proposals for the 2020/21 budget, precept and the medium term financial strategy.

1. BACKGROUND

- 1.1. The Police and Crime Commissioner (PCC) for each force area are required each year to set a balanced budget, including the precept to be charged to council tax payers. All funding is received by the PCC and they consult with the Chief Constable to determine how the funding should be allocated to ensure an efficient and effective police service.
- 1.2. In respect of the precept element of the budget, the PCC is required to notify the Police and Crime Panel of the proposed precept by 1 February each year, which must be considered within a week. The Panel can either accept the precept or veto it, subject to two thirds of the Panel supporting the veto. In the event of a veto, the PCC must present a revised precept by 15 February, which the Panel must consider by 22 February. A reserve date of 18 February has been set for a second meeting of the Panel, should this become necessary.
- 1.3. Over the last decade, Policing has faced significant reductions in resources at a time of increasing demand. Over that time, the burden on local taxpayers has increased, with council tax generating £13.5m more in 2019/20 than in 2010/11, whereas core government grant ended the decade at the same level as in 2010. While the announcement of additional officers is welcomed, there are still significant challenges with maintaining existing staffing levels and dealing with cost pressures to deliver a balanced budget.
- 1.4. In his written statement made on 22 January 2020, the Minister of State for Crime, Policing and the Fire Service said that the 2020/21 police funding settlement represented the "single biggest increase in Government investment in policing for some time". The statement set out that this assumed full take up of the council tax precept flexibility by PCCs – an increase of £10 on a Band D equivalent property.

2. STRATEGIC APPROACH

- 2.1. The Dorset Police and Crime Plan sets out the strategic intent for Policing in Dorset and is structured around the four pillars of:
 - Protecting People at Risk of Harm
 - Working with our Communities
 - Supporting victims, Witnesses and Reducing Reoffending
 - Transforming for the Future

- 2.2. The budget is designed to support the delivery of the Police and Crime Plan which is now entering its final year. A new plan will be developed during 2020 which will be used to drive the budget in future years.
- 2.3. The Financial Strategy, including the Capital Strategy, Reserves Strategy and Treasury Management Strategy are used to translate the vision of the Police and Crime Plan into the detailed budget, with the Medium Term Financial Plan setting out what this looks like for future years.
- 2.4. The strategic approach taken to balancing the 2020/21 budget is to take a longer term view to ensure that decisions taken are sustainable and that the budget starts the decade on firm foundations, to build greater financial resilience and delivering value for money for Dorset residents.

3. CORE FUNDING

- 3.1. The core funding for the revenue budget comes from 2 main sources; government grant and council tax. For 2019/20, the split between the two was almost equal and for 2020/21 this will remain broadly similar. The funding from each source is set out in the table below:

Funding	2019/20 £		2020/21 £		Change £
Government Grant	66,880,436	(49.7%)	71,293,231	(50.3%)	4,412,795
Council Tax Precept	66,835,734		70,106,575		3,270,841
Collection Fund Surplus	951,534		215,320		(736,214)
Total Council Tax funding	67,787,268	(50.3%)	70,321,895	(49.7%)	
Total Core Funding	134,667,704		141,615,126		6,947,422

Government Grant

- 3.2. The Government Grant funding is usually announced as a Provisional Settlement in December each year with the Financial Settlement confirmed in January. For 2020/21 the snap General Election in December meant that no Provisional Settlement was issued and the Settlement was announced on 22 January 2020.
- 3.3. The Government Grant is made up of two main elements; Police Grant (made up of Police Core Grant and MHCLG Formula Funding) and Legacy Council Tax Grants. For 2019/20 the main Police Grant Funding totalled £58.96m and Council Tax Grants totalled £7.92m. While the Police Grant Funding was expected to increase each year of the Medium Term Financial Plan by 1.8%, the Legacy Council Tax grants remain at the same level as originally granted. Each 1% increase in Police Grant generates around £589,600.
- 3.4. The settlement confirmed that the legacy council tax grants would remain at the same level as 2019/20, however, there was no general inflationary increase in the Police Grant. The only increase to the Police Grant was in relation to the Police Uplift Programme. In the Autumn Statement it was announced that an additional £750m would be available to fund the programme and the settlement set out how this funding was to be allocated, as set out below:
- £50m retained centrally to support the recruitment
 - £532m allocated to Police and Crime Commissioners through core grant
 - £168m allocated to Police and Crime Commissioners through a ring-fenced grant
- 3.5. The ring-fenced element of the grant will be paid quarterly in arrears, subject to evidence of progress in recruiting the additional officers by March 2021. The settlement also made clear

that this grant was also to enable the relevant infrastructure improvements needed to recruit the 20,000 additional officers by March 2023 to be made.

3.6. In addition to the core grant, the settlement also confirmed that the Pensions Grant introduced in 2019/20 would continue at the same level in 2020/21 but that the capital grant would reduce by 74%.

3.7. The funding for Dorset is set out below:

	£
Police Grant	63,374,657
Legacy Council Tax Grant	7,918,574
Total Core Funding	71,293,231
Ring-fenced Grant	1,393,514
Pension Grant	1,379,367
Capital Grant	110,507

3.8. In recognition of the fact that an element of the ring-fenced grant is in relation to costs which will be incurred in 2021/22 and 2022/23 when later phases of the uplift programme are delivered, £200,000 of this grant will be transferred to a new reserve once it has been received.

Council Tax

3.9. The council tax precept is the main source of council tax funding and is the total amount charged to Dorset residents. The Band D council tax charge is calculated by dividing the total precept by the taxbase. While the setting of the precept, and therefore the Band D council tax charge, is a local decision, the increase in the Band D charge must be within the referendum principles set by the Government or the increase must be supported by a public referendum. For 2020/21 the referendum limit for policing has been set at £10 per year.

3.10. The Minister of State for Crime, Policing and the Fire Service's written statement for the the 2020/21 police funding settlement set out an assumption that PCCs would maximise this council tax flexibility.

3.11. The taxbase is calculated by each local authority in Dorset, and is the number of Band D equivalent properties in Dorset liable to pay council tax, after taking account of discounts, collection rates and local council tax support schemes. In recent years, the total Dorset taxbase has increased by between 1.2% and 1.5% and an assumption of 1% had been factored into the Medium Term Financial Strategy, however, the actual increase for 2020/21 is 0.5% as set out in the table below.

Council Area	2016/17	2017/18	2018/19	2019/20	2019/20
Bournemouth, Christchurch & Poole	135,782.0	137,749.2	139,910.2	141,772.0	142,995.7
Dorset	142,618.0	143,982.1	145,724.3	148,087.2	148,410.8
Total Taxbase	278,400.0	281,731.3	285,634.5	289,859.2	291,406.5
Increase		1.2%	1.4%	1.5%	0.5%

3.12. In addition to the precept, funding also comes from the collection fund surplus generated by the local authorities. A surplus arises from a variety of factors such as improved collection rates, ongoing collection of prior year charges or higher growth of properties than estimated.

As estimates of growth have been factored into the calculation of the taxbase, collection fund surpluses are likely to be lower than in previous years. There are no guarantees of a surplus, and indeed could be a deficit, therefore should be treated as once off income and not used to fund ongoing expenditure.

- 3.13. For 2020/21 the proposed council tax precept and collection fund surplus for each local authority area are as follows:

Funding	Bournemouth, Christchurch & Poole £	Dorset Council £	Total £
Council Tax Precept	34,401,905	35,704,670	70,106,575
Collection fund Surplus	215,320	0	215,320
Total	34,617,225	35,704,670	70,321,895

4. CHIEF CONSTABLE'S BUDGET

- 4.1. Over 99% of the budget is delegated to the Chief Constable for the operational delivery of policing in Dorset. The Chief Constable has requested the increase in precept as a result of a number of cost pressures within the budget. Key cost pressures and assumptions are outlined below and the detailed budget is set out in Appendix 1.

Pay Award

- 4.2. The assumption for pay award in the 2019/20 budget was 2% but the nationally agreed pay award from September 2019 was 2.5% leading to a shortfall in the current year of around £0.5m. The full year effect of this additional pay award must be included in the 2020/21 budget along with an estimated 3% pay award from September 2020. This, alongside the contractual pay increments and associated impact on National Insurance and pension contributions result in increased costs of the pay budget of £4.4m.

Overtime

- 4.3. In the current year, as in previous years, the overtime spend is resulting in a significant predicted overspend at year end. While significant work has been undertaken to reduce overtime costs, there will always be a requirement for overtime, and a more realistic budget is being proposed for 2020/21. An additional £0.65m has been built into the overtime budget as a result of deleting a number of posts that have not been filled for a number of years and increasing the vacancy factor built into the pay budget to 5.9%.

Pensions

- 4.4. The Local Government Pension Scheme is available for Police Staff and is administered by Dorset Council. It is revalued every three years where new contribution rates are set. The latest triennial valuation for the Scheme showed that the Dorset Police element of the fund is now 92% funded. The contribution rate has increased slightly from the current valuation resulting in additional costs of £0.3m. There are no significant changes to Police Officer pension costs this year.

Impacts of the Capital Programme

- 4.5. A fundamental review of the funding of the capital programme has been undertaken in order to ensure the programme is sustainable in the medium term as set out in Section 5, however, this does result in additional costs on the revenue budget. The level of increased revenue contributions required for the capital programme cannot be achieved in a single year and will need to be built up over time in order to be affordable. As a result there will be increased borrowing costs in the short term in order to ensure we continue to invest in our vehicles and ICT infrastructure. For 2020/21 the increases in the capital financing costs total £1m, excluding changes to Minimum Revenue Provision.

Uplift of Officers

- 4.6. The Police Uplift Programme was announced in the summer of 2019, setting out to recruit an additional 20,000 police officers by March 2023 and the first 6,000 officers to be in place by March 2021. For Dorset, this equates to an additional 50 Officers by the end of next year. In order to achieve this there will be a number of additional costs in recruitment, vetting, trainers etc as well as costs of uniform, equipment, vehicles and IT. Total costs resulting from uplift are anticipated to be £2.4m in 2020/21.

Impact of Brexit

- 4.7. While it is assumed that the UK will leave the European Union on 31 January 2020, it has not been possible to identify any specific changes to the budget required as a result of Brexit. It is therefore assumed that any impacts will be cost neutral.

Savings

- 4.8. As part of the Innovation Fund introduced in 2019/20, an Efficiency Officer role has been created and continues to review Force departments and bids for innovation funding. Savings of £500,000 have been included within the budget to be achieved from this work. While these savings are not currently fully developed, the Treasurer has been reassured by the Force Section 151 Officer that this is achievable. As this is equivalent to 0.35% of the net revenue expenditure the Treasurer is content that at this level the savings target does not impact on the robustness of the budget.

5. CAPITAL BUDGET

- 5.1. The capital programme is primarily made up of two types of projects; rolling programmes of replacing existing capital assets such as vehicles and IT equipment and more once off investments in the future such as PRISM and the Futures project. As part of this year's preparation of the capital budget the funding sources have been reviewed to move to a more sustainable programme.
- 5.2. Traditionally there are four main sources of funding for the capital programme:
- Capital Grant – provided by Government each year, around £421,000 in 2019/20
 - Capital receipts – income from the sale of assets
 - Revenue – contributions from the revenue budget, funded by government grant and council tax
 - Borrowing – funded by cashflow (internal borrowing) or other loans such as PWLB (external borrowing), interest and minimum revenue provision funded from the revenue budget.
- 5.3. Capital grant makes up a very small proportion of the overall capital funding, therefore capital receipts and a small revenue contribution have been the primary sources of funding in previous years. However, capital receipts have now all been spent and there are not many future receipts expected. This funding source has therefore been exhausted and the future programme will need to be funded from other sources.
- 5.4. In order to make the capital programme sustainable, the funding sources have tried to be matched to the type of expenditure. There is currently around £4m a year spent on recurring expenditure such as replacement vehicles therefore these should be funded from the capital grant and revenue contributions in order to be sustainable. In 2019/20 these two sources totalled £1.5m therefore a further £2.5m revenue contribution is required. This is not affordable in a single year therefore the revenue budget will be increased over the Medium Term Financial Plan period in order to reach a sustainable position. For 2020/21 an additional £1m has been built into the budget, including an additional £311,000 following the reduction in capital grant in the settlement.

- 5.5. In the meantime, the balance of the capital programme will need to be funded from borrowing. Borrowing will be applied to the assets with the longest life in order to minimise revenue costs. This will be managed through the Treasury Management Strategy which has been updated to reflect this new requirement to borrow. The full suite of Prudential Indicators are included within the Treasury Management Strategy. Borrowing Costs of £74,000 have been included in the revenue budget for 2020/21.
- 5.6. As a result of the additional pressures being added to the revenue budget, the new Capital Strategy has introduced additional governance in the form of a Capital Strategy Group in order to provide additional scrutiny to the capital budget, project timescales, priorities and delivery. The Group will be chaired by the Treasurer and meet quarterly, bringing together all key capital budget holders as well as the Finance Team, and will report through to the Resource Control Board.
- 5.7. The summary Capital Programme for 2020/21 to 2023/24 is set out Appendix 2.

6. OPCC BUDGET

- 6.1. The budget for the Office of Police and Crime Commissioner is exposed to the same challenges as the Force in relation to pay awards, increments and inflation. While a base budget review has been undertaken to try and mitigate these increases as much as possible, there are two areas where legislative requirements have dictated an increase in the budget.
- 6.2. The first area is in relation to the changes around the review of complaints against the Force which will transfer to PCCs on 1 February 2020. In order to undertake this work, additional budget of around £29,000 is required. While there will be some reductions in costs from the Force budget this will not occur immediately as they continue to deal with complaints made before the implementation date.
- 6.3. The second area is around the provision of legal representation for Police Officers during proceedings where there is a conflict of interest between their viewpoint and that of the Force. While there has always been a legal requirement for the PCC to provide funding in these circumstances, it has been seldom used until recently. The indications are that this will be an ongoing requirement therefore a budget of £80,000 has been included. This will be reviewed in future years to assess the ongoing requirement.

7. PROPOSED PRECEPT

- 7.1. Without a provisional settlement or council tax referendum limits in December it was necessary to consult the public on an estimate of what would be required in order to balance the budget and deliver the uplift in officer numbers in a sustainable way. At the beginning of December this was estimated to be an increase of £15 a year for a Band D property or £1.25 per month.
- 7.2. The consultation was launched on 16 December 2019 and ran for 5 weeks until 17 January 2020. During that period, 5,152 responses were received, collected from the online survey and roadshows held in towns during January.
- 7.3. The consultation showed that 87% of respondents agreed that Dorset Police requires additional funding with 75% being willing to pay an extra £1.25 per month to help the Force achieve a balanced budget and recruit 50 more police officers.
- 7.4. As a result of the Financial Settlement and the need to improve the sustainability of the budget, the PCC is proposing to increase the precept to £70,106,575. This will result in a Band D charge of £240.58, an increase of £10 per annum or £0.83 per month.

- 7.5. It is worth remembering that while Band D is the national average Band, the most common Band within Dorset is Band C and over 56% of properties are in Band A to C. The impact on each Band charge is set out below:

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Proportion	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9
2019/20 Charge	£153.72	£179.34	£204.96	£230.58	£281.82	£333.06	£384.3	£461.16
Annual Increase	£6.67	£7.78	£8.89	£10.00	£12.22	£14.44	£16.67	£20.00
2020/21 Charge	£160.39	£187.12	£213.85	£240.58	£294.04	£347.50	£400.97	£481.16

8. MEDIUM TERM FINANCIAL STRATEGY

- 8.1. As part of the budget setting process the medium term financial strategy has been reviewed and updated, extending it until 2023/24. Some of the key assumptions included within the strategy are:

- Pay award of 2.5% per annum
- Core grant increase of 2% per annum
- Council taxbase increase of 1% per annum
- Council tax increase of 1.99%

- 8.2. These assumptions produce the following budget gaps until 2023/24:

	2021/22 £'000	2022/23 £'000	2023/24 £'000
Budget Requirement	147,035	153,110	158,670
Total Funding	144,878	148,345	151,903
Budget Gap	2,157	4,765	6,767

- 8.3. This shows that over the next 3 years, savings in the region of £7m need to be delivered by 2023/24. However, the forecast is sensitive to the funding assumptions and the cumulative effect, for example, changing the council tax increase assumption to 3% reduces the total savings required to around £4.5m

	2021/22 £'000	2022/23 £'000	2023/24 £'000
Budget Requirement	147,035	153,110	158,670
Total Funding	145,584	149,810	154,179
Budget Gap	1,451	3,300	4,491

- 8.4. Without a multi-year settlement it is difficult to predict what the future funding position might be, therefore a number of scenarios will be developed to determine a range within which the real position might fall. As a result of the delayed settlement we have been unable to undertake any detailed work on these scenarios or developing the strategy for addressing the future years' budget gaps, however work will now begin to refine the forecasts and for the Force to develop options for balancing the budget over the medium term, assuming the worst case. These plans will need to take into account the new PCC's priorities and aspirations as the new Police and Crime Plan is developed.

9. RESERVES

- 9.1. The PCC holds two types of reserves, earmarked reserves and general reserves. Earmarked reserves are funds set aside for specific purposes such as major operations or changes to the workforce. They are currently estimated to be in the region of £1.7m by 31 March 2020. There is only one contribution to earmarked reserves for the future uplift costs of £200,000 included in the 2020/21 budget. This is offset by the use of £283,000 from the Workforce Change Reserve as planned in the 2019/20 Medium Term Financial Strategy. This gives a net use of earmarked reserves of £83,000.
- 9.2. In addition there is a new earmarked reserve which has been set up following the closure of the Police Scholarship Trust. The Learning and Development reserve has been created and will be used for the benefit of Dorset Police Officers and Police Staff for training and development purposes. The balance on the fund is approximately £19,000.
- 9.3. General Reserves are held to cover costs from unexpected events or emergencies. The PCC's Reserves Strategy, in accordance with Home Office guidance, is to keep the level of general reserves between 3 and 5% of net revenue expenditure. For 2020/21, based on net revenue expenditure of approximately £141.6m this would indicate reserves of between £4.25m and £7.08m. General Reserves are estimated to be £4.4m at 31 March 2020 and a further £215,320 is budgeted to be transferred to the reserve during the year. This will bring the level of general reserves to £4.6m or 3.2% of net revenue expenditure and as a result, the Chief Finance Officer can confirm that the level of reserves is adequate. However, this is at the lower end of the acceptable range, therefore to improve resilience, contributions to general reserves will be considered a high priority for any in year underspends, alongside revenue contributions to capital.
- 9.4. Further details on the reserves are set out in the Reserves Strategy, included at Appendix 3.

10. Robustness of the Budget

- 10.1. In addition to determining the adequacy of reserves, Section 25 of Local Government Act 2003 requires all Chief Finance Officers to make a statement regarding the robustness of the budget estimates at the time the budget is set. The PCC has a statutory duty to have regard to that report when making decisions about the budget.
- 10.2. The budget proposals have been developed using the latest information and variances reported in the current financial year. A key issue in recent years has been the overtime budget which has been significantly overspent. This has been thoroughly reviewed and a more realistic budget for overtime has been set. The budget for 2020/21 does include a savings target of £500,000 which represents 0.35% of the net revenue expenditure and will be closely monitored by the Resource Control Board. Due to the scale of this budget I do not feel this adversely affects the robustness of the budget. Further detail on the risks associated with the budget are set out in Appendix 4.
- 10.3. The Chief Finance Officer for the Force has reviewed to estimates and assumptions used in preparing the 2020/21 budget and has confirmed that they present a robust budget for the year. Taking this into account and the work undertaken to improve the sustainability and resilience of the budget, I am able to provide a positive assurance statement concerning the robustness of the budget estimates and the adequacy of reserves as outlined in section 9.

11. RECOMMENDATIONS

- 11.1. The Police and Crime Panel are recommended to consider the PCC's proposal to increase the precept for 2020/21 to £70,106,575, equivalent to a Band D charge of £240.58, an increase of £10 per annum or £0.83 per month, as set out in Appendix 5.

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Appendix 1 – 2020/21 Budget Requirement
Appendix 2 – Capital Programme
Appendix 3 – Reserves Strategy
Appendix 4 – Risks
Appendix 5 – Council Tax Requirements

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