

**POLICE & CRIME PANEL – 4 FEBRUARY 2021**

**2021/22 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 2021/22 budget, precept and the medium term financial strategy.*

**1. BACKGROUND**

- 1.1. The Police and Crime Commissioner (PCC) for each force area is 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. In February 2020, at the start of a new decade, it was hoped funding for policing had turned a corner, moving from austerity into a period of investment, with the announcement of 20,000 additional officers funded through the Government Grant. Whilst the uplift programme has continued and the recruitment of additional officers remains on track, the Covid 19 pandemic has brought unprecedented challenges. The economic impact of the pandemic is likely to be felt for years to come.
- 1.4. In his written statement made on 17 December 2020, the Minister of State for Crime and Policing said that within the 2021/22 police funding settlement "available funding to Police and Crime Commissioners will increase next year by up to an additional £703million assuming full take up of precept flexibility" – an increase of £15 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 nearing its conclusion. A new plan will be developed following the Police and Crime Commissioner election 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 developing the 2021/22 budget proposals is to take a longer term view to ensure that decisions taken are sustainable, building 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 two main sources; government grant and council tax, with the split between the two almost equal. The funding from each source is set out in the table below:

<b>Funding</b>	<b>2020/21 £</b>		<b>2021/22 £</b>		<b>Change £</b>
Government Grant	71,293,231	(50.3%)	75,288,055	(50.7%)	3,994,824
Council Tax Precept	70,106,575		73,476,745		3,370,170
Collection Fund Balance	215,320		(409,788)		(625,108)
Total Council Tax funding	70,321,895	(49.7%)	73,066,957	(49.3%)	
Total Core Funding	141,615,126		148,355,012		6,739,886

#### Government Grant

- 3.2. The Spending Review announced in the Autumn was for a one year period, shortened from the original three year review in response to the pandemic, and sets out the level of funding each Government Department will have to spend for the year. Key announcements in the Policing in the Spending Review included:
- Over £400m to continue the recruitment of extra police officers
  - National target for additional officers reduced to 6,000 officers in 2021/22 from original planned 8,000 officers, and final year targets increased
  - Previous uplift funding to be continued
  - No other increases in core funding
  - £15 council tax referendum limit for Police and Crime Commissioners
  - MHCLG announced two grant funds to provide support to preceptors (including Police and Crime Commissioners) for the impacts of the pandemic on Local Council Tax Support costs and irrecoverable council tax collection deficits
- 3.3. Whilst the Spending Review provided headlines, the detailed funding for each PCC is not announced until the Provisional Finance Settlement in December each year with the final Settlement confirmed in January. For 2021/22 the Provisional Finance Settlement was issued on 17 December 2020 but at the time of writing this report, the Final Settlement had not been confirmed. A verbal update will be provided at the meeting.
- 3.4. 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. The settlement confirmed that the legacy council tax grants would remain at the same level as 2020/21, 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. Of the £400m announced in

the Spending Review, £100m would be allocated to Police and Crime Commissioners through a ring-fenced grant with the remaining £300m allocated through the core grant. The ring-fenced grant from 2020/21 has also been moved into core grant.

3.5. 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 2021/22, as would the capital grant.

3.6. The funding for Dorset in 2021/22 is set out below:

	<b>2020/21</b> £	<b>2021/22</b> £
Police Grant	63,374,657	67,369,481
Legacy Council Tax Grant	7,918,574	7,918,574
<b>Total Core Funding</b>	<b>71,293,231</b>	<b>75,288,055</b>
Ring-fenced Grant	1,393,514	829,473
Pension Grant	1,379,367	1,379,367
Capital Grant	110,507	110,507

### **Council Tax**

3.7. The council tax precept 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 2021/22 the referendum limit for policing has been set at £15 per year.

3.8. The Minister of State for Crime and Policing's written statement for the provisional 2021/22 police finance settlement set out an assumption that PCCs would maximise this council tax flexibility.

3.9. 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 an average of 1.15% and an assumption of 1% had been factored into the Medium Term Financial Strategy in February 2020. However, the pandemic has caused increases in the number of people claiming local council tax support and a reduction in collection rates. This has resulted in a reduction in the taxbase for 2021/22 of 1.3% as set out in the table below.

<b>Band D equivalents</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Bournemouth, Christchurch & Poole	135,782.0	137,749.2	139,910.2	141,772.0	142,995.7	139,170.5
Dorset	142,618.0	143,982.1	145,724.3	148,087.2	148,410.8	148,319.7
<b>Total Taxbase</b>	<b>278,400.0</b>	<b>281,731.3</b>	<b>285,634.5</b>	<b>289,859.2</b>	<b>291,406.5</b>	<b>287,490.2</b>
Increase / (Decrease)		1.2%	1.4%	1.5%	0.5%	(1.3%)

- 3.10. This reduction means the precept will generate over £1.6m less than that assumed in the February 2020 Medium Term Financial Strategy, before any increase in the Band D charge is considered. This would be equivalent to £5.72 on the Band D Charge.
- 3.11. In addition to the precept, funding also usually 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. For the same reasons that the taxbase has been reduced for 2021/22, the collection funds for both Dorset Council and Bournemouth Christchurch and Poole Council are now in deficit.
- 3.12. In anticipation of deficits being reported across the country, the Government introduced regulations in December which required deficits relating to 2020/21 to be spread over three years rather than the usual one year. Any surplus or deficit relating to previous years will need to be dealt with in 2021/22, in the normal way.
- 3.13. The table below sets out the position for each council and the impact for Dorset Police.

	<b>Police Share £</b>	<b>2021/22 £</b>	<b>2022/23 £</b>	<b>2023/24 £</b>
<b>BCP</b>				
2020/21 Deficit	1,264,141	421,380	421,380	421,380
Prior Year (Surplus)	(101,559)	(101,559)		
Net Deficit	1,162,581	319,821	421,380	421,380
<b>Dorset</b>				
2020/21 Deficit	153,328	51,109	51,109	51,109
Prior Year Deficit	38,857	38,857		
Net Deficit	192,186	89,967	51,109	51,109
<b>Total</b>				
2020/21 Deficit	1,417,469	472,490	472,490	472,490
Prior Year (Surplus)	(62,702)	(62,702)		
Net Deficit	1,354,767	409,788	472,490	472,490

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

<b>Funding</b>	<b>Bournemouth, Christchurch &amp; Poole £</b>	<b>Dorset Council £</b>	<b>Total £</b>
Council Tax Precept	35,569,196	37,907,549	73,476,745
Collection fund Deficit	(319,821)	(89,967)	(409,788)
Total	35,249,375	37,817,582	73,066,957

- 3.15. Alongside the Provisional Settlement in December 2020, the Ministry of Housing, Communities and Local Government announced provisional details of two grant schemes aimed at mitigating some of the effects of the pandemic on the taxbase and collection fund deficits. The first is in relation to the increased costs of Local Council Tax Support schemes with £720m being allocated to billing authorities and major preceptors on the basis of LCTS working age caseload from Q1 and Q2 of 2020/21. The provisional allocation for Dorset Police is £1.179m and, if confirmed as part of the final Local Government Finance Settlement, is expected to be received in April 2021.
- 3.16. The second grant fund is the Local Tax Income Guarantee Fund which has been created to compensate billing authorities and major preceptors for 75% of irrecoverable collection fund

deficits for both council tax and business rates, with an estimated £670m being required. Obviously policing is only affected by council tax. The scheme only compensates for irrecoverable losses and not 75% of the total deficits. These include increased costs of local council tax support in 2020/21 and growth built into the taxbase that did not materialise. Crucially it does not include reductions in collection rates of council tax. The final grant will also be calculated using data at the year end so the actual value of the grant will not be known until the summer at the earliest and is expected to be paid in January 2022. Following the technical guidance issued in December 2020 and the latest estimates available from the billing authorities, the grant has been estimated at £81,000 for budget setting purposes.

#### **4. CHIEF CONSTABLE'S BUDGET**

- 4.1. Over 98% 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 as well as a number of growth areas. Key cost pressures and assumptions are outlined below and the detailed budget is set out in Appendix 1.

##### **Pay Budget**

- 4.2. Whilst the Chancellor has announced a pay freeze for all but the lowest paid police officers, and the same is assumed for police staff, there are still pressures on the pay budget. The full year effect of the September 2020 pay award must be included in the 2021/22 budget along with the contractual pay increments and associated impact on National Insurance and pension contributions. This results in increased costs of the pay budget of £2.3m, excluding year 2 uplift officers.

##### **Inflation**

- 4.3. No general increase has been applied for inflation, however there are a number of budgets where an increase is required. These include the National Police Air Service (£0.14m) and insurance premiums (£0.13m) and total £0.47m.

##### **Revenue costs of service investments**

- 4.4. The Force has invested in new technology and equipment to keep the Force up to date but there are associated costs such as software licences and consumables for increased numbers of tasers. There are also increased costs of maintaining the estate. These total £1.3m.

##### **Impacts of the Capital Programme**

- 4.5. The capital programme continues to move towards a sustainable position over the medium term with a further increase to the revenue contribution of £0.5m in 2021/22. As the level of increased revenue contributions required for the capital programme cannot be achieved in a single year there are also increased borrowing costs in the short term in order to ensure we continue to invest in our vehicles and ICT infrastructure. These costs of borrowing total a further £0.2m in 2021/22.

##### **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. Initially the first 6,000 officers were to be in place by March 2021, followed by a further 8,000 officers by March 2022 and the final 6,000 officers in 2023. However, the Spending Review confirmed that the targets for the final two years would be reversed. Of the 6,000 target for March 2022, 300 would be ringfenced for additional support to Regional Organised Crime Units (ROCU).
- 4.7. For Dorset, this equates to an additional 50 Officers by the end of March 2021, which the Force is on track to exceed, with a further 49 officers to be recruited in 2021/22. Two of these officers are the Force's share of the ROCU target. All of the Force planning so far has been

to recruit an additional 68 officers in 2021/22, the assumed target at the 8,000 officer recruitment level. In order for Dorset residents to see the benefit of the officer uplift as soon as possible, the Force have proposed continuing to recruit at this higher level in 2021/22 as originally planned. The cost of the additional 19 officers in 2021/22 is £0.25m as they are not included in the budget for the full year, reflecting the planned recruitment schedule. The total cost of additional officers through uplift is £2.2m for 2021/22.

#### **Impact of Brexit**

- 4.8. At the time of preparing the budget there are no identified additional costs as a result of the UK exit from the European Union. This will be monitored throughout the financial year as part of the regular budget monitoring process.

#### **Growth**

- 4.9. In addition to the recruitment of officers at the higher uplift target level, there are other areas where growth has been requested by the Chief Constable. The performance of the Force Contact Management has been a concern of the Commissioner for some time but 2020 has seen significant improvements with 90% of emergency calls routinely answered within 10 seconds and 95% of non-emergency calls being answered within 30 seconds. In order to maintain these improvements, the full year effect of the investment in additional staff and the additional call handling facility in Bournemouth is required. This totals £0.7m.
- 4.10. In support of the objective to achieve outstanding in vulnerability, a number of investments are planned. These include the creation of a dedicated vulnerability capability, focussing on the highest harms such as domestic abuse, increasing resources available to support witnesses and other operational support, totalling £0.6m

#### **Savings**

- 4.11. During the year, a number of savings have been delivered totalling £0.6m which have been built into the 2021/22 budget. These include savings within the Road Safe team as a result of the move to digital cameras, procurement savings in the cleaning contract and savings in travel costs which whilst initiated as a result of the pandemic will be made permanent through the adoption of new ways of working. The budget also includes a £0.5m savings target for new savings to be identified during the year. 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 0.3% 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. In order to achieve a sustainable, affordable programme, the Force must move to a position where all recurring programme spend is funded from recurring sources such as revenue contributions and capital grant. This approach began in 2020/21 and is forecast to be achieved in 2024/25.
- 5.2. As part of this year's preparation of the capital budget, all schemes have been reviewed and challenged by the Capital Strategy Group, in order to develop a realistic, affordable programme based on the latest information. Slippage of £5m has been identified in the current year's programme, primarily as a result of delays caused by the pandemic and this has now been built into the 2021/22 budget. Reductions have been made in the vehicle, estates and IT programmes to ensure the programme is affordable, as well as some projects being rescheduled to ensure they can be delivered when planned.
- 5.3. The programme includes the latest estimates for contributions to national projects, primarily the replacement of the Emergency Services Network. However, these estimates regularly

change and an updated business case for the project is expected to be issued in the spring. This will be monitored throughout the year.

- 5.4. The final year of the capital programme is now fully funded by revenue contributions and capital grant, putting the capital programme in an ongoing, sustainable position.
- 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 through either cashflow (internal borrowing) or external loans through the PWLB. The full suite of Prudential Indicators are included within the Treasury Management Strategy.
- 5.6. The summary Capital Programme for 2021/22 to 2024/25 is set out in Appendix 2.

## **6. OFFICE OF THE POLICE AND CRIME COMMISSIONER BUDGET**

- 6.1. The budget for the Office of the Police and Crime Commissioner is exposed to the same challenges as the Force in relation to pay awards, increments and inflation. In addition, more and more funding opportunities require a bid to be prepared in order to secure the funds, such as the Safer Streets Funding and the Ministry of Justice Covid 19 Victim funding. In order to ensure that Dorset continues to receive its share of such grant funds, an additional post of bid writer has been included in the budget for 2021/22. The budget has therefore increased by a total of £57,500 up to £1.27m for 2021/22.

## **7. PROPOSED PRECEPT**

- 7.1. Following the Provisional Finance Settlement and the confirmation of the £15 council tax referendum limit for 2021/22 the Commissioner consulted the public on the full use of the council tax flexibilities.
- 7.2. The consultation was launched on 16 December 2020 and ran for 5 weeks until 25 January 2021. During that period, 4,053 responses were received. As a result of the national lockdown the entire survey has been completed online as the usual face to face roadshows were not able to be undertaken.
- 7.3. The consultation showed that 77% of respondents agreed that Dorset Police requires additional funding with 67% being willing to pay an extra £1.25 per month to help the Force achieve a balanced budget and recruit more police officers.
- 7.4. As a result, the PCC is proposing to increase the precept to £73,476,745. This will result in a Band D charge of £255.58, an increase of £15 per annum or £1.25 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:

	<b>Band A</b>	<b>Band B</b>	<b>Band C</b>	<b>Band D</b>	<b>Band E</b>	<b>Band F</b>	<b>Band G</b>	<b>Band H</b>
Proportion	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9
2020/21 Charge	£160.39	£187.12	£213.85	£240.58	£294.04	£347.50	£400.97	£481.16
Annual Increase	£10.00	£11.67	£13.33	£15.00	£18.33	£21.67	£25.00	£30.00
2021/22 Charge	£170.39	£198.78	£227.18	£255.58	£312.38	£369.17	£425.97	£511.16

## 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 2024/25. Some of the key assumptions included within the strategy are:

- Pay award of 1% per annum from 2022/23
- Core grant increase of 1% per annum from 2023/24
- Council taxbase increase of 1.25% in 2022/23 followed by 1.5% in future years
- Council tax increase of £10 per annum (equivalent to 3.9% for 2022/23, 3.8% for 2023/24 and 3.5% for 2024/25)

8.2. These assumptions produce the following central case budget position until 2024/25:

	<b>2022/23 £'000</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>
Budget Requirement	152,122	157,009	162,382
Total Funding	152,122	157,009	162,382
Budget Gap	0	0	0

8.3. Whilst a balanced Medium Term Financial Strategy is a significant improvement on previous year's forecasts, these are sensitive to changes in the assumptions. Without a multi-year finance settlement it is difficult to predict with much accuracy what the future funding position might be, therefore best and worst case scenarios have been prepared by adjusting the above key assumptions to determine a range within which the real position might fall. The table below shows the cumulative position of each case over the next 3 years.

<b>(Surplus) / Deficit</b>	<b>2022/23 £'000</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>
Best Case	(1,291)	(2,705)	(4,508)
Central Case	0	0	0
Worst Case	1,260	2,939	4,994

8.4. It is anticipated that the Government will return to a 3 year spending review in 2021 and will set out the impact on public spending of the costs of the pandemic. Whatever the outcome, a multi-year settlement would enable better, more certain, financial planning to be undertaken.

## 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 the cost of uplift or changes to the workforce. They are currently estimated to be in the region of £2m by 31 March 2021 following the agreed transfer of the Major Operations Reserve to general reserves. There is only one use of earmarked reserves for uplift costs of £300,000 included in the 2021/22 budget.

9.2. 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 2021/22, based on net revenue expenditure of approximately £148.4m this would indicate reserves of between £4.45m and £7.42m. General Reserves are estimated to be £5.7m at 31 March 2021 following the Major Operations Reserve being transferred in. This is equivalent to 3.8% of net revenue expenditure for 2021/22 and remains at 3.5% of net revenue expenditure in 2024/25, based on the central case MTFs. As a result, the Chief Finance Officer can confirm that the level of reserves is adequate.



9.3. 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. The budget for 2021/22 does include a savings target of £500,000 which represents 0.3% 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 it is material and ultimately could be accommodated from general reserves should the savings not be achieved.

10.3. Whilst the Finance Settlement has not be finalised at the time of writing this report, it is not anticipated that significant changes will be made affecting the robustness of the budget. This position will be reviewed once the final details are received and an update provided at the meeting. Further detail on the risks associated with the budget are set out in Appendix 4.

10.4. The Chief Finance Officer for the Force has reviewed the estimates and assumptions used in preparing the 2021/22 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 2021/22 to £73,476,745, equivalent to a Band D charge of £255.58, an increase of £15 per annum or £1.25 per month (6.2%), as set out in Appendix 5.

### **JULIE STRANGE CPFA CHIEF FINANCE OFFICER**

Appendix 1 – 2021/22 Budget Requirement

Appendix 2 – Capital Programme

Appendix 3 – Reserves Strategy

Appendix 4 – Risks

Appendix 5 – Council Tax Requirements

Members' Enquiries to: Julie Strange, Chief Finance Officer 01202 229082

Media Enquiries to: Susan Bloss, Head of Communications & Engagement 01202 229095