

## Report to the Thames Valley Police & Crime Panel

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**Title:** Report of the Thames Valley  
Police & Crime Panel Budget  
Task & Finish Group

**Date:** 2 February 2018

**Author:** Chairman Budget Task and Finish  
Group



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### Background

1. As in previous years, the Thames Valley Police & Crime Panel formed a Budget Task & Finish Group to assist in discharging its statutory duty to scrutinise the Police & Crime Commissioner (PCC) for Thames Valley's proposed council tax precept for 2018/19. The process will be formally undertaken at the 2 February 2018 meeting of the Panel where a decision will be made by the Panel on whether to accept or veto the PCC's proposed precept.

2. To strengthen the process, it was considered by Panel members to be important to evaluate the budget that the precept partially funds, allowing the Panel to make an informed decision on the adequacy of the precept when it meets on 2 February. This was the work undertaken by the Budget Task & Finish Group who included Cllr McCracken (Chairman), Cllr Page, Cllr Patman and Cllr White.

3. The relevant papers were published into the public domain in draft form for consideration at the PCC's Policy, Planning & Performance meetings in October 2017 and January 2018. They included:

- i. Four Year Medium Term Financial Plan
- ii. Draft Capital Programme
- iii. Reserves, Balances and Provisions
- iv. Financial Strategy 2018

4. The Budget Task & Finish Group met on 20 November and will meet again on 29<sup>th</sup> January to consider the budget proposals, which included a proposed increase to the police element of the Council Tax of £12 per annum in each of the next three years.

### 5. RECOMMENDATIONS

**(Note – the Budget Task and Finish Group is meeting on 29 January 2018 and will therefore put forward their recommendations in an updated report.)**

The main changes highlighted as a result of the provisional settlement and the papers issued for the PCC's Policy, Planning & Performance meeting in January 2018 are as follows:-

#### Provisional Police Settlement

The Provisional 2018/19 Police Finance Settlement was announced in an oral statement by the Minister for Policing and the Fire service, Nick Hurd, on Tuesday 19 December 2017. This was followed by a written statement shortly thereafter. The key headlines are set out below:

- Precept flexibility of up to £12 for all PCCs (or equivalents) in 2018/19
- Flat cash grant funding i.e. the same allocations as in 2017/18 for Home Office Core Police Settlement, Ex-Department for Communities and Local Government, and Legacy Council Tax
- Updated assumptions around tax base growth – now using Office for Budget Responsibility figures of 1.34% in England
- Including these assumptions on council tax and based on the 1.5% GDP deflator, the resulting settlement, including council tax, represents a “real terms” increase for all between 2017/18 and 2018/19
- £450m additional funding for the service – includes £130m additional reallocation and approximately £147m as a result of additional council tax flexibilities.
- £50m additional counter Terrorism funding and the remaining £123m can be considered as “new money”.
- The minister's letter to PCCs refers to this additional funding in addition to identified efficiency savings of up to £100m (procurement) to enable “appropriate provision for likely cost increases next year”.
- Police capital grants have reduced from £77.2m in 2017/18 to £75.2m in 2018/19
- The Emergency Services Network project has fallen an estimated 15 months behind schedule. This delay means that forces may need to extend their Airwave contracts, which is likely to have associated costs in addition to the delayed savings from ESN. An OPCC paper circulated earlier in the year estimated the cost of a 12 month delay at £400m. It is not yet clear how these additional costs will be met and by whom.
- The Home Office has stated that grant will be maintained at current cash levels in 2019/20 and PCCs will be allowed to raise their Band D precept by £12 for two years subject to national targets on efficiency and productivity being met. No information is provided for grant in 2020/21 and later years; the working assumption is that grant will remain flat, and council tax precept will revert to a 2% increase in year three. The national review of the police funding formula has been ‘parked’ for the time being and is not likely to be introduced until after the next Comprehensive Spending Review.

#### Thames Valley

- The PCC has undertaken a short public consultation exercise on the proposed increase in council tax and 84.3% of the 5600 that voted supported the increase.
- The revenue budget is fully balanced in all 3 years 2018/19 to 2020/21, with a £12 increase in council tax precept in 2018/19 and 2019/20. The Medium Term Financial Plan (MTFP) provides for inflationary increases, limited growth to mitigate increasing demand and complexity in priority areas, as well as essential investment in technology to support transforming service delivery to meet future expectations. This supports the delivery of the Police and Crime Plan and the Force Commitment.
- The Force continues to prioritise its work on the Productivity Strategy to ensure resources are directed to priority areas and that services are delivered in the most effective and efficient manner. This work focuses the drive for continuous

improvement, improved efficiency and alignment of resources with demand. It will continue to release savings in future years in order to address future unquantified demands and provide additional resource to reinvest in priority policing areas. The MTFP requires revenue savings of at least £14.3m over the next three years. This is over and above the £99m of cash savings already removed from the base budget in the last seven years (i.e. 2011/12 to 2017/18) meaning that, over the ten year period 2011/12 to 2020/21, in excess of £113m will have been taken out of the base revenue budget.

- The impact on police officer and staff numbers over the next three years is a net increase of 47 police officer and 46 police staff budgets, but a slight reduction of 14 PCSO posts
- There is currently a significant issue in relation to the recruitment and retention of police officers. For the purpose of the budget planning process, the following profile of recruitment and wastage has been applied against the planned establishment requirements. It should also be noted that the current year's productivity savings estimated that an additional 50FTE Officers could be released through the new operating model, however the reality of this against demand has meant that the officers could not be released and as such the anticipated reduction in establishment has been reinstated to the target establishment.
- Given the expected shortfall in police officer numbers, short-term staff Case Investigators are being recruited to support the operational delivery of the force. The MTFP therefore includes funding for an additional 95 FTE staff case investigators. These have been profiled against the assumed net increase in officers and reduces year on year to support the overall shortfall in officer numbers. The inclusion of phased growth for Case Investigators to support the operational delivery due to problems in attaining the required police officer numbers as highlighted - £3.04m
- Although cuts in Home Office grant have been reduced over the last two years, with a flat cash settlement in 2018/19, Thames Valley are still facing a real terms reduction year on year in Home Office grant funding which is mitigated by the increase in precept flexibility afforded to PCCs. It is therefore very clear that to address the demands of today and tomorrow, Thames Valley must continue to reform their police service by driving through the changes and ensuring resources are directed to priority areas.
- Following the Priority Based Budgeting (PBB) review and the formation of the Governance and Service Improvement department the future delivery of the productivity strategy has been revisited and re-energised into the Efficiency and Effectiveness Programme led by the Chief Superintendent, Governance and Service Improvement. The programme will consider demand levels, functional processes rather than departmental structures, and building for the future. Reviews will continue to utilise the PBB methodology and focus on method changes, volume changes and service level changes. In addition to this work a major review of the Joint Operations Unit (JOU) is in progress which is identifying where savings and efficiencies could be achieved through changing the service delivery method. The implications to service delivery and the wider force will need to be fully assessed before firm 133 recommendations can be made. This work will continue and identified efficiencies will be incorporated in the appropriate year's productivity strategy

#### Productivity Plan

The overall productivity plan has been reviewed against the requirements of the MTFP and the strategy has been updated with new and changed initiatives.

## Budget Risk & Uncertainties

- As already identified there is an increasing demand on the police arising from new and emerging crimes but it is very difficult to predict with any degree of certainty the growth 136 in resources required to deal with this changing demand. The CCMT constantly reviews resourcing levels across the force, changing the resourcing levels of individual units where necessary, within the overall budgetary constraints
- The retention and recruitment of police officers has caused significant concern over the past 12 months. It is very difficult to predict wastage levels (officers only have to give 1 months' notice) and to estimate the future success of current new recruitment and retention campaigns initiated under the current workforce gold group. Variations in police officer numbers can have a significant effect on the revenue budget.
- The Public sector pay cap was lifted by the Treasury in the 2017 autumn budget. At this stage the OPCC do not know what the various pay bodies will recommend for the 2018 annual pay awards, but the letter from the Minister for Policing and Fire (Nick Hurd MP) indicated that the additional funding available next year should enable forces to make appropriate provision for 2018 pay awards. The MTFP includes provision for the nonconsolidated police pay award in 2017 and a 2% uplift thereafter. A 1% pay award for both officers and staff equates to circa £3m.

## Future Years Forecasts

The future years of the MTFP still carry some significant risks which could alter the currently identified plans either upwards or downwards. Primarily these include:

- The Home Office has maintained the 2018/19 Grant allocations at a cash flat level compared to 2017/18 (i.e. no reduction, but no increase for inflation) and has stated its intention to maintain a broadly flat police grant in 2019/20 and repeat the same precept flexibility to allow PCCs to raise an additional £1 per month of local precept in 2019/20, However, this is dependent on the police service nationally delivering clear progress against agreed milestones on productivity and efficiency in 2018. This information has helped to balance the budget in 2018/19 and 2019/20. At this stage there is no indication as to what the grant settlement will be in 2020/21. A 1% change in core grants equates to approximately £2.1m per annum.
- The Home Office review of the national funding formula is still being discussed, but no further information is expected until later in 2018. Again each 1% change in funding would have an impact of approximately £2.1m per annum.
- The rules around increases in council tax precept have been changed in the current year, with PCCs being allowed to increase council tax by up to £12 for a band D property in 2018/19. The Home Office has indicated that this will follow through to 2019/20 and is part of the assumptions for this MTFP. However, this is likely to be a local decision for the PCC as part of the next budget round for 2019/20. Each 1% reduction in council tax, from the 7% increase currently assumed, equates to around £1.6m.
- The MTFP also assumes growth in the taxbase of 1.3% rising to 2.0% over the period. The increase in taxbase reflects a lower increase than in previous years, but an increase over the period to recognise the fact that house building continues to expand and flourish in some parts of the Thames Valley. Should this not be the case then receipts from the Council Tax could be lower than anticipated.
- The impact and fallout from the Brexit decision in 2016 is still much unknown in terms of when, what and how it may impact on policing. It is evident that areas such as inflation and exchange rates are being impacted upon and these do have a downstream effect on the costs of goods and services being procured by the police service. Future

trade agreements may also impact on some of the more specialist equipment and services we use where parts or services are coming from EU countries.

- The use and investment in technology is imperative for policing to reform and maintain pace with new criminality and crime. This does present potential financial risks as the rapid pace of technology can be hard to predict and financially plan for. The national programmes are starting to move rapidly but the infrastructure requirements and implications for individuals forces can be difficult to identify until the national model has been agreed, hence not providing forces with sufficient time to financially plan for changes. Given the limited capital resources available to the force, the decision as to whether technology is financed as new capital investment or as a revenue service, is underlined by the fact that the financial cost will have to be met by the revenue budget.

#### Mitigation of Risks & Uncertainties

As can be seen from the above, there are gaps in information available around key factors that could influence the level of funding available to the PCC as well as the forecast expenditure levels in future years. The work that has already started within the Productivity Strategy will continue to be developed and taken forward to ensure the drive to improve the efficiency of our service continues, by reducing the underlying cost of our organisation and directing resources to our priority areas. Specifically work will continue on:

- The renewed Efficiency and Effectiveness Programme will continue to be developed to ensure resources are being directed to our priority areas, and that service delivery is not undermined by funding issues.
- The review of the Joint Operations Unit will continue to assess the implications of the proposed changes in service delivery with a view to making recommendations on where efficiencies can be achieved
- Further investment in national programmes, and delivery of major technology investment programmes like the Contact Management Programme, ESMCP and ERP will all continue to receive scrutiny and challenge to ensure they deliver the required service improvements and savings as planned and expected.
- Collaboration will continue to be a main focus of both improved services and reduced cost. This will include collaboration both within the police service and with other partners.
- The use of revenue to support the capital investment programme could be reviewed and reduced in future years, however this would require additional borrowing for the force if those capital schemes are to continue and be implemented.
- The force is also acutely aware of the political impacts on policing, as outlined above, and will be monitoring closely the developments with the new national funding formula, together with the impacts that might be felt from policies or decisions that are made through the ongoing Brexit process nationally.

### Budget Briefing in November

The main points highlighted by the Director of Finance (TVP) and the Chief Financial Officer (OPCC) were as follows:-

#### Financial Strategy – Information extracts from the OPCC report

- Since the Chancellor announced the results of the Coalition Government's Spending Review in 2010 local policing budgets have been reduced, in real-terms, by 38%. The 2015 Spending Review saw overall police spending protected in real terms between 2015/16 to 2019/20. The actual funding to police forces was only protected to a flat cash level, which is not insulated from inflation or changes in the national pay settlement. Even at this level, PCCs are expected to increase their precept by the maximum permissible amount.
- Since the 2015 settlement police forces have begun to experience additional pressures with increasing volume and complexity of demand. Over the past 7 years, the size of police workforce has reduced by 18.7% since March 2010, of which officer numbers have fallen by 14.3% from 143,717 in 2010 to 123,124 in 2017. This reduction in police officers numbers has occurred over a period when the UK population has increased by 5%.
- The key pressures on policing are coming from rising overall crime levels, more complex crimes being committed, a growing terrorist threat and, more than ever, the police being called on as a last resort when other agencies lack their own capacity. For example, the police recorded crime in 2016/17 has increased by 10% as compared to 2015/16 and increased by 8% in the previous year. They are also seeing significant increases in complex fraud cases, cybercrime, child sexual abuse and exploitation, human trafficking and modern slavery as well as coercive domestic abuse. The recent terrorist incidents, such as the Manchester Arena attack and Westminster CT incident, required significant police deployment at both regional and national levels.
- Despite the current funding challenge and a fall in workforce, the service has managed to cope effectively with increased demand pressure while achieving significant efficiency. Against the procurement savings challenge set by the then Police Minister of some £350m by 2020, to date, the Home Office returns received from Forces – although incomplete – show that this target is well on track to be delivered and detail savings made to date of £219m.
- In September 2016 the Minister of State for Policing and the Fire Service announced that he would take forward a review of the Police Core Grant Distribution Formula. This work was undertaken by a Home Office led-working group and progress was sufficient that a public consultation was expected in June. However, following the snap general election in June, the new Minister has 'parked' the Funding Formula whilst he concentrates on other priority issues. There is currently no indication when this work will be revived.
- The amount of money top-sliced, or reallocated from core police grant continues to increase. They are now worth £812m, some 42% higher than in 2016/17 (£572m).
- There is an increasing focus on the amount of reserves held by the police. A report was presented to the Minister in October 2017 which showed that total revenue reserves at

31st March 2017 amounted to £1.63bn; a reduction of 22% on comparable figures two years ago. Current forecasts indicate that revenue reserves will fall by a further 50% between now and March 2020 to a figure of £806m. Capital grants and reserves are forecast to fall even faster, from £536m in March 2017 to just £38m by March 2020. Although these are national figures and trends, the situation in local force areas will vary significantly due to historical circumstances and current PCC plans.

- In order to deliver balanced budgets with fewer resources, over £100m of cash savings have been identified and removed from the Thames Valley Police (TVP) revenue budget over the last seven years (i.e. between 2011/12 and 2017/18); an overall cash reduction of around 25%.
- The latest Medium Term Financial Plan indicates that further budget cuts of at least £22.3m will be required over the next three years (i.e. 2018/19 to 2020/21) but there are a considerable number of uncertainties and risks underlying the funding assumptions, hence the actual figure could be significantly higher.
- Although the Government has promised to protect local force budgets in cash terms (i.e. a real terms reduction) TVP continues to be an area of rapid population growth; its population is projected to increase by 15% over the 25 year period 2014 to 2039. This will significantly affect the volume, nature and profile of the demand for services. In addition, although it is recognised that traditional crime is falling, emerging crimes such as cyber crime, child sexual exploitation (CSE), female genital mutilation (FGM), modern slavery and human trafficking are increasing the demand and complexity of policing.
- The reduced availability of finance will clearly be a significant constraint on operational policing for the foreseeable future. Given the level of savings already made the financial challenge facing TVP over the next few years is significant, extremely challenging and will require changes in all aspects of service delivery including frontline policing. In order to deliver the level of budget cuts outlined in the medium term financial plan tough choices will continue to have to be made.

### **Three year Medium Term Financial Plan 2018/19 to 2020/21 - Information extracts from the OPCC report**

- There is currently a shortfall in 2018/19 of £3.17m which they will need to balance before the final proposed budget is presented to the PCC in January 2018.
- Council tax precept to increase by 2.0% per annum in each of the years;
- Council tax billing base to increase by 1.95% per annum;
- Whilst the cap on pay inflation has been reviewed and lifted by Government, the uplift applied to the MTFP has remained at 1% due to affordability issues and the uncertainty of whether any increase would be funded through a central grant uplift. Should TVP decide to implement a higher increase, at 2% for both Police Officers and Staff, without any additional central funding, this would add a further £3.1m per annum to the bottom line budget requirement. The only way to fund this additional increase, would be through further cuts to other areas of the budget or staffing numbers; £3.1m per annum would equate to the equivalent of losing approximately 88 staff or officers per annum.
- There is currently a significant issue in relation to the recruitment and retention of police officers. For the purpose of the budget planning process, the following profile of recruitment and wastage has been applied against the planned establishment requirements. It should also be noted that the current year's productivity savings estimated that an additional 50FTE Officers could be released through the new operating model, however the reality of this against demand has meant that the officers

could not be released and as such the anticipated reduction in establishment has been reinstated to the target establishment.

- Given the expected shortfall in police officer numbers, short-term staff Case Investigators are being recruited to support the operational delivery of the force. The MTFP therefore includes funding for an additional 90 FTE staff case investigators.
- The current productivity plan has been reviewed and scrutinised against the deliverability of the savings and the requirements of the MTFP, and the strategy has been updated with new and changed initiatives.

### **Capital Programme**

- The Draft Medium Term Capital Plan presented in November 2017 totals £58.720m. The funding shortfall identified, with the inclusion of the prioritised bids, is £10.553m. However this requires an uplift of revenue support to £10m from year 3 onwards which may not be affordable. This provision is a significant risk to the revenue funding position (MTFP) that is currently indicating a Force funding shortfall of £5m in year 3. This will need to be found from other savings.
- The funding shortfall of £10.553m will initially be addressed by reducing the scope of the capital programme (which including the current year totals over £102m), additional funding from reserves, borrowing or additional direct revenue financing, are other options which may be considered.
- The Improvement & Performance Reserve is expected to be approximately £10m, the PCC may be requested to apply some of the remaining reserve to the funding of the capital programme.
- In future years **all new** projects are likely to require either borrowing or direct revenue financing, which can only be achieved if there is revenue capacity.

### **Points of clarification by the Task and Finish Group (November 2017)**

#### **Revenue**

- Members congratulated TVP and the OPCC on the PEEL inspection programme which looks at how efficient Forces are and TVP had achieved an 'Outstanding' grade overall.
- Cllr McCracken referred to the national programme to implement the new Emergency Services Network to replace the existing Airwave contract which had been pushed back and therefore the anticipated savings for 2018/19 had been delayed, adding a cost of £0.37m He asked when the go live date may be. The Director of Finance reported that this was still being worked on to go live early next year.
- Cllr McCracken asked about the shortfall in 2018/19 of £3.17m which they need to balance before the January budget and whether there was any plans in place to address this. He also asked about the status of the new police funding formula and whether this would help. The Chief Financial Officer reported that there had been some discussion about police funding at the Home Office Select Committee where concern had been raised about funding for policing. However, one of the responses was that a few Police Forces had reserves in place which they could utilise. He informed Members that Thames Valley was one of the few areas which actually had a policy on reserves and they had been congratulated on this fact, including their transparency. He had a Finance Officer meeting coming up shortly where they would be updated on the financial situation for next year's budget.
- Cllr Page commented that these reserves were important and they should not be used to pay for day to day expenditure. The Chief Financial Officer reported that a letter had



been sent to the Policing Minister which included information on a Police Treasurer Survey which had been undertaken where police forces showed that their reserves would reduce by 22% in the next 2 years and could be 50% lower in the next 3 years. Cllr McCracken asked for a copy of the letter (**ACTION**).

- Cllr Page reported that Local Authorities had also put forward representations to the Minister for Local Government. Ian Thompson reported that the amount of reserves Police Forces had available varied across the Country some had 3-4%, some 35-40%. Most Forces were also struggling to pay for the unconsolidated pay award and also had commitments such as Private Finance Initiatives. The Chief Financial Officer reported that New Scotland Yard had been sold by the Met Police which had generated extra reserves of £370 million. They would try and bridge any gaps in the most cost effective way. The Director of Finance reported that it was difficult to keep generating savings but they were investing in more technology to increase efficiency. The pay awards had also put significant pressure on Forces. There was also concern about the council tax billing base and that they may get £1million less than they budgeted for. They would recalculate this over the next few weeks.
- The Director of Finance reported that the income from capital receipts would eventually dry up but that capital funding needed to be invested into technology to ensure that with decreasing resources that the Force was in a good position to deal with demand in the future. Cllr McCracken asked about the vehicle fleet. She responded that they were not increasing the number of vehicles but they had better technology to ensure that the vehicles were being utilised fully.
- Cllr Page reported that the PCC had commented at the Panel meeting on 17 November 2017 that he may consider increasing the precept and expressed concern about whether a referendum would need to be undertaken. The Chief Financial Officer reported that they were waiting for the provisional financial settlement on 13 December and whether there would be any flexibility around the precept. If the Government allowed some flexibility they would undertake a quick consultation on whether to increase up to 5%. They would not want to undertake a referendum and this could cost at least £1.5 million. Cllr McCracken reported that if the PCC was thinking of undertaking a referendum that they would like to be notified at the earliest opportunity and to discuss this with him. The Chief Financial Officer reported that they had their Level 1 meeting on 20 January to discuss the precept and it was unlikely that there would be any consideration of a referendum but if there were any indications of a considerably higher precept and Members were concerned, then a tele conference could be arranged.
- The Director of Finance referred to the current year's productivity savings estimated that an additional 50FTE Officers could be released through the new operating model, however the reality of this against demand has meant that the officers could not be released and as such the anticipated reduction in establishment has been reinstated to the target establishment. Cllr McCracken asked if that would have been natural wastage. The Director of Finance reported that this could be through retirement, officers leaving to join other Forces or changing career. They were currently recruiting for case investigators.
- Reference had been made to a review being undertaken of the Multi Agency Safeguarding Hub. Cllr McCracken asked whether Local Authorities would be asked to fund MASH in its totality. The Director of Finance reported that they would not expect this, however, they were talking to Local Authorities in Berkshire to ensure that the MASH were efficient and effective as possible.

- Cllr Page referred to the reduction of PCSO's by 11. The Director of Finance confirmed that this was where partners have withdrawn funding. Cllr McCracken commented that that this provided an opportunity for other vacancies. The Chief Financial Officer also reported that some PCSO had applied to become police officers if they met the eligibility criteria. The Director of Finance reported that sometimes the eligibility criteria was relaxed slightly for internal candidates but the expectation still was 2 A Levels or a Certificate in Policing Knowledge. They were also encouraging police staff to move over to police officers.
- Cllr Patman referred to the prioritisation of ICT and technology investment which still required a final review of reduce the scope and level of investment to within their financial resources available and asked whether there would be a significant reduction in that. The Chief Financial Officer reported that funding would increase in both revenue and capital to ensure that the Force is fit for purpose.

## **Capital**

- Reference was made to the shortfall in relation to the Capital Programme and the development of the 5 year ICT Strategy Roadmap of 75 prioritised activities to continue modernising the legacy infrastructure and create a solid technology platform, from which Forces can continue to transform working practices. Change Programmes were being discussed at the Joint TVP/HC Collaboration Government Board. The Programme had been split into different tiers as outlined on page 54 of the agenda and only Tier 1 and Tier 2a had been included within the draft MTCP. The Force could not afford to fund the other areas. Cllr McCracken asked whether a risk assessment had been undertaken on the impact to the Force if they could not afford the whole Programme. The Chief Financial Officer reported that they used the opportunities, threats, strengths and weaknesses analysis to inform their decisions.
- The Director of Finance reported that there were only a few reserves left therefore it was important to reduce the scope of the capital programme. There were a number of national projects being undertaken which removed the necessity of undertaking a full scope of some of the schemes. If they needed to use any of the I&P reserve then they would need to put a proposal before the PCC.
- Cllr Page reported that he had written to the Chief Constable to express concern about Reading Police Station and whether there was any provision for capital expenditure over the next few years. The Director of Finance reported that £10 million had been allocated in the Asset Management Plan.
- Cllr McCracken asked whether any opportunities for collaboration had been included in the Programme. The Chief Financial Officer reported that individual schemes had been included, for example, touch down points. The Director of Finance reported that they were selling small stations in market towns and were working in collaboration with partner organisations.
- Cllr Patman asked about the funding for the Safer Roads Partnership doubling over the next year. The Chief Financial Officer reported that this was the replacement of speed cameras.