



FINANCIAL STRATEGY 2018

1. INTRODUCTION

This financial strategy sets out how Thames Valley Police (i.e. the Police and Crime Commissioner (PCC) and the Force) will structure and manage their finances to support the delivery of the aims and objectives of the service, as set out in the 4 year Police and Crime Plan supported by the Force Commitment, Annual Delivery Plan and the new Capital strategy, and to ensure sound financial management and good stewardship of public money.

The current Police and Crime Plan covers the period 2017 to 2021.

2. OVERVIEW - NATIONAL

Police Funding Assessments and Settlements

Since the Chancellor announced the results of the Coalition Government's Spending Review in 2010 Government support for local policing budgets have been reduced, in real-terms, by 34%. Even with annual increases in council tax precept, total funding for local police has been reduced by 21%.

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 level.

In October 2017 the APCC and NPCC made a joint submission to government, including a Police Resources Assessment. In order to meet the additional demands on policing, alongside cost pressures, the service sought additional funding of £440m in 2018/19 and £845m in 2019/20.

In December 2017 the Minister for Policing and the Fire Service (Nick Hurd) announced that total investment in the police system would increase by up to £450m year on year in 2018/19 but most of this additional funding (around £270m) would come from PCCs raising their Band D council tax precept by £12 per year. Provided the Police service delivers clear and substantial progress agreed the agreed milestones on productivity and efficiency in 2018, then the Government intends to maintain the protection of a broadly flat police grant in 2019/20 and repeat the same flexibility of the precept, i.e. by allowing PCCs to increase their band D precept by a further up to £12 in 2019/20.

On 3rd October 2018 the APCC and NPCC wrote to the Minister setting out their joint requirements for the police settlement in 2019/20. The letter explained the progress being made on efficiency and productivity, referred to the significant impact on policing of the new Public Sector Pensions Valuation Directions (see below) and challenged the Home Office to reduce the level 'reallocations' from police grant. They concluded by asking the Minister to consider lifting or removing the referendum cap on council tax precept to allow forces scope to deal better with the financial and operational pressures currently experienced

Demonstrating Productivity & Efficiency

In order to meet the Minister's conditions in relation to productivity and efficiency, the APCC, NPCC and Home Office have created a National Commercial Board through which to focus efforts to deliver real progress in relation to procurement and shared services. By the end of Q1 2018/19 the service has already:

- Delivered £322m against the original target to make £350m procurement savings by 2020
- Delivered £23m of the 3 year £100m procurement savings target, with plans in place to achieve the agreed £40m by year-end 2018/19
- Delivered at least £13m against the 3 year back-office savings target of £20m
- Developed an outline business cases for both a future commercial operating model for policing, and for future shared services in policing using a national Centre of Excellence.

Increase in employer contributions for police officer pensions

On 6th September 2018 HM Treasury published their draft Directions on public sector pension schemes for the 2016 Valuation which comes in to effect in 2019/20. On 16th September the Government Actuaries Department (GAD) published their provisional valuation results based on the draft amending directions issued by HM Treasury. For police

these show a significant increase in the employer contribution rate from 22.1% to 31.8%, which will have a major impact on the funding challenge facing forces, effectively placing an additional 9.7% on the salary costs of police officers. At national level, this increase in pension contribution will cost the service an additional £165m in 2019/20, rising to £417m in 2020/21. The APCC and NPCC continue to challenge this increase, but the earliest we are likely to know the outcome of those negotiations is mid December when the provisional police grant settlement for 2019/20 is announced.

The financial context of Policing in 2018

Chief Constables believe the service is financially stretched. A reduction in real terms funding of police budgets of 21% (range 11% to 29%) has come at a time when the policing mission has been expanded and demand has grown.

The public and political expectation that policing should address crimes against the most vulnerable, (domestic abuse, child sexual exploitation, modern slavery, human trafficking, county lines, forced marriage and modern slavery) is resource intensive. Victims require safeguarding. Investigations are often complex and partnership case management is intense. The ability to create significant efficiencies is limited in an area concerned with protecting very vulnerable people.

The threat from terrorism has increased and significant investment in counter terrorism policing has been provided to National Counter Terrorism Policing. Whilst the funding in some counter terrorism capabilities has grown it is worth reflecting that the majority of the police response to the London Bridge and Manchester attacks came from core policing resources. Even uplifts in areas such as armed policing with additional funds have required fiscal support from host force budgets.

The demand on policing is growing. This is reflected in additional demand through reports and call volumes but it is also apparent in the evidence being provided to police. The digital footprint in most investigations requires more time to process the work.

The service needs to respond to an increasingly digitally capable criminal requiring new technology capabilities and organisation.

Serious and organised crime is a threat becoming more widely regarded as a national security issue.

Finally the stretch on the police workforce is extensive. A period of pay restraint has seen wages fall in real terms. A smaller workforce is increasingly stretched against a growing demand with an attendant personal impact on staff.

Future funding: Spending review

The APCC and NPCC are working closely with Home Office and wider policing partners to develop a co-ordinated Law Enforcement Spending Review submission for the period 2020/21 through to 2024/25. Unfortunately the outcome from this submission will not be known until the Chancellor's Autumn Budget 2019

Funding Formula

The police funding formula is broken and needs replacing. Indeed, the current formula has never been fully implemented. Substantial work was undertaken in 2016/17 to bring forward new proposals but this work was suspended in May 2017, following the snap general election.

In his provisional police grant letter in December 2017, the Policing Minister stated '*I am grateful for the work of the Core Grant Distribution Review, earlier this year, which considered potential changes to the police funding formula. In the context of changing demand and following engagement with police leaders, providing funding certainty for 2019/20 is my immediate priority. It is intended that the formula will be revisited at the next Spending Review.*'

The Minister is expected to announce that this work will recommence as soon as possible once the Spending review submission is complete

Brexit

In June 2016 the Government held a referendum on whether the UK should leave or remain in the European Union. The 'Leave' vote won by 52% to 48%. The referendum turnout was 71.8% with more than 30 million people voting. The Government triggered Article 50 on 29th March 2017, which means the new arrangements has to be agreed by 28 March 2019. Negotiations with the EU have proven extremely complex, time consuming and divisive. The Prime Minister presented her Brexit deal to Cabinet on Wednesday 14 November, after which 2 cabinet Ministers and a handful of junior Ministers resigned. The Brexit Deal is due to be debated in the House of Commons on 13th December 2018.

Growth in the UK economy

Due to the Brexit negotiations the UK economy continues to experience a bumpy ride. The economy is expected to grow by around 1.3% in 2018 and 1.6% in 2019¹. Inflation is still higher than the 2% target. CPI is currently 2.4%, RPI is slightly higher at 3.3%. Despite these relatively poor economic figures, there are now 32.4 million people in employment, and the unemployment rate of 4.1% is the lowest for 43 years (i.e. since 1975). In August the UK base rate was increased for the second time in a year, up from 0.5% to 0.75%, following a decade of no change. Future increases in base rate are expected to be small and gradual.

Reserves and balances

There is an increasing focus on the amount of reserves held by the police. A report was presented to the Minister in October 2018 which showed that total revenue reserves at 31st March 2018 amounted to £1.40bn; a reduction of 14% on comparable figures twelve months ago. Current forecasts indicate that revenue reserves will fall by a further 47% between now and March 2021 to a figure of £747m.

Capital grants and reserves have fallen from £534m in March 2017 to £168m by March 2018 and expected to fall still further to just £29m by March 2021. Although these are national figures and trends, the situation in local force areas will vary significantly due to historical circumstances and current PCC plans.

3. AN OVERVIEW - LOCAL

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 eight years (i.e. between 2011/12 and 2018/19); an overall cash reduction of around 25%.

The latest Medium Term Financial Plan indicates that further budget cuts of at least £12.3m will be required over the next four years (i.e. 2019/20 to 2022/23) but there are a considerable number of uncertainties and risks underlying the funding assumptions, hence the actual figure could be significantly higher

¹ Chancellors Autumn budget 2018

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. Worryingly, violent and serious crime is increasing and emerging crimes such as cyber crime, child sexual exploitation (CSE), female genital mutilation (FGM), modern slavery and human trafficking are further 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.

However, the fact that we have identified and planned for this real terms budget reduction, and have a proven productivity strategy and priority based budgeting process in place to deliver both cashable efficiency savings and productivity improvements, is a clear advantage. HMIC's PEEL inspection programme looks at how efficient forces are. In the November 2017 PEEL: Police efficiency (including leadership) report TVP was awarded an overall grade of "Outstanding. The new integrated PEEL Assessment report will be published in early 2019.

There are still a few, but vitally important, residual budget and funding uncertainties that will impact on TVP finances and implementation of this strategy over the next few years, including:

- The level of Government contribution to the higher police officer pension costs in 2019/20 and 2020/21
- The council tax referenda criteria in 2019/20 and later years
- The outcome of the Spending Review for 2020/21 and later years
- The continuing Impact of BREXIT discussions on the UK economy
- The amount top-sliced (or reallocated) from police grant to fund government projects and priorities such as Police Technology Projects and the Transformation Fund
- The impact of the new policing funding formula and the application of dampening, if implemented in 2021/22 or later years
- Changes in the taxbase over the next few years
- The size of local council tax increases in TVP.

Regardless of the financial challenges the overriding requirement is to provide an efficient and effective policing service. The Police and Crime Plan supported by the Force's Commitment and annual delivery plan explains how we plan to deal with Government priorities and requirements, as well as providing a policing service which meets the local needs of the people of Thames Valley, with the financial resources available to us.

4. THE FINANCIAL STRATEGY

The following section sets the financial strategy which TVP will follow in order to achieve its goals and priorities, whilst balancing available finance and spending ambitions. The vision of the financial strategy is to:

- **Support the delivery of priority services, by ensuring funds are allocated in accordance with local and national priorities;**
- **Ensure that revenue and capital funds are maximised to support policing and crime priorities as set out in the Police and Crime Plan and to deliver on the Force commitment;**
- **Facilitate investment in new technology and business change to improve service delivery**
- **Plan effectively and realistically for the known real-terms reduction in external income in coming years;**
- **Continuously strive to improve efficiency and achieve value for money**
- **Demonstrate proper accountability of our use of public funds**
- **Provide for the long term financial stability of the force as far as possible**

To achieve this vision we will aim:

- To plan realistically for the real-terms reduction in government grant income
- To plan realistically for future commitments and investments
- To produce realistic estimates for each area of structural reform or major budget reduction.

- To deliver stability in TVP budgets by ensuring that changes from year to year in resources available and the financing implications of those changes are, as far as possible, predicted and managed.
- To make the best use of limited resources, continually striving to improve resource allocation, usage and management, to deliver efficiencies and hence maximise investment in priority services.
- To use new, innovative ways of examining all areas of police business in order to identify and implement the predicted level of budgets cuts now required, e.g. Priority Based Budgeting, Demand analysis
- To use benchmarking and other tools to challenge and demonstrate the achievement of value for money. We will challenge spending pressures and the spending norms; not simply accept them as a 'given'.
- To effectively account for and report on the use of resources.
- To provide appropriate and adequate information and advice to facilitate decision making, including costing data.
- To have in place sound financial processes to control, monitor and account for expenditure.
- To maintain an appropriate level of general balances, earmarked reserves and insurance provision to ensure financial stability and to provide opportunities to fund the one-off costs of, e.g. structural reform, technology investment to facilitate long term efficiencies, for invest to save initiatives and investment for performance.
- To work closely with other forces and partners, where appropriate, to deliver cost savings and improve resilience and performance (e.g. collaboration with other forces & fire and rescue services).
- To work closely with partners (e.g. for community safety and victims services) to commission services in an efficient and effective manner
- To promote effective internal audit of financial management and control arrangements

- To embed effective risk management arrangements throughout the organisation
- To ensure our asset portfolio is of an optimum size and maximise the utilisation and efficiency of our asset portfolio.

5. EXTERNAL INFLUENCES ON THE FINANCIAL STRATEGY

The following factors will be considered and taken into account during the annual planning process and will be reflected in medium term financial forecasts, the annual revenue and capital budgets and monitoring expenditure thereafter:

- Impact of the Public Sector Pension Valuation on future employer contributions to the unfunded police officer pension scheme
- UK and global economy, including the size of public debt
- Changes in the demand for policing services as evidenced in the Spending Review submission 2019
- Potential impact of the new police funding formula should it be implemented in 2021/22 or later years
- Annual real-term reductions in government grant allocations
- Government assumptions on future council tax increases
- The referenda limits for council tax increases
- New ways of working (e.g. the duty on PCCs and chief constables to explore and pursue opportunities to deliver services in collaboration with public and private sector partners)
- NPCC & APCC 2025 Policing Vision to deliver reform in policing
- New arrangements for delivery of national and specialist policing services and the national enabling programmes for digital policing
- The continued withdrawal of partner funds, resources and services
- Government changes to procurement (e.g. national framework arrangements, changes to EU regulations)
- Legislative changes (e.g. Health & Safety, Disability Act, Policing Reform)
- Operational demands and the changing pattern of Crime.
- Population growth in the Thames Valley (an estimated extra 400,000 people over the next 25 years)
- Potential income from the Proceeds of Crime Act

6. FUNDING OBJECTIVES

To make the best use of limited and/or finite resources for revenue and capital spend, TVP will seek to:

- Identify and sell surplus and/or inefficient assets to provide funding for future capital investment and to reduce revenue running costs
- Identify suitable investment schemes to reduce costs and/or improve performance
- Ensure that whole life costing of investment options is undertaken to improve decision making
- Maximise grant funding opportunities, taking into account any long-term impact on the budget
- Maximise income generation wherever possible through trading activities and external funds, within the capacity of the Force and without impacting adversely on operational policing
- Maximise collaboration and partnership working where it improves service effectiveness, reduces costs and improves efficiency without introducing undue risk to service delivery
- Increase council tax income as appropriate to alleviate the impact of budget reductions on operational policing services
- Make the best use of finite revenue and capital cash reserves

7. MEANS OF DELIVERY

The following key documents will be produced or actions undertaken:

- An annual revenue budget that supports and complements the Police and Crime Plan, the Force Commitment and annual delivery plan, within the parameters set by government for expenditure capping.
- A medium term financial plan based on a realistic assessment of pay and price increases; national, regional and local policing requirements; an estimate of future grant allocations, cashable efficiency savings and other budget reductions,

council tax base and the overall surplus or deficit on collection funds and, finally, government pronouncements on capping.

- An annual capital budget produced in accordance with the Capital Policy Statement.
- A funded medium term capital plan incorporating the investment required to maintain and develop the force infrastructure to support the delivery of the Police and Crime Plan and the Force commitment.
- A capital strategy to highlight the authority's capital investment ambition, whilst also ensuring appropriate capital expenditure, capital financing and treasury management in the context of the sustainable, long-term delivery of services
- An annual treasury management and investment strategy, including the prudential indicators
- Financial awareness training will be provided to appropriate senior police officers and staff to enable them to manage their budgets effectively

8. GOVERNANCE

The planning, decision making and monitoring arrangements in TVP are set out below:

- TVP will adopt Financial Regulations including Contract Regulations to codify its financial management policies. The Chief Constable will issue more detailed Financial Instructions to complement and support these Regulations
- After consideration of any recommendations received from the Police and Crime Panel with regard to the proposed council tax precept, the PCC will approve the annual revenue budget, annual capital budget, medium term financial plan, the medium term capital programme, capital strategy and the annual treasury management and investment strategy in January each year
- Day to day responsibility for management of the operational budget is undertaken by the Chief Constable, in accordance with the approved joint corporate governance framework

- Budgets will be continually monitored to ensure that all expenditure is in line with the PCC's and Force's strategic objectives. Revenue and capital monitoring reports will be presented by the Chief Constable to the PCC on a regular basis, as determined by the PCC in consultation with the Chief Constable
- The PCC's Chief Finance Officer will provide regular reports on the adequacy of reserves, balances and provisions
- Annual Financial Statements will be approved and published by the Chief Constable and the PCC in accordance with statutory timescales

Approved by: Police and Crime Commissioner & Chief Constable

Date: 26 November 2018

Review date: November 2019