



NOTTINGHAMSHIRE
POLICE & CRIME
COMMISSIONER

Financial Strategy

2022-2027

1. Executive Summary

1.1 This report brings together the Commissioner's business and financial planning. It looks forward over the next 5 years and sets out how it will meet the Commissioner's Police and Crime objectives.

1.2 The Police & Crime Delivery Plan has been refreshed and is included in the reports to the Police & Crime Panel. The key objectives within the plan are:

- Preventing Crime and Protecting People from Harm
- Responding efficiently and effectively to Community Needs
- Supporting Victims and Survivors, Witnesses, and Community

This financial strategy puts in place the financial commitments in achieving these objectives.

1.3 Linked with this and presented at the same time is the precept report, the revenue budget for 2022-23, the capital strategy, capital five-year programme, treasury management strategy and reserves strategy. This strategy brings together all of these reports and strategies and they should be read in conjunction with one another. This strategy also includes indicative budgets for the next 4 years up to 2025-26 based on information known at the current time.

1.4 For 2022-23 the proposed level of net revenue expenditure after income and specific grants is £247.7m which is an increase of 6.2% over the 2020-21 amount of £253.2m. Setting a balanced budget requires a council tax increase of £9.99 (band D equivalent). This level of council tax increase is possible due to the additional freedoms provided within the Autumn 2021 Spending Review, which allow a council tax increase of up to £10 to cover the increase in cost pressures such as pay awards and inflation not included in core grant. This freedom can be assumed in the following two years as the funding settlement covers a 3-year period for Policing – giving more certainty to our financial planning.

1.5 This level of spend and the resulting amount of council tax precept does not provide any additional contribution to reserves in 2022-23, but there is a significant contribution to capital expenditure from revenue. The level of General Reserves remains between minimum and maximum recommended levels. It is planned to review the reserve issue following the 3-year settlement as this gives more certainty to future funding levels and the Force's spend and risk analysis.

- 1.6 Further work will be undertaken during 2022-23 to better understand key risks and pinch points together with a more planned approach to medium term financial planning, incorporating a whole organisation approach. This will ensure all aspects are considered, eg workforce requirements, estate, vehicle and ICT plans). For estates the plan needs to cover a period of 15-25 years. This will enable better planning and the ability to maximise resources and demonstrate value for money for the taxpayer.
- 1.7 Revenue funds are also being made to fund capital spending, in 2021-22 this is estimated to be in the region of £4.5m and for 2022-23 it is estimated to be £4.4m. As capital funding from government grants and the sale of assets reduces, the PCC becomes more reliant on the precept amounts to fund Capital expenditure, either through direct revenue financing or providing for the repayment of Loans.
- 1.8 Nottinghamshire Police is heavily dependent on government grant funding, with 2/3rds of its funding coming from grant. Core police resources are assumed to increase in line with inflation, although this is wholly driven by increases in Council Tax with no corresponding increase in Core Government Grants.
- 1.9 In 2022-23 an additional £8.5m, in respect of uplift only, has been provided. This takes the total core grant including Uplift funding to £163.2m compared with £154.7m for 2021-22. Despite Covid and the huge impact on the Government's finances the grant settlement was better than expected. However, the issue going forward in the medium to long term is that core grant and Council Tax increases are unlikely to cover all spending pressures, maintaining the requirement for the organisation to continue on its delivery of efficiencies.
- 1.10 The budget includes the latest indicative assumptions from the Government's Spending Review. It does not make any assumption relating to a Funding Formula Review as the timing of a new formula is uncertain. As Nottinghamshire Police are one of the losers under the current funding formula it had been hoped that a new formula would provide a greater level of ongoing grant support in the longer term.
- 1.11 Looking forward, the 5-year medium term financial strategy for 2022- 2027 currently forecasts a total budget gap of £12.1m, with deficits not first arising until 2025-26.
- 1.12 Given all of the above, it is imperative that financial governance is strong and given appropriate priority to delivering on the efficiency agenda and driving transformation. Good practice in this regard is demonstrated by the introduction of a new Financial Management System (which goes live April 2022), major contractworks as well as the restructuring of the Office of the Police and Crime Commissioner with a greater focus being given to Commissioning, Governance and Community Engagement.

1.13 Work has been ongoing on a number of fronts in the past 2-3 years, including a restructure of the Finance Team, the appointment of new senior finance staff, improved budget monitoring and the embedding of business partnering within the Force approach to business management: all which leads to improved confidence in overall financial sustainability.

2. Financial Context

2.1 National Background

2.1.1 The last 10 years have resulted in many changes to the environment that Policing operates in. The economic downturn which started in 2007-08 has been a key driver for this and has presented the Police & Crime Commissioner with significant challenges for policing in Nottinghamshire, including:

- Reductions and flat cash settlements in grant funding
- Restrictions on Council Tax: relaxed in recent years
- Demand led pressures
- Other external factors
- The UK's withdrawal from the European Union
- The impact of the COVID 19 pandemic

2.1.2 These economic challenges have contributed to uncertainty, and this has been reflected in the way in which Commissioners have developed medium term strategies for the delivery of services.

2.2 Spending Review

2.2.1 The Home Office have concluded their work on the Spending Review 2021. This was done over a very short period of time and within a remit from the Treasury that things will be tight, where we have had an indication of how this will impact police funding it has been applied to this strategy.

2.2.2 A long-awaited Funding Formula review is still required and is currently the subject of review. The Police Grant is allocated on a formula which originates and includes data from 2005. And the formula itself was never fully implemented due to the floor's mechanism operated.

2.2 Other factors

At a national level the factors which will affect local finances include: the impact from leaving the European Union, Pension Revaluations, the impact of the pandemic and nationally run projects such as ICT projects. These are all outside of local control, but all will continue to impact significantly on resources made available.

3. External Influences & Local Impact?

3.1 Background and Budget Setting

- 3.1.1 Each year the Force commences its budget process in late Summer, with a draft budget required by 30th November. Only small adjustments are then needed as the information from the Autumn Statement and spending review become known. Final adjustments are made in January once final grant settlement has been announced.
- 3.1.2 Both the PCC and PCC CFO's attend meetings at a regional and national level to ascertain any possible information from the Home Office that can be obtained and influence the parameters for setting the local budget.
- 3.1.3 When settlement was announced in December 2021 we were provided with precept freedom of £10 and a core grant increased for police officer uplift only. The settlement period was also for a three-year period, rather than the usual one year. The precept and budget reports are produced on this information with future assumptions based on increased core grant for uplift only, a £9.99 increase in Council Tax for 2023-23, £10 further increase per year in precept until 2024-25, plus expected tax base growth.
- 3.1.4 As part of this process all variables are reviewed such as pay award assumptions, the costs of incremental progression, the impact of the living wage, inflation, demand led increases such as the increase in IT (purchase and revenue running costs).
- 3.1.5 This revised strategy updates all known variables based upon the latest information.
- 3.1.6 The Force runs a series of internal events known as the ADA process to identify growth required. This also provides the initial contribution towards on-going efficiencies.
- 3.1.7 **Appendix A** provides an updated high-level projection of net revenue expenditure and potential funding. This will continue to be updated as we go through the Spending Review and Budget Setting process.

3.2 Current Knowns and Unknowns

3.2.1 Impact of Brexit

As negotiations are on-going regarding the implementation of the exit deal with the European Union, its impact on public sector funding remains unknown.

3.2.2 Impact of the Pandemic

The impact of the pandemic at a national level on public sector funding is still emerging, although economic recovery has been more positive than first expected, the impact both short and long term is likely to be focused on the recovery of the National Health Service for any further additional funding being made available.

3.2.3 There remains concern on the impact of the pandemic on council tax. Locally, billing authorities are concerned about any reduction on the amount of council tax collected, although most have a collection fund surplus declared in 2022-23 and tax base increases have returned to the normal range.

3.2.4 Subsequent announcements as part of the previous spending review have confirmed the provision of a Council Tax Support Grant to alleviate the problems of a reduction in the forecasted tax base. And the provision of a local Council Tax Income Guarantee Grant to contribute 75% towards the deficit on the CollectionFund from 2021-22 onwards.

3.2.5 The actual impact of a 1% reduction in Tax Base is estimated at a loss in funding of £750,000.

Pension Revaluations

3.2.6 Over the medium term there is a planned revaluation of the Police Pension Fund and the Local Government Pension Fund. The last revaluations saw the employers' contribution for Police pensions rise by 6.8% to 31.0% and the employer's contribution for police staff rise by 3.1% to 16.5%.

3.2.7 Current estimates are that the employer's rate for the police pensions will rise again, to as much as 40% and the staff LGPS pension employers rate rise from 16.5% to a potential worse case of 25%. So far, a 1% increase has been estimated to come into effect in 2023-24 for the LGPS, with a net 3.5% increase in police pensions in 2025-26.

3.2.8 The full impact of the McCloud case on public sector pensions is still being implemented, however the Treasury has provided assurance that the full cost this will be met by Government.

Uplift Grant

- 3.2.9 The Home Office is providing grant funding for all of the costs associated with the recruitment of additional officers (pay, uniform, premises, vehicles, support services). This core funding will be rolled into core police grant moving forward. The Chief Constable has been very proactive in ensuring that Nottinghamshire continues to achieve its target ahead one year ahead of the national target.

Efficiencies

- 3.2.10 The CSR assumes £100m p.a. in efficiency savings for the service. This means that the Force needs to identify and deliver savings on an ongoing basis. The Annual Budget report details the organisations achievement in this respect; currently the trend is that achievement is well above the apportionment of the national target set by government, and this continues to be the expectation in the medium term.

4. Risks and Robustness

- 4.1 In general terms the biggest risk is having insufficient funding to meet expenditure requirements. This can lead to perverse/inefficient outcomes, such as Police Officers carrying out staff roles.
- 4.2 Historically, Nottinghamshire has been underfunded from Police Grant. Since the current formula came into place in 2005-06 Nottinghamshire has had significant amounts of funding withheld in a floor mechanism that protected overfunded forces from experiencing significant cuts in their funding. The consequence of which is that Nottinghamshire has always had to make do with less, does not have cash rich reserves and was already financially stretched when ~~any~~ hit.
- 4.3 Nottinghamshire is approximately 2/3rds funded by police grant and 1/3rd by precept. Which during austerity meant we were hit the hardest financially compared to others who are 30-50% grant funded. These forces were still able to receive increased funding from precepts whilst grant was either cut or static. This gearing effect continues to be a risk that we have to manage and work within.
- 4.4 The Funding Formula Review is now being reviewed by the Home Office, although the precise outcome for Notts and any implementation date is unknown. It is not however expected in this parliamentary period.
- 4.5 Under this current funding formula Nottinghamshire has had at least £10m per annum ~~the~~ in grant funding and at one point as high as £18m.

Reserves and Balances

- 4.6 The consequence of the underfunding of police grant and the gearing effect of grant to precept, has meant that Nottinghamshire has never been “cash rich”. Its level of reserves has always been lower quartile.

Despite this, when opportunities have arisen, we have acted proactively. For example, efficiencies delivered ahead of schedule or greater than expected were transferred to reserves to fund transformation, redundancies and revenue overspends. This is an effective use of reserves for one-off funding to reduce the total revenue base budget going forward.

- 4.7 Nottinghamshire holds a general reserve of £7.075m. The £0.075m relates to a requirement under regional collaboration. The £7.0m has increased from £3m up to 2010 and currently represents 2.8% of our net revenue expenditure (NRE), although a review of the reserves position during the year is expected to release funds from other areas of reserves to increase this percentage.

The policy is that this reserve should not ever fall below 2% of NRE, as the Home Office require a 1% contribution of NRE to any request for specific grant. The Home Office have set a maximum that it expects forces to hold of 5%. To achieve this maximum limit would require an additional contribution of £5.4m.

- 4.8 Nottinghamshire holds earmarked reserves which have been increasing over recent years to fund capital projects, the 3-year settlement along with the achievement of a prolonged trend delivering a well-managed budget containing significant amounts of direct revenue financing is likely to result in some earmarked reserves being reduced. This will be reviewed by the CFO as part of the closure of accounts for the 2021-22 accounts.

- 4.9 The Government has made it very clear that it does not expect any force or local authority to hold significant levels of reserves. We are demonstrating we only hold increased levels of reserves for very short periods of time for major capital projects.

- 4.10 Capital receipts are utilised to fund short life assets in the capital programme as this is more beneficial to the future revenue budgets. Capital grant has now ceased from 2022-23 and is now incorporated into revenue grant which offers more flexibility.

5. Strategy Assumptions

The strategy is built based on a number of assumptions as detailed below:

Core Funding

- **Core grant.** It is assumed that there is an increase to core grant funding in line with CSR increases, delivered by Council Tax increases.
- **Precept.** It has been assumed for the base position that precept will increase by £10 each year in line with the CSR.
- **Tax Base.** An addition of 1% per annum.

Net Revenue Expenditure

- **Pay.** It has been assumed that police officer pay will increase by 2.0% in 2022-23, 3.5% in 2023-24 and 2.5% thereafter. The same has been assumed for police staff pay.
- **Pensions.** It has been assumed that all new officers and staff will auto enroll to the respective pension schemes. The next triennial valuation for the police pension is due in 2022-23 and a similar date for the police staff pension scheme. It is likely that the employer's contribution will change and probably upwards. This has not been factored into the assumptions at this stage.
- **Non-Pay.** Inflation is currently running at over 5% and is expected to persist over the short term. However, we have shown over achievement (£3.4m) against the local allocation (£1.8m) of the national efficiency target (£100m) that we will be required to deliver, which will help off-set the higher-than-expected inflation position going forward.

APPENDIX D

APPENDIX A(i)

Net Revenue Expenditure (NRE)

Net Revenue Estimate as at January 2021					
	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £	2026-27 £m
Pay	198.6	206.5	213.2	220.0	226.6
Pay award	2.0%	3.5%	2.5%	2.5%	2.5%
Non pay	70.9	69.7	70.4	72.2	74.0
Non Pay inflation	2% inflation 10% HO IT inflation 3-10% utilities & fuel	2% inflation 10% HO IT inflation 3-10% utilities & fuel	2% inflation 10% HO IT inflation 3-10% utilities & fuel	2% inflation 10% HO IT inflation 3-10% utilities & fuel	2% inflation 10% HO IT inflation 3-10% utilities & fuel
Income	(15.5)	(15.8)	(16.1)	(16.4)	(16.8)
Specific Grants (incl Uplift)	(5.9)	(5.9)	(5.9)	(5.9)	(5.9)
Use of Reserves	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
TOTAL NRE	<u>247.7</u>	<u>257.1</u>	<u>265.2</u>	<u>273.6</u>	<u>281.7</u>

APPENDIX D

APPENDIX A(ii)Core Funding

Core Funding estimate as at January 2022						
	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £	2026-27 £m	
Precept £10 to 23-24 then 2% increase	83.3	87.8	92.0	94.8	97.6	
Tax base increase	1.92%	1.5%	1.0%	1.0%	1.0%	
Collection Fund - surplus/(Deficit)	0.8	0.0	0.0	0.0	0.0	
Core Grant (inc. uplift)	153.5	158.3	161.0	161.0	161.0	
Council Tax Legacy	9.7	9.7	9.7	9.7	9.7	
Reserves	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	
Core Funding available	219.6	233.2	243.4	248.7	251.5	254.1