

HAMPSHIRE POLICE AND CRIME PANEL

Report

Date considered:	27 January 2017	Item:	8
Title:	Commentary and Proposed Recommendation on the Precept		
Contact:	Cllr David Stewart, Chairman, Finance Working Group		
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1. Executive Summary

- 1.1 This purpose of this report is to provide an overview of the Finance working group's (FWG's) consideration of the proposed precept, medium term financial strategy and supporting financial information, including details of the consultation activities undertaken by the Police and Crime Commissioner (PCC).
- 1.2 The report also draws on key lines of inquiry that it feels the Police and Crime Panel (PCP) should utilise when scrutinising the proposed precept, as well as making a recommendation to the PCP on the precept.

2. Contextual Information

- 2.1 The PCP is responsible for reviewing the PCC's draft annual Council Tax precept levels and is able, under the Police Reform and Social Responsibility Act 2011 and the Police and Crime Panels (Precepts and Chief Constable Appointments) Regulations 2012, to:
- 2.1.1 Make a report to the PCC on the proposed precept;
 - 2.1.2 Include within the report recommendations, which may include a view as to the precept that should be issued for the following year. This may be to support the proposed precept, or to recommend an alternative proposal (i.e. a higher rate or lower rate than that proposed, or a specific figure if the PCP is so minded).
 - 2.1.3 By a two thirds majority of the total membership of the PCP, determine to veto the precept. Clear reasons for making this decision must be included in a report to the PCC, and a view on whether the precept was in the view of the PCP set at too high or too low a rate.

- 2.2 A 'Police and Crime Panels – Scrutiny of Precepts' guidance note from the Home Office has been appended to this report in order to explain each process to be followed should the Panel recommend, not recommend or veto the proposed precept (see Appendix One).

3. Finance Working Group

- 3.1 The Membership of the FWG is as follows:

- Councillor David Stewart (Chair)
- Mr Michael Coombes
- Councillor Ian Lyon
- Councillor John Kennett
- Councillor Peter Latham

- 3.2 The working group receives financial advice from Anne Hibbert, Corporate Accounting Manager for Hampshire County Council, and is supported by Katie Benton, Scrutiny Officer to the PCP.

- 3.3 The working group met twice in the lead-up to the 27 January PCP meeting, convening on 6 December 2016, and 20 January 2017. It considered the following information:

- The PCC's Medium Term Financial Strategy (MTFS)
- Answers to queries raised with the PCC in relation to the MTFS (see Appendix Two)
- The proposed precept and budget (also due to be considered by the PCP)
- Consultation materials from the precept event held on behalf of the PCC

4. Views of the Finance Working Group

Proposed Precept

- 4.1 The FWG felt that a clear case had been made through the precept/budget report, and in the consultation materials, as to why an increase in the Council Tax was required and the appropriateness of setting this at a £5 3.12% increase, being the maximum permissible without requiring a public referendum.
- 4.2 In probing what the additional Council Tax monies would be used for, it was noted that they would contribute to the increase in spend required to meet continuing growth in demand, as well as to invest in the tools required for an effective and modern police service. It was noted that if the MTFS estimated

that there would still be an estimated £23m shortfall in funding by 2020/21, of which £13m remained unaddressed at this point in time.

- 4.3 If the proposed precept were supported, the FWG felt it would be important for the PCC to be able to communicate the increase in Council Tax effectively with communities and the public.

Consultation on the Proposed Precept

- 4.4 In considering the consultation documents used to engage stakeholders on the proposed precept, the FWG noted the considerable increase in participants who were willing to support a 3.12% increase in the precept once the financial context and pressures had been presented to participants. The FWG also noted the overall support for the PCC's proposals in his on-line survey. In addition, the positive inclusion of community representatives in the facilitated consultation events was noted.

National Funding

- 4.5 The FWG had seen and noted a letter from the PCC and Chief Constable setting out to the Minister of State for Policing and Fire Services the current financial situation in Hampshire, and the urgent need to increase national police funding in order to keep the risk to the public at acceptable levels, it was accepted by the FWG that national funding levels for Hampshire continue to be considerably less than the average received by other forces. The FWG were satisfied that the points raised in the letter were covered in the report to be considered by the PCP.

Reserves Strategy

- 4.6 The FWG considered in detail the reserves strategy and funds contained within each portfolio area, specifically scrutinising the plans for the transformation reserve. The FWG wished to assure itself that all projects funded from this reserve are robustly monitored and evaluated in order to demonstrate value for money. It was understood that the transformation reserve funds had all been allocated to work-streams, and details of these would be provided to the PCP on 27 January.
- 4.7 The PCC had drawn to the FWG's attention that proposals to use funds held in the Transformation Reserve are published on the OPCC's website. Scrutiny of these decisions revealed that in relation to one such decision, on the Contact Management Programme, the previous PCC had expressed concerns having been asked to approve a significant increase in the costs of

the programme. The FWG agreed that reassurance should be sought from the PCC on whether he believes the concerns in relation to the Contact Management Programme have been addressed, and how confident he is that the issues that had been criticised in relation to that programme are not typical of other programmes funded by the Transformation Reserve. The report seeking the previous PCC's approval to provide additional funding for the Contact Management Programme and his comments on this are set out in Appendix Three.

- 4.7 It was also understood within the reserves strategy that it was a requirement that PCCs held unallocated funds as a contingency.

5 Proposed Lines of Inquiry

- 5.1 Following consideration of the draft precept, budget and MTFS on 20 January, the FWG agreed the following questions as proposed lines of inquiry to the PCC on 27 January:

- Confirmation that the underspend from previous years would have been transferred into the (transformation) reserves and, if so:
 - Why has this been the chosen budget model, compared to one more closely aligning the budget to actual spend?
- What is the strategy for the transformation reserve?
 - How much of this is earmarked (and what for)?
- If the increase in precept is agreed, how will it be communicated to the public? (Particularly in terms of expectations around visible improvements in policing or quality of service?)
- What are the £10m in constabulary efficiencies noted in the report?
 - What is the confidence in delivering these?
 - Why aren't they built into the MTFS?
- How does the Commissioner ensure, independently of the Constabulary, the appropriate and robust scrutiny of funded transformation projects?

6 Recommendations

- 6.1 The Finance working group, taking all supporting financial information into consideration, recommends:

That the Commissioner's proposal to increase the precept by £5 for a Band D property, or 3.12%, for 2017/18, is supported.

Appendix One – Home Office guidance on precept review

Police and Crime Panels – Scrutiny of Precepts

This guidance note explains the process for the police and crime panel's (PCP) scrutiny of the police and crime commissioner's (PCC) proposed precept and should be read alongside:

- Schedule 5 of the [Police Reform and Social Responsibility Act 2011](#) ("the Act")
- Part 2 of the [Police and Crime Panels \(Precepts and Chief Constable Appointments\) Regulations 2012](#) ("the Regulations")

A separate [guidance note setting out the scrutiny of chief constable appointments](#) has been published alongside this guidance note.

Background

Schedule 5 of the Act sets out the process for issuing a precept, including the panel's role in reviewing the proposed precept, their power to veto the precept and the steps to be taken if they do veto the proposed precept.

The Regulations provide greater detail to the Act, including time limits applicable to the stages of the process and the process for reviewing and issuing a revised precept.

Schedule 5 requires:

- the PCC to notify the panel of his/her proposed precept;
- the panel to review the proposed precept;
- the panel to make a report to the PCC on the proposed precept (this may include recommendations);
- the panel's report (if they veto the proposed precept) to include a statement that they have vetoed it;
- a decision of veto to be agreed by two-thirds of the panel members;
- the PCC to have regard to the report made by the panel (including any recommendations in the report);
- the PCC to give the panel a response to their report (and any such recommendations);
- the PCC to publish the response.

It is for the panel to determine how a response to a report or recommendations is to be published.

If there is no veto and the PCC has published his/her response to the panel's report, the PCC may then issue the proposed precept - or a different precept (but only if in accordance with a recommendation in the panel's report to do so).

The Regulations require:

- the PCC to notify the panel of his/her proposed precept **by 1 February**;
- the panel to review and make a report to the PCC on the proposed precept (whether it vetoes the precept or not) **by 8 February**;
- where the panel vetoes the precept, the PCC to have regard to and respond to the Panel's report, and publish his/her response, including the revised precept, **by 15 February**;

- the panel, on receipt of a response from the PCC notifying them of his/her revised precept, to review the revised precept and make a second report to the PCC **by 22 February**;
- the PCC to have regard to and respond to the Panel's second report and publish his/her response, **by 1 March**.

Panel's report on the proposed precept

If the panel fails to report to the PCC by 8 February the scrutiny process comes to an end, even if the panel have voted to veto the proposed precept, and the PCC may issue the proposed precept.

PCC's response to a veto

Where the panel vetoes the proposed precept, the PCC must have regard to the report made by the panel, give the panel a response to the report and publish the response, by 15 February. In his/her response, the PCC must notify the panel of the revised precept that he intends to issue.

Where the panel's report indicates that they vetoed the precept because it was:

- **too high**, the revised precept must be lower than the previously proposed precept.
- **too low**, the revised precept must be higher than the previously proposed precept.

The PCP may only veto the first proposed precept. Such a veto must be agreed by two-thirds of PCP members (the full membership rather than those present at a meeting). Where a veto occurs, the report to the PCC must include a statement to that effect.

Panel's review of the revised precept

On receipt of a response from the PCC notifying them of the revised precept proposal, the panel must review the revised precept proposal and make a second report to the PCC on the revised precept by 22 February. This report may:

- indicate whether the panel accepts or rejects the revised precept (although rejection does not prevent the PCC from issuing the revised precept); and
- make recommendations, including recommendations on the precept that should be issued.

If the panel fails to make a second report to the PCC by 22 February, the PCC may issue the revised precept.

Issuing the precept

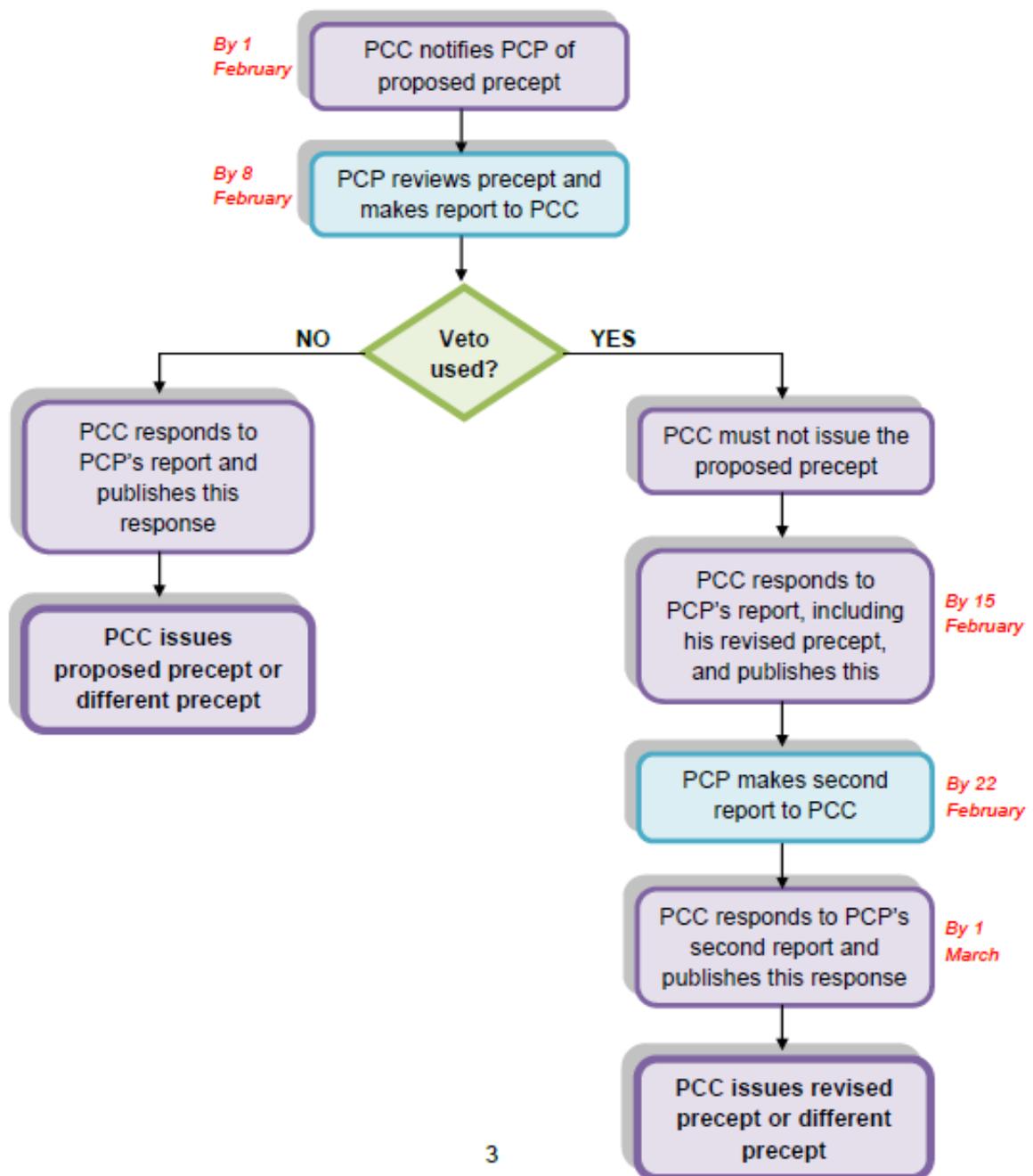
Excluding where the panel fails to report on the proposed precept by 8 February or make a second report on the revised precept by 22 February, the scrutiny process ends when the PCC gives the panel his/her response to their second report.

The PCC may then:

- issue the revised precept; or
- issue a different precept, although:

- they must not issue a precept that is higher than the revised precept if the revised precept was lowered following the panel's initial report on the first proposed precept indicating it was vetoed because it was too high;
- they must not issue a precept which is lower than the revised precept if the revised precept was raised following the panel's initial report on the first proposed precept indicating it was vetoed because it was too low.

Process for PCP scrutiny of PCC's proposed precept



Appendix Two – PCC response to FWG's queries



From: **Michael Lane**
Police and Crime Commissioner



17 January 2017

Councillor David Stewart
Chairman, Finance Working Group

Dear Dave,

Finance Working Group: Questions in advance of January Panel meetings

Thank you for your letter send by email dated 9 December 2016. I have provided responses below to each of the queries that you have raised which I hope will be of use to the Group when considering the precept.

- In respect of the first set of queries, the Group asked:
- How does the PCC scrutinise the budget to ensure value for money?
How regularly do internal and external audit processes consider value for money?
- What is the process followed?
- How do these bodies report findings to the PCC?
- What specific savings has the PCC made in the 2016/17 financial year?
- How were these savings justified, and what has been the impact of these decisions on service delivery?
- How does the Hampshire Constabulary benchmark itself financially against similar Forces? (both in terms of grant budget received and areas of spend)
- What have the main areas of underspend and overspend been for the previous four years of the budget?

This is the first budget to be set by me as the incoming PCC. In preparing this budget I have met along with my Chief Finance Officer with the Chief Constable and her Chief Finance Officer on several occasions to understand the construction of the budget and how the funding provided will be used. On an ongoing basis I have regular meetings with the Chief Constable to assess performance against the Police and Crime Plan priorities to ensure that value is being delivered. I also have monthly meetings with my Chief Finance Officer and the Constabulary's Chief Finance Officer to review the finances at a more detailed level and a Quarterly Forward Planning meeting with the

Chief Constable and Chief Finance Officers to strategically review the budget position, emerging threats/risks/opportunities and potential investments that could be made to address the threats/risks/opportunities.

I am assisted in assessing value for money in a strategic sense by the work of the external auditors, Ernst and Young, who provide an opinion on value for money each year to the Joint Audit Committee. An unqualified opinion on value for money has been received each year. The Internal Audit function considers VfM in each piece of work it reports and also includes it within the Annual Internal Audit Opinion, which also continues to conclude that sound controls are in place. External Audit can rely on the work of Internal Audit, but both undertake checks to ensure that the control environment is sound and to test that there are processes in place and working that deliver value for money, for example, testing of contract letting processes to ensure that the correct process is followed and that delivers VfM. All audit reports are presented to the Joint Audit Committee in line with the statutory governance requirements, who in turn advise me and the Chief Constable of any recommendations. The auditors also report annual opinions directly to me and the Chief Constable as we are 'Those Charged With Governance'.

Her Majesty's Inspectorate of Constabulary (HMIC) also produce an annual Value for Money (VfM) Profile which shows the overall VfM of forces as well as several breakdowns of how the Constabulary compares to other forces. This is the primary source for financial benchmarking as it is independently facilitated and uses robust data. Whilst some care always has to be taken with statistical exercises of this nature, the overall results are indisputable and shows that Hampshire Constabulary has the second lowest level of funding per head of population in England and Wales. The HMIC's own calculations show that after adjusting for population differences, the funding available to me is £44.8m less than the 'average force'. This is an issue of concern and one which I will seek to redress.

In terms of savings in 2016/17, the Budget 2016/17 report that was shared with the Panel last year and the subsequent Precept decision report published shows the planned savings for 2016/17. I am pleased to say that these significant savings of £12.045m have been delivered

Of this amount £11.571m of the savings came from the second half of implementing the Operational Change Programme which the Panel received a presentation on at the outset of the Programme. This is a significant restructure of the Constabulary which is necessary to ensure that the Constabulary is able to maximise efficiencies. The changes do impact the way that services are delivered, most notably through the introduction of the Resolution Centre which is designed to resolve certain incident types matching the correct criteria in a highly efficient manner which can also be more convenient for the victim.

The savings outlined above have related to reductions in personnel. Police officers cannot be made redundant and there is no intention to change that approach. Therefore, a reduction on police officers effectively relies on police officers choosing to leave, predominantly due to retirement. Police officers also have to be recruited and trained in bulk intakes so there is a close working relationship between the financial planning and HR workforce planning to manage the intakes required to match officer strength to the establishment. PCSOs and contact management staff follow a similar process, although they could be made redundant, but other police staff posts are managed and filled on a more traditional individual case by case basis.

In recent years underspending has occurred against the 'employee related' positions where slightly more police officers have left than the model forecasted. The model has to be prudent in order to ensure that the Constabulary operates within budget. There has also been an ongoing need to reduce police officer posts in the future to meet future budget reductions, however, there is currently planned to be a period of stabilisation of the police officer establishment so recruitment of police officers is now much higher and it is more likely that we will see a closer alignment of officer strength and establishment in 2017/18.

In addition to the above, the working group asked for clarification relating to the following areas: Details of the spend of the circa £30m of transformation and capital reserves in 2016/17, together with:

- How the projects funded by the transformation reserves are evaluated.
- How long the 'pay back' periods for these projects are likely to be.
- What the governance structures for allocating funds from and to the transformation reserve are.
- The reserves strategy, together with:
- The definition and purpose of each reserve.
- When it is intended that monies contained in each reserve will be spent, and what these are likely to be spent on.

The appendices of the Medium Term Financial Strategy (MTFS) and Budget report, when it is published, show the strategy for the reserves including the purpose of each reserve and a profile indicating the best estimate of when the funding within those reserves will be applied.

All allocations from reserves are authorised by a formal published decision by the Police and Crime Commissioner. Therefore, a review of the decisions made (published online) will give you the individual details of each amount approved, the rationale and any 'pay back', which will obviously vary on a case by case basis.

To give some indication of the expected expenditure from reserves in 2016/17, the current projections include £4.351m for Estate Change Programme (which the Panel has received presentations on previously), £2.314m for the Force Development Programme which seeks to identify the efficiencies required to balance the budget in future years, £1.930m for the ICT2020 Strategy that will provide a new architecture and platform for technology solutions going forward, £1.741m for Digital Policing Programme to deliver new technology solutions to the frontline such as smartphones and Body Worn Video, £3.527m for Contact Management Programme to deliver a new contact management system to replace the current solution that will become unsupportable and improve customer contact, £1.070m for investment in the CARM and SAP solutions to reflect the centralised approach for HR processes following the OCP changes which will be more efficient for frontline personnel.

We are in an environment where we need to make significant changes in a proficient manner in order to ensure that service delivery is maintained, and improved where possible, despite the continuing reductions in funding. I hope that the explanations above give you a fuller understanding of the challenge that is faced. For the purposes of considering the precept, I would like to particularly draw your attention to the strategic funding position, as assessed by HMIC, that the funding that I have available to make the people of Hampshire, the Isle of Wight, Portsmouth and Southampton safer is the second lowest per head of population in England and Wales and £44.8m less than the average.

Yours sincerely



Michael Lane
Police and Crime Commissioner

Appendix Three – Decision on Contact Management budget



- NOT PROTECTIVELY MARKED -

REQUEST FOR DECISION – PCCSH/ 000300/2016

Title of decision: Contact Management budget requirement

Executive Summary:

A decision is required in respect of the request for additional funding to support the implementation of the Contact Management Programme (CMP) across Hampshire Constabulary (HC) and Thames Valley Police (TVP).

The original budget for CMP was approved in 2013/14 for delivery of the Contact Management Programme against the business case which was approved by CCMT in December 2013 and PCCs in February 2014. This was for a collaborative delivery across HC and TVP. The budget that was agreed at the time was £7.879m, with HCs contribution amounting to £3.561m.

In October 2015, it became apparent that the budget requirement was insufficient and that additional funding would be required. At the time the additional cost was estimated at around £3m with HCs contribution estimated at £1.4m.

However, now that the additional costs have been fully assessed the additional budget requirement is estimated as **£6.205m**, with HCs contribution amounting to **£2.328m**.

The reasons for this increase are contained within the main report but can be summarised as:

- A lack of contingency funding in the original business case
- Underestimation of the complexity and cost of integration
- A change in architectural approach
- Cost of delays due to overly ambitious delivery timescales
- Underestimation of the cost of the Speech and Text project

The additional funding includes a request for £0.5m of contingency funds to deal with unplanned delays or unevaluated change requests. HC's proportion of this will amount to £0.226m, if used. The Programme commits to informing the PCC if these contingency funds need to be drawn down.

- NOT PROTECTIVELY MARKED -

PCCSH_000300_2016 CONTACT ManagementP funding - February 2016 Front



- NOT PROTECTIVELY MARKED -

Recommendation:

- 1) To approve the allocation of **£2.328m** additional funds for CMP.
- 2) An update report on the programme be brought to the Police and Crime Commissioners at the next meeting of the Collaboration Governance Board.

Police and Crime Commissioner

I hereby approve/reject the recommendation above.

Signature

A handwritten signature in black ink, appearing to be 'S. May', written over a horizontal line.

Date 21/3/16.

Comments on the decision taken:

In accepting this recommendation, I must record my concerns at the series of events that have led to additional funding being requested, including lack of contingency funding, significant underestimation of the scale and complexity of the integration with other systems required, receipt of estimates from external specialists which proved to be too low to meet the scope of the work, adoption of a new and more costly approach to enterprise architecture, an acknowledgement that an enterprise search capability is required to support the programme, an overly ambitious delivery timescale, and underestimation of the budget required to deliver the speech and text analytics project. For these reasons I have requested that a report on the project be brought to the next meeting of the Collaboration Governance Board, which I attend, to ensure accountability for decision making in the programme and provide assurance that effective budget and cost control is being applied.

- NOT PROTECTIVELY MARKED -

PCCSH_000300_2016 CONTACT ManagementP funding - February 2016 Front