



## South Yorkshire POLICE & CRIME PANEL

<b>Meeting Date</b>	<b>2 February 2018</b>
<b>Report of</b>	<b>The Police and Crime Commissioner</b>
<b>Subject</b>	<b>Proposed Council Tax precept for 2018/19</b>

### **EXECUTIVE SUMMARY**

To notify the Police and Crime Panel of the South Yorkshire Police and Crime Commissioner's ("the Commissioner") proposed Council Tax precept for 2018/19.

### **RECOMMENDATION(S)**

It is recommended that the Police and Crime Panel considers a proposed annual increase in Council Tax for 2018/19 equivalent to £12 for a Band D property (a 7.6% increase) to £170.16. For Band A properties this equates to an annual increase of £8.00, to £113.44 and for Band B properties an increase of £9.33, to £132.35

---

### **CONTENTS**

Main Report

## REPORT TO SOUTH YORKSHIRE POLICE AND CRIME PANEL

<b>Meeting:</b>	Police and Crime Panel
<b>Date:</b>	2 February 2018
<b>Title:</b>	Proposed Council Tax precept for 2018/19
<b>Organisation:</b>	Office of the Police and Crime Commissioner for South Yorkshire

### 5. Purpose of the Report

To notify the Police and Crime Panel of the South Yorkshire Police and Crime Commissioner's ("the Commissioner") proposed Council Tax precept for 2018/19.

### 6. Recommendation

It is recommended that the Police and Crime Panel considers a proposed annual increase in Council Tax for 2018/19 equivalent to £12 for a Band D property (a 7.6% increase) to £170.16. For Band A properties this equates to an annual increase of £8.00, to £113.44 and for Band B properties an increase of £9.33, to £132.35

### 7. Background

The Police and Crime Panels (Precepts and Chief Constable's Appointments) Regulations 2012 require that the Commissioner shall comply with the duty under paragraph 2 of schedule 5 of the Police Reform and Social Responsibility Act 2011, to notify the Panel of the proposed police precept by 1<sup>st</sup> February for the relevant financial year.

Since 2010/11, South Yorkshire Police (SYP) has suffered a 22.3% reduction in government grant (a real terms 36.4% reduction in resources). At the same time, SYP has faced growth in demand, inflation and the need to fund a number of ongoing 'Legacy' issues (detailed below) relating to the Hillsborough disaster and child sexual exploitation (CSE). This has meant that each year budgets have had to be balanced through a combination of savings (totalling £73m), increases in the Council Tax precept for policing and some use of reserves.

The Chief Constable has presented his current assessment of demand on SYP, and recommended Target Operating Model (TOM), but further demand analysis is required.

Whilst working to improve its understanding of the current and future policing needs of South Yorkshire, SYP is going through a programme of strategic change, including the re-introduction of neighbourhood policing, a review of crime management and also contact management, including Atlas Court. It is also implementing a transformational IT programme to realise productivity and efficiency savings in future years. Some have been incorporated into the draft budget and Medium Term Resource Strategy (MTRS), but to be fully implemented there will be non-recurrent costs of transitioning to the new TOM.

## 8. Proposed 2018/19 Budget

The proposed budget for 2018/19 is summarised below. Further detail is attached at Appendix One. This includes the anticipated effect of inflation, cost pressures, growth, costs of transitioning to a new policing model and the continued cost of historic legacy issues. The proposed increase in precept of £12 for the year on a Band D property will not cover the budget gap and use of £7.3m reserves will be required to balance the 2018/19 budget.

£000	Original Budget 2017/18	Proposed Budget 2018/19	Change
Chief Constable Budget	238,613	241,500	2,887
PCC and OPCC Budget	2,066	2,019	-47
Potential Legacy Issue Costs	5,400	7,132	1,732
Commissioning & Partnership	3,786	3,313	-473
Capital Financing Costs	3,961	4,348	387
External Funding	-3,748	-3,436	312
Contribution from Reserves	-7,791	-7,305	486
<b>BUDGET REQUIREMENT</b>	<b>242,287</b>	<b>247,571</b>	<b>5,284</b>

### Operational Pressures

The draft budget reflects £8.1m of pressures for SYP, including inflation of £4.9m (£2.5m for the full 2% pay award), £1.3m cost pressures and £1.9m growth pressures. These costs include the local policing response to terrorist events, the football fixture list considerably increasing the cost of football policing, increased level of armed policing, increased cost of regional health care contract and increased insurance costs.

### Transitional Costs

There are estimated to be additional, non-recurrent costs of £2.0m for transitioning to the new TOM. The extensive change programme will embed in 2018/19 and is predicted by SYP to facilitate significant improvements in both efficiency and effectiveness, which will be a catalyst to budget savings from 2019/20. There are three major reviews: Local Policing Review, Crime Review and Atlas Court Review. Post-implementation reviews will be carried out to ensure business benefits are realised and processes are maximised. The savings from these will be built into next year's budget process.

### Savings Proposed

Savings plans totalling approximately £6m (2.5%) are proposed for 2018/19. These include non-pay savings (including review of IT contracts, facilities and greater collaborative working), additional income, review of establishment control processes and review of shift patterns and associated allowances. The PCC's office has been asked to put in place appropriate governance and accountability to ensure SYP effectively

programme manages the delivery of these savings. Additionally, with Legacy costs expected to continue, further efficiency savings will be required over the life of the MTRS, aligned with delivery of the Police & Crime Plan priorities, to ensure financial sustainability.

## **9. Legacy Costs**

Uniquely in policing, South Yorkshire has to meet significant Legacy costs in relation to the investigation into historic allegations of CSE conducted by the National Crime Agency (referred to as Operation Stovewood) and civil compensation claims from victims and survivors of CSE in Rotherham and those affected by the Hillsborough Disaster. Legacy costs are difficult to predict and are currently estimated to total £102m between 2018/19 and 2022/23. The availability of Home Office Special Grant funding is only agreed on an annual basis and so there is significant risk and uncertainty. Even with maximum Special Grant funding, the net cost to South Yorkshire would be approx. £19m between 2018/19 and 2022/23, with a £7.1m net cost in 2018/19.

There are forecast to be insufficient earmarked reserves to fund this ongoing position and so there is a risk that increased levels of savings will be required to balance the budgets for policing and crime services in South Yorkshire. In order to manage Legacy costs, and their impact on current and future budgets, there is ongoing dialogue between the Home Secretary, PCC and Chief Constable.

## **10. Police Finance Settlement and Precept**

The provisional 2018/19 Police Finance Settlement was announced on 19 December 2017. The Government's grant funding has been maintained at 2017/18 levels with the expectation that, should each PCC raise their precept by the maximum allowed, along with the new Council Tax base, there will be an increase in funding for each Police force.

The draft Council Tax referendum principles for 2018/19 will allow PCCs to increase Band D properties by up to £12 for the year. For South Yorkshire, this represents an increase of 7.6% and would produce a Band D Council Tax of £170.16 (£158.16 in 2017/18). 70% of South Yorkshire properties are Band A and Band B, equating to annual increases of £8.00 and £9.33 respectively.

This would generate total Council Tax income of £61m (including estimated collection fund surplus of £1.8m) for 2018/19, an increase of approx. £5.2m. Please refer to Appendix Two for a summary of the precept and Government settlement.

The provisional 2018/19 Police Finance Settlement also intends to offer greater certainty on plans for 2019/20. The stated intention is to maintain a broadly flat 2019/20 settlement with the same precept flexibility. However, this will be dependent on progress against a number of efficiency milestones to be agreed at a future date.

## **11. Summary 2018/19 Budget Position**

With the maximum precept increase of £12 for the year on a Band D property, and a £6m savings programme from SYP, the draft 2018/19 budget has a deficit of £7.3m after transitional and Legacy costs. It has not been possible to fund this gap using savings in 2018/19. Therefore this will have a significant impact on reserves.

## 12. Capital Position

To achieve operational effectiveness in policing over the medium term, it is necessary to invest in new technology, buildings and equipment. The capital programme for 2018/19 amounts to £14m.

The Provisional Finance Settlement for 2018/19 confirmed that the Capital Grant is to remain the same as 2017/18. The proposed financing of the capital programme is set out in the table below. As part of the budget process the PCC will be considering the Treasury Management Strategy Statement for 2018/19, which will set out the approach to borrowing and investments in the year ahead.

	<b>Forecast Budget 2017/18 £000</b>	<b>Forecast Outturn 2017/18 £000</b>	<b>Forecast Budget 2018/19 £000</b>
<b>CAPITAL FINANCING</b>			
External Grants	1,100	1100	1100
Capital Receipts	1,913	990	616
Specific/Grants	0	821	0
Revenue Contribution	0	61	0
Contribution from Capital Reserves	3,742	0	0
Borrowing	6,243	7664	12285
<b>OVERALL TOTAL</b>	<b>12,998</b>	<b>10,636</b>	<b>14,001</b>
<b>PLANNED CAPITAL SPENDING</b>	<b>12,998</b>	<b>10,636</b>	<b>14,001</b>

## 13. Reserves

The proposed budget for 2018/19 relies on a contribution from reserves of £7.3m to achieve a balanced budget. As a result, the Commissioner will have forecast General Reserves of £12.7m by 31 March 2019. This would represent approximately 5% of the net revenue budget for 2018/19, which is in line with the Chief Finance and Commissioning Officer's recommendations of 5% for an adequate level of reserves. In a House of Lords debate of the policing precept on 22<sup>nd</sup> January 2018, the Minister of State, Baroness Williams, stated that "5% of the revenue budget is deemed a reasonable level of reserves".

However, there is a significant risk associated with Legacy costs and the outcome of any Home Office Special Grant Funding applications which could affect the level and adequacy of the reserves in future years without further efficiencies and savings generated by SYP to support future budgets in the MTRS. The overall level of reserves will be kept under review as part of medium term planning and the monitoring of risks. The 2018/19 Reserves Strategy is attached at Appendix Three.

## 14. Background Papers and Consultation

All background papers used in the preparation of this report are available for inspection at the Office of Police and Crime Commissioner, Carbrook House, Carbrook Hall Road, Sheffield, S9 2EH

## Contact

Name: Michael Clements  
Position: Chief Finance and Commissioning Officer  
Organisation: Office of the Police and Crime Commissioner  
Contact Details: (0114) 296 4144, [mclements@southyorkshire-pcc.gov.uk](mailto:mclements@southyorkshire-pcc.gov.uk)

## PROPOSED BUDGET 2018/19

	<b>£5 Precept 2018/19 £</b>	<b>£12 Precept 2018/19 £</b>
<b>Force Approved Budget 2017/18</b>	<b>238,612,967</b>	<b>238,612,967</b>
Non Recurrent Budget Adjustment	(4,787,430)	(4,787,430)
2017/18 Unachieved Savings	2,981,344	2,981,344
2017/18 Slipped Savings	57,427	57,427
2017/18 Non Recurrent Savings	631,218	631,218
<b>Force Base Budget 2018/19</b>	<b>237,495,527</b>	<b>237,495,527</b>
Unavoidable Cost Pressures	1,315,406	1,315,406
Inflation	4,919,733	4,919,733
Growth	1,867,686	1,867,686
Transition	1,962,870	1,962,870
<b>Force Budget Requirement Before Savings</b>	<b>247,561,222</b>	<b>247,561,222</b>
Savings	(6,060,672)	(6,060,672)
<b>Force Budget Requirement After Savings</b>	<b>241,500,549</b>	<b>241,500,549</b>
Hillsborough Civil Claims	14,002,000	14,002,000
CSE Civil Claims	5,620,000	5,620,000
Stovewood	15,550,000	15,550,000
Home Office Funding - Legacy	(28,039,500)	(28,039,500)
<b>Legacy Costs</b>	<b>7,132,500</b>	<b>7,132,500</b>
PCC& OPCC	2,018,892	2,018,892
Partnership & Commissioning	3,312,788	3,312,788
Capital Financing	4,347,645	4,347,645
External Funding	(3,436,358)	(3,436,358)
<b>Budget Requirement</b>	<b>254,876,016</b>	<b>254,876,016</b>
Funding	(245,130,000)	(247,571,256)
<b>SHORTFALL AFTER LEGACY</b>	<b>9,746,016</b>	<b>7,304,760</b>

**Proposed Council Tax Income – 2018/19**

The South Yorkshire local authorities have until mid-January to finalise their Council Tax base determinations. The provisional figures from the district councils suggest that the tax base will increase by £1.54%. This is slightly more than the tax base increase assumed in the Provisional Finance Settlement figures and will generate approximately £0.1m in precept income above the Finance Settlement assumption.

**2018/19 Provisional Council Tax Base**

	<b>Band D Equivalent Properties 2017/18</b>	<b>Band D Equivalent Properties 2018/19</b>	<b>Variation</b>	<b>%</b>
Barnsley	62,346.89	62,907.10	560.21	0.90
Doncaster	79,095.00	80,672.00	1,577.00	1.99
Rotherham	68,235.14	69,240.35	1,005.21	1.47
Sheffield	133,743.89	135,890.79	2,146.90	1.61
<b>Total</b>	<b><u>343,420.92</u></b>	<b><u>348,710.24</u></b>	<b><u>5,289.32</u></b>	<b><u>1.540</u></b>

The PCC has been notified that the provisional share of the surplus on authorities' collection funds for 2018/19 has increased by £0.26m, compared to 2017/18, as set out below:

**2018/19 Provisional Collection Fund Surplus**

	<b>Collection Fund Surplus 2017/18 £</b>	<b>Collection Fund Surplus 2018/19 £</b>	<b>Variation £</b>	<b>%</b>
Barnsley	165,710	319,620	153,910	92.88
Doncaster	325,000	365,000	40,000	12.31
Rotherham	338,000	298,000	-40,000	-11.83
Sheffield	711,000	820,254	109,254	15.37
<b>Total</b>	<b><u>1,539,710</u></b>	<b><u>1,802,874</u></b>	<b><u>263,164</u></b>	<b><u>17.09</u></b>

**Proposed Council Tax Levels**

The PCC set a Council Tax precept for a Band D property of £158.16 for 2017/18. The proposed increase of £12 for a Band D property for 2018/19 would produce a council tax precept of £170.16. This represents a weekly increase of 23p for a Band D property.



## 2018/19 Proposed Council Tax Increase

	Precept for 2017/18		Precept for 2018/19		Increase	
	Annual	Weekly	Annual	Weekly	Annual	Weekly
Band A	105.44	2.03	113.44	2.18	8.00	0.15
Band B	123.01	2.37	132.35	2.55	9.33	0.18
Band C	140.59	2.70	151.25	2.91	10.67	0.21
<b>Band D</b>	<b>158.16</b>	<b>3.04</b>	<b>170.16</b>	<b>3.27</b>	<b>12.00</b>	<b>0.23</b>
Band E	193.31	3.72	207.97	4.00	14.67	0.28
Band F	228.45	4.39	245.79	4.73	17.33	0.33
Band G	263.60	5.07	283.60	5.45	20.00	0.38
Band H	316.32	6.08	340.32	6.54	24.00	0.46

Therefore the proposed council tax precept to be set by the PCC will be as follows for the South Yorkshire local authorities:

## 2018/19 Proposed Precept

	Actual Precept on Collection Fund 2017/18	Proposed Precept on Collection Fund 2018/19
Barnsley	9,860,784	10,704,272
Doncaster	12,509,665	13,727,148
Rotherham	10,792,070	11,781,938
Sheffield	21,152,934	23,123,178
<b>Total</b>	<b>54,315,453</b>	<b>59,336,535</b>

With the inclusion of the Council Tax Requirement and the collection fund surplus, the proposed 'Budget Requirement' for 2018/19 will be £247.571m.

	Actual Budget 2017/18	Proposed Budget 2018/19	Difference
	£'000	£'000	£'000
Police Grant (HO Core)	-99,192	-99,192	0
Revenue Support Grant (Ex DCLG Formula)	-76,380	-76,380	0
Council Tax Freeze Grant 2011/12	-1,269	-1,269	0
Council Tax Support Scheme compensation	-9,591	-9,591	0
<b>Total Grant Funding</b>	<b>-186,432</b>	<b>-186,432</b>	<b>0</b>
Council Tax income	-54,315	-59,336	5,021
Collection Fund surplus	-1,540	-1,803	263
<b>FINANCING OF BUDGET REQUIREMENT</b>	<b>-242,287</b>	<b>-247,571</b>	<b>5,284</b>

## **RESERVES STRATEGY 2018/19**

### **1. Introduction**

This appendix sets out the latest position in respect of the South Yorkshire Police and Crime Commissioner's (PCC) financial reserves and the strategy regarding the use of reserves in future years. It is a statutory requirement that the Chief Finance Officer (CFO) presents a report to the PCC, as part of the budget process, which assesses the adequacy of reserves in the context of corporate and financial risks facing the PCC and the Chief Constable for South Yorkshire Police.

The Reserves Strategy has therefore been submitted to the PCC as part of the process for setting the 2018/19 budget, capital programme and Council Tax precept. The strategy sets out the purpose of the general reserve and earmarked reserves and the recommended approach for their use in the medium term.

### **2. Purpose of Reserves**

The PCC holds Reserves which fall into two distinct categories:

- **General Reserves:** these are necessary to fund any day to day cash flow requirements and also to provide a contingency in the event of any unexpected events or emergencies, and
- **Earmarked Reserves:** these have been created for specific purposes and involve funds being set aside to meet known or predicted future liabilities. By establishing such reserves it will avoid liabilities being met from Council Tax or Grant in the year that payments are made.

The required level of reserves needs to be assessed against the potential risks that the PCC and the Chief Constable face in 2018/19 and beyond. The Finance Settlement from Government in 2018/19 offered greater certainty on plans for 2019/20, however this will be dependant on progress against a number of efficiency milestones that are yet to be agreed.

The factors that need to be considered will include the financial risks associated with:

- The deliverability of savings proposals,
- The potential for additional demand led pressures and costs,

- The likelihood of any additional government funding to offset unforeseen or unbudgeted expenditure, and
- The nature of any historic events and potential liabilities arising from these events e.g. the legacy issues associated with the Hillsborough Disaster and cases of child sexual exploitation (CSE).

Reserves can be used to meet one off expenditure and once they are used they are not available to support future years. They are therefore most suited to covering one off unexpected costs including expenditure that funds initiatives that will generate efficiencies in the future (on an invest to save basis) or costs that are likely to be incurred in the future but where the level and timing is uncertain (e.g. legal or other claims against the PCC/Chief Constable).

There is no nationally recognised measure of the level of reserves that should be maintained. As a broad rule of thumb, the Audit Commission (in its 2012 report “Striking a Balance”) suggested that most CFO’s regard an amount of “between 3% and 5%” of net revenue spending as a prudent level for general reserves. In a House of Lords debate of the policing precept on 22<sup>nd</sup> January 2018, the Minister of State, Baroness Williams, stated that “5% of the revenue budget is deemed a reasonable level of reserves”. However the required level is a matter of judgement based on known/estimated risks, budgetary pressures and local factor.

### **3. Earmarked Reserves**

The Earmarked Reserves that currently exist are set out below:

Revenue Grants Reserve: any grant that has not been used to fund related expenditure has to be taken to this reserve and used to fund expenditure when it is incurred in future years.

PCC Commissioning Reserve: underspends on commissioning budgets have been carried forward for use in the following year.

Innovation Reserve: this represents amounts set aside to fund innovation initiatives and investment in schemes that will improve efficiency and reduce operating costs.

Insurance Reserve: this represents sums set aside to fund potential liabilities under current insurance arrangements.

Legacy Reserve: underspends set aside to fund future potential liabilities in relation to Hillsborough and CSE.

Partnership Reserve: partnership working underspends and contribution belonging to the partners.

Regional Reserve: underspends within regional working for procurement, stores and firearms.

Devolved Budget Reserve: as part of the devolved financial management arrangements, budget holders are allowed to carry forward underspends up to approved limits to fund expenditure in the following year.

Capital Reserve: this represents amounts set aside to support the PCC's capital investment programme.

#### **4. Current Reserves Position**

At 31 March 2017 the total level of reserves stood at £46.3m including £17.6m of general reserves. The budget for 2017/18 included planned contributions from reserves of £11.5m:

- Contribution from the General Reserve of £3.9m from underspends in 2016/17 which were carried forward to meet expenditure in 2017/18 and achieve a balanced budget.
- Contribution from the General Reserve of £3.9m to meet potential severance costs associated with savings proposals.
- Contribution from the Capital Reserve of £3.7m to fund capital expenditure in 2017/18.

During the 2017/18 financial year there have been amendments to the above proposed contributions:

- The Voluntary Exit Scheme (VES) costs were forecast in 2017/18, however a number of staff exited the organisation in April 2017 which resulted in costs being incurred in March 2017. This reduced the expenditure in 2017/18 and consequently the required funding from reserves.
- Due to the uncertainty of funding in future years and the uncertainty of Special Grant funding from the Government towards legacy costs the contribution from the Capital Reserve has been removed.

The PCC in the 2017/18 financial year also approved funding from reserves for O'SARA training (£33k), the continuation of funding for archiving Orgreave material (£37k) and the use of the Devolved Budget for Operation Summer (£226k). The latest budget monitoring position suggests that there will a slight underspend to 31 March 2018 of £0.04m.

As a result of these adjustments (and including the latest budget monitoring position) the forecast level of reserves at 31 March 2018 will be £11.7m for General Reserves, £20.9m for Earmarked Revenue Reserves and £7.4m for Capital Reserves.

#### **5. Proposals for 2018/19**

The proposed budget for 2018/19 includes total contributions from reserves amounting to approximately £7.3m in order to balance the budget, including:

- Contribution of £6.3m to fund Legacy costs, based on the maximum Special Grant Funding from the Government.
- Contribution of £2.0m to fund the Force non-recurrent costs for transitioning to the new Target Operating Model. There will be three major reviews: Local Policing Review, Crime Review and Atlas Court Review.

As a result of these proposals, it is estimated that at 31 March 2019 the overall level of reserves will stand at £32.8m, as follows:

	Forecast Balance at 31/3/18 £'000	Planned Contributions in 18/19 £'000	Forecast Balance at 31/3/19 £'000
<b>General Reserves Balance</b>	<b>11,722</b>	<b>1,044</b>	<b>12,766</b>
<u>Earmarked Reserves - Revenue</u>			
PCC Commissioning	414	0	414
PCC Innovation	2,000	-2000	0
Insurance	10,766	0	10,766
Legacy Reserve	6,350	-6350	0
Devolved Budget	1,375	0	1,375
<b>Total Earmarked Revenue Reserves</b>	<b>20,905</b>	<b>-8,350</b>	<b>12,555</b>
<u>Earmarked Reserves - Capital</u>			
Capital	7,484	0	7,484
<b>Total Earmarked Capital Reserves</b>	<b>7,484</b>	<b>0</b>	<b>7,484</b>
<b>Overall Total</b>	<b>40,111</b>	<b>-7,306</b>	<b>32,805</b>

## 6. Adequacy of Reserves

As a result of the budget proposals for 2018/19, the level of General Reserve is forecast to be approximately £12.7m by 31 March 2019. This would represent approximately 5% of the net revenue budget for 2018/19. Although this measure can only be regarded as a guide, it does suggest that the overall level of general reserves is within the adequate range.

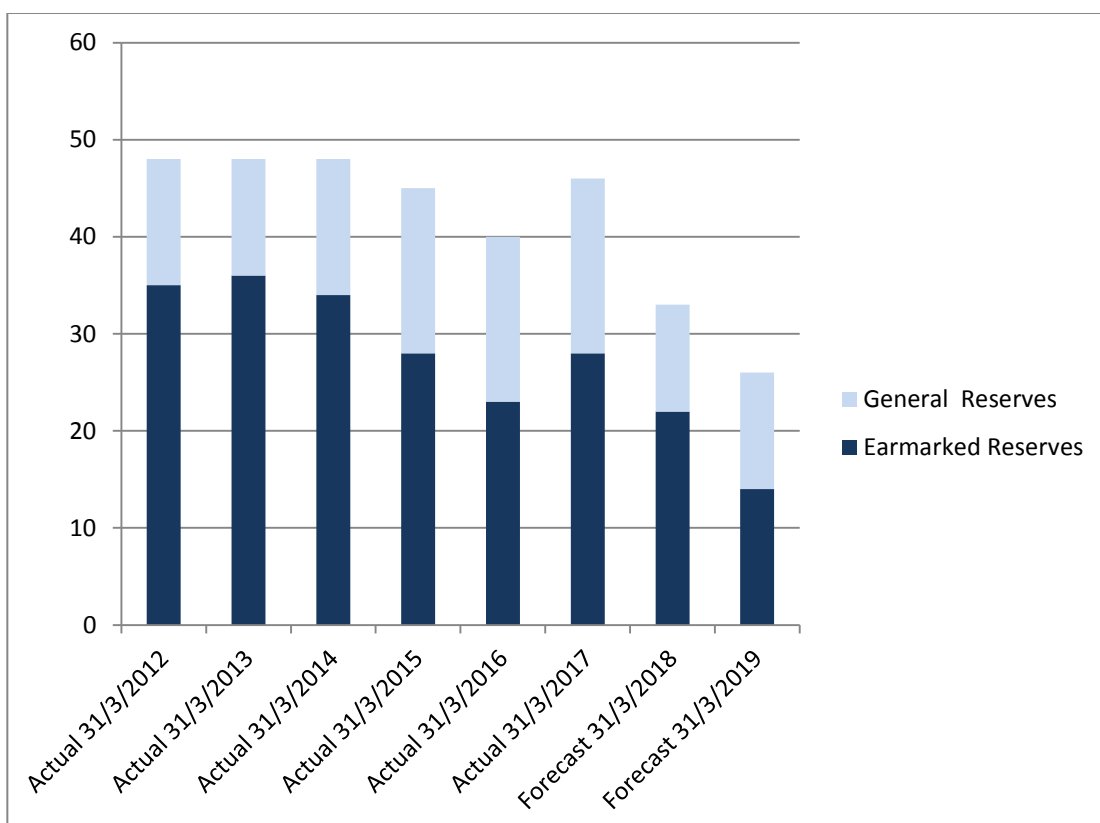
There is, however, significant risk and uncertainty that could affect the level and adequacy of reserves in future without further efficiencies and savings generated by SYP to support future budgets in the medium term:

- Operation Stovewood: This is the work being undertaken by the Force, in conjunction with the National Crime Agency (NCA) to investigate historic

allegations of child sexual exploitation in Rotherham. In the previous two years the majority of these costs have been met by the Home Office through Special Grant Funding. For 2018/19 and the next few years these costs are projected to increase significantly and at this time the level of Home Office support through Special Grant funding is unconfirmed. The estimated net funding gap based on existing rules re. the proportion of Home Office vs SYP funding is reflected in the budget.

- Civil Claims: The Force Legal Services Team have provided updated forecasts with regards to Hillsborough and CSE civil claims, with costs expected to be incurred in 2018/19. The level of Home Office Special Grant to support the majority of these costs is as yet unconfirmed. However future costs have now been projected over the next four years. CSE civil claims forecasts are expected in 2018/19. The estimated net funding gap based on existing rules re. the proportion of Home Office vs SYP funding is reflected in the budget.

The following chart shows the level of reserves from March 2012 and the adjusted forecast levels to March 2019.



As stated above, although there is ongoing dialogue with the Home Secretary, there is a significant risk associated with Legacy issues and the outcome of any Special Grant Funding applications to the Home Office. Access to Special Grant funding is not guaranteed. Any unsuccessful application for special funding could affect the level and adequacy of reserves. Therefore the overall level will be kept

under review during 2018/19 as part of medium term planning and the monitoring of risks.

During 2018/19 the strategies for Reserves and Capital Financing will be reviewed.