

Police and Crime Panel: January 30th 2020

Report of the Police and Crime Commissioner & Treasurer

Budget Requirement & Council Tax Precept Proposal 2020/21

Executive Summary

1. Commissioner's Introduction

As the Police and Crime Commissioner, I am required by law to publish a Police and Crime Plan that looks forward five years and to set the Annual (Balanced) Budget requirement including the Police Precept element of the Council Tax (Council Tax Precept).

The current South Wales Police and Crime Plan was fully refreshed in 2019.

Essentially the 2019 refresh:

- developed and enhanced the activities aimed at delivering our priorities which in South Wales are set by the Commissioner in collaboration with the Chief Constable
- set out steps to build on the progress made to date whilst balancing activity with oversight and scrutiny
- clearly defined the way we apply the distinct yet complementary roles and responsibilities of Commissioner and Chief Constable
- reaffirmed the powerful ethos of co-operation between us and with others in making South Wales one of the safest places to live and work
- reaffirmed our shared determination to protect neighbourhood policing and other key aspects of policing and partnership – with a clear emphasis on Prevention and Early Intervention – while coping with significant financial challenges

A full refresh of the Plan does not seem appropriate, just ahead of the Police & Crime Commissioner elections, so I am reporting to the Panel on progress and developments since the 2019 “refresh” with a view to a full review of the Plan being undertaken after the election in May.

The financial challenge faced by the whole of the public sector is significant but there are aspects that are specific to policing:

- Roughly a third of the money that came to South Wales Police in the Police Grant from the UK Government has been cut – 31% in real terms.

- Capital funding has virtually disappeared– so the need to fund vitally necessary capital projects from revenue is effectively another significant cut. In 2010 funding was £3M, in 2019/20 it was only £0.9M.
- Whilst South Wales will benefit from the additional Police Officer numbers to be allocated under ‘Operation Uplift’, this increase is unlikely to exceed 400 new Officers, compared to the loss of 432 experienced Officers during the period of UK Government cuts and it will take time for the additional new officers to be fully effective.
- Demand on police services continues to increase although almost 90% of that demand by volume has little to do with responding to crime.
- There is still no recognition of the added demand for policing our Capital City, estimated to cost £4M annually – which as the Panel knows is far above the level of demand in many larger cities in England and is both a success story and a significant call on resources.
- Performance is high as demonstrated both by HMI Reports and by our own monitoring systems, including a continuing high level of victim satisfaction.
- The Force is exemplary in responding to vulnerable people, mental health issues, and being the “**Agency of Last Resort**”, especially during night-time and at weekends or holiday periods.
- Other agencies – including our partners in Local Government and the NHS – struggle with resources, and so the police have increasingly become the “**Agency of First Resort**”.

Yet, during the same period we have saved £0.65 billion of social and economic costs to South Wales because we have been so determined to focus on “Prevention” through innovation, early intervention and prompt positive action, working with partners to be ever more effective together to address issues like mental health and wellbeing. The operational policing model within South Wales Police has contributed significantly to this benefit.

We are not prepared to withdraw from local communities or to stop tackling low-level offending, or to miss opportunities for prevention. Therefore, Neighbourhood Policing sits at the heart of both the Police & Crime Plan and the Chief Constable’s Delivery Plan. We will strengthen the role of our Community Support Officers to focus on three inter-connected strands of the role –

- on Communication (both to the community and listening to the local community)

- on Local Problem Solving and
- On empowering local communities to develop their own solutions by being resilient, safe, and confident.

That approach means involving everyone, protecting the vulnerable, maintaining high levels of victim satisfaction and working with partners. That is why our leadership teams play a full part in Public Services Boards, which are the delivery mechanism for the Well-Being of Future Generations Act, working with Local Government, the NHS and other partners on local delivery and on the refreshed vision of Community Safety in Wales. Our aim is “more partnership through fewer, better-focussed meetings” and we hope that the current review of partnership working by Ministers will resolve the current misalignment with Regional Partnership Boards. Our new alignment of Police Command Units will aid partnership alignment while strengthening the focus on local neighbourhood policing.

Our achievements to date have created a strong foundation on which to build, but we must always strive to improve our service and respond effectively to new demands. The South Wales Police & Crime Plan and the financial recommendations put before you are the basis for our response through which we can continue to deliver excellence to the communities of South Wales and be ever more ambitious, for instance the way in which we are developing new approaches such as tackling the high level of drug deaths in Neath Port Talbot and Swansea through innovative and ambitious partnership working.

2. Background

The Police and Crime Commissioner is required to prepare the following, which in South Wales he does in full consultation with the Chief Constable and the public:

- A Police and Crime Plan that sets out the Commissioner’s priorities and is developed through discussion with the Chief Constable after public consultation and after consideration of the resources available to him as well as having regard to the requirements of the Strategic Policing Requirement, which is set by the Home Secretary
- A Risk Management Strategy
- A Medium Term Financial Strategy (Financial Strategy)

- The South Wales Police Treasury Management Strategy
- An Asset Management Strategy
- The Capital Programme
- An Annual Revenue Budget and Value for Money Report

The general election held in December 2019 meant a delay in the announcement of our settlement from the Home Office for the 2020/21 year which normally given to Parliament in mid-December. At the time of writing this report, we had not been given our allocation within the Police Grant, so the supporting documents can only be based on assumptions or predictions about the level of settlement. It is impossible to finalise the Precept proposal but I hope we will have the Police Grant figure in time to provide a firm proposal at the Panel meeting on January 30th.

The Mid-Term Financial Strategy covers the period 2020 – 2024 and is attached. It is a comprehensive document which sets out the assumptions and considerations the Commissioner uses in order to inform both budget and precept considerations.

It is the duty of the Commissioner to determine the Police and Crime Budget for 2020/21 and set the Council Tax Precept after taking into account the views of the Police and Crime Panel in relation to the level of Council Tax Precept.

In preparing the Annual Budget specific consideration has been given to the resources needed to meet the priorities set out in the existing Police and Crime Plan, including:

- Working with partners to reduce crime, disorder and antisocial behaviour while coping with a wide variety of demands that go beyond what is normally thought of as “policing”. It is worth pointing out that “Prevention” has in fact always been a central element of Policing since Sir Robert Peel set out the founding principles, but that has not always reflected in the Media or understood by the public. However, in the Times in September 2019, the Chief Inspector of Constabulary Sir Tom Winsor gave a clear endorsement of our approach, quoting Sir Robert Peel’s key principle: “The basic mission for which the police exist is to prevent crime and disorder; the test of police efficiency is the absence of

crime and disorder, not the visible evidence of police action in dealing with it”.

- Criticising the lack of concentration on “Prevention” by the police across England and Wales he said : “Work in South Wales and elsewhere on adverse childhood experiences is paying rich dividends, not only in saving police time, but much more importantly in the reduction in human suffering and the waste of human potential”. It is a matter of pride for us that an approach started in South Wales is now Wales-wide and arousing interest elsewhere. Sir Tom went on to say that “investment in things which will be far more effective in keeping people safe, diverting others from crime and disorder, and preventing misery, are inexcusably low”. He closed by saying: “If these things are resourced promptly, adequately and effectively, the cost in treasure, blood and human suffering will be far lower than it is today. It’s time for criminal justice, what it costs for what it achieves, to be properly understood and assessed, and for the public to decide how safe they want to be, and how well their money should be spent on achieving that. It is not working now.
- Maintaining the current level of neighbourhood policing and engagement with the communities of South Wales.
- Protecting vulnerable people and reducing the likelihood of repeat offending in respect of such offences as hate crime, violence against women and girls, child sexual exploitation, domestic abuse and online crime. The ‘Drive’ programme, which I fund, is unique in focusing specifically on high risk, high harm perpetrators. A study undertaken by the University of Bristol and published only this week revealed the number of Drive service users using each type of domestic violence and abuse behaviour reduced substantially. To illustrate, after service users had used the programme, the use of high risk of:
 - physical abuse reduced by 82%;
 - sexual abuse reduced by 88%,
 - harassment and stalking behaviours reduced by 75%;
 - jealous and controlling behaviours reduced by 73%.
- Working with partners to improve the effectiveness of the local Criminal Justice System, particularly in respect of managing offenders and reducing reoffending by young people (under the age of 18) and those in the 18 to 25 age group.
- Making a contribution to the Strategic Policing Requirement and protecting the public in South Wales, responding realistically to the

identified threats from organised crime and terrorism and policing an ever-increasing number of events.

- Meeting the challenge of changing standards for the training of police officers, proposed by the College of Policing while also seeking to develop our staff at every level to meet the challenges they face and recruiting people so that the workforce as a whole reflects the communities that we police.
- Policing the Capital City of Wales.

The Commissioner must obtain the views of people living in the police area on proposals for expenditure (including capital expenditure) in that financial year.

This year we have received over 1,000 responses to our recent consultation exercise. The majority of respondents – 73% (766) - said they were willing to pay more for their policing and this shows an appreciation by the public of the risk arising from the reduced finances available to policing.

In setting the budget, due regard has to be taken of the Prudential Code which requires at least three year projections of expenditure, both in revenue and capital terms, in order to identify funding requirements and assess the affordability and sustainability of planned expenditure. Whilst developing proposals for providing a balanced revenue budget and affordable Capital Programme in 2020/21, the report includes the longer-term financial issues facing the police service in South Wales. As the Police Grant provides more than half of our income, this is difficult unless there is longer-term certainty on Government intentions and we can only hope that the forthcoming Comprehensive Spending Review will provide clear indications on this front.

The bulk of the resources available to the Commissioner will be needed to cover operational policing and are delegated to the Chief Constable. Robust processes have been developed over many years to quantify the budgetary resources required to provide the people of South Wales with an effective, efficient and sustainable police service. The Joint Audit Committee scrutinises this. Projections are constantly under review and the latest updates are contained within the attached Financial Strategy.

3. Context

The context we find ourselves in is unprecedented. Normally, the Home Office would announce allocations for the following financial year in mid-December. Last month's General Election meant that this was not possible and at the time of compiling this report, we do not know our allocation for 2020/21. This means we must base our budget and future forecasts on a range of assumptions that are explained and articulated in this report.

In last year's Medium Term Financial Strategy, which the Police & Crime Panel approved in January 2019, the main assumptions for the 2020/21 year were for a flat cash Home Office settlement and showed that a 5% increase in precept would leave a funding gap of £8.9M. Given that we have had to find £58M of cumulative savings since 2010, finding further savings of the magnitude is simply not possible without seriously compromising the service that South Wales Police provides to the public.

In the absence of knowing our Home Office settlement for 2020/21, we have shown the implications if there is a standstill Police Grant settlement (that is flat cash plus inflation) and then shown what the implications would be of a lower (flat cash) settlement. We have then worked through the resource implications and cost pressures in order to arrive at the figure of the increase in either case that would be necessary to balance the budget. We have also calculated a sliding scale of reducing Precept levels for various scenarios should the settlement be better than flat cash.

In terms of hypothecated funding, we are anticipating that the Police Transformation Fund will continue into 2020/21, but at a reduced level of £100M, from the current £175M. This is not yet certain and there have been rumours of a deeper cut in that Fund. This a double-edged sword – while the top-slicing reduced flexibility we have been the most successful Force in winning investment from the fund for innovative mainstream proposals which have assisted the Commissioner and the Chief Constable in delivering on our agreed priorities. Some of these investments have assisted Policing more widely, for example, Early Action Together that started locally through a pilot in Maesteg and became a Wales-wide programme for the Police and Partners.

Also relevant to the financial challenges over the period of the Medium Term Financial Strategy will be the Home Office's review of the Police Funding Formula. Once the overall size of the policing budget for England and Wales is determined by the Home Office (via the Comprehensive Spending Review we

hope will be undertaken in 2020), then the amount of funding provided to respective Commissioners should be determined by the Police Funding Formula. It is widely acknowledged that the current formula is out-dated, overly complex, opaque and in desperate need of review. The Minister of State for Policing and the Fire Service announced in a Written Ministerial Statement in December 2017, “...it is intended that the funding formula will be revisited at the next Spending Review”. No further update has since been provided. It should be noted that South Wales Police has lost over £100M since 2010/11 due to the funding inequalities that the formula produces. This has been redistributed from South Wales to other Welsh forces in this period. In addition, the formula has never reflected capital city funding which in the past has been provided (for example in respect of Edinburgh but never in respect of Cardiff).

The uncertainty over the details of Brexit could have a significant impact upon inflation and interest rates and the exchange rate. All of these could have adverse implications on the budgeted expenditure outlined in the Financial Strategy. Cost pressure are likely to be felt on some imported commodities that the Police rely on, which are bought in US dollars.

4. Governance Arrangements

The governance arrangements within South Wales Police are designed to ensure appropriate accountability and to assist effective leadership. The Police Reform and Social Responsibility Act 2011 created two separate ‘corporations sole’ within each police force: the Chief Constable and the Police and Crime Commissioner. They each have clear and separate roles and responsibilities set out in statute. The Policing Protocol Order 2011 sets out an expectation that the relationship between a Police and Crime Commissioner and Chief Constable is built on the principles of goodwill, professionalism, openness and trust.

In the case of South Wales Police, the activity under the control of the Chief Constable is held to account through a combination of meetings and activity by the Commissioner and the Commissioner’s staff, as well as scrutiny and assurance panels and committees, internal and external audit, by the public and stakeholders (in addition to HMIC and other external inspectors and scrutiny arrangements), with key performance indicators reported to the Commissioner’s Strategic Board as well as to the Chief Constable’s Gold

meeting. The Commissioner may request updates on key indicators for which regular reporting is required for a period or on a regular basis.

In South Wales, the Police and Crime Commissioner and Chief Constable have a Joint Corporate Governance Framework which:

- sets out the relationship between the Commissioner and Chief Constable as two separate legal entities
- is based upon the legislation, the Policing Protocol, and a mutually respectful and complementary relationship
- recognises the authority of a single elected Police & Crime Commissioner and the operational independence of Police Officers
- builds on existing good governance principles and experience and
- includes schemes of delegation and consent, financial regulations and standing orders as to contracts

The Commissioner is the recipient of all funding, including the government grant and precept and other sources of income related to policing and crime reduction and all funding for a force must come via the Police and Crime Commissioner. How this money is allocated is a matter for the Commissioner in consultation with the Chief Constable, or in accordance with any grant terms. The Chief Constable will provide professional advice and recommendations. The Commissioner will ensure that sufficient resources are delegated to the Chief Constable in order to deliver his Operational Plan, once agreed.

The Police and Crime Commissioner is the legal contracting body who owns all the assets and liabilities, with the responsibility for the estate and the financial administration of his office and the force, including all borrowing limits. Consent can be given by the Commissioner to the Chief Constable to acquire property (other than land and buildings) and is detailed in the financial regulations and standing orders relating to contracts.

The Police and Crime Panel provides a check and balance on the Commissioner through reviewing or scrutinising his decisions, but not those of the Chief Constable. The panel is there to challenge the Commissioner, but it must carry out its functions with a view to supporting the effective exercise of the Commissioner's functions. In South Wales, as a courtesy to the panel and as a reflection of our cooperative approach, the Chief Constable and members of

his team frequently join the Commissioner in providing detailed briefings to the Panel but they cannot be required to do so.

The Police and Crime Commissioner is responsible for handling complaints and conduct matters in relation to the Chief Constable, monitoring complaints against officers and staff, and complying with the requirements of the Independent Office for Police Conduct (IOPC). This role and responsibilities (and related costs) have been enhanced through the introduction of recent legislation.

Further details on our governance arrangements are included in the detailed Financial Strategy attached.

5. Expenditure Assumptions

The largest area of spend (approximately 80%) is on staffing. Successive previous years of budget cuts have forced a reduction of 432 police officers. Everyone has worked tirelessly to achieve efficiencies and reduce costs wherever possible to protect the number of Police Officers and maintain the number of PCSOs at the level, which matches the support from Welsh Government.

The Government's announcement to put a further 20,000 police officers on the streets is welcomed. However, whilst the first tranche of 6,000 will mean an increase of 136 for South Wales Police, to be recruited by March 2021, there has been no further information from the Home Office on how the remaining 14,000 will be distributed. They will not necessarily be allocated in full to the 43 Forces in England and Wales.

Whilst the bulk of the costs will be covered for the additional officers in 2020/21, i.e. kit, Body Worn cameras, etc., there is no guarantee that increased salary costs from promotions or higher transfer costs from transferees into South Wales Police, will be funded. This is something to be borne in mind in future years' budgets.

The way Government decisions on additional funding for the Uplift have been made means that police numbers cannot be cut in order to find efficiency savings, if required. This means that 68% of the current pay budget is effectively ring fenced, and this percentage will increase in future years.

The assumptions for pay awards, allowances, enhancements and non-staff inflation remain largely consistent with those used in the 2019/20 budget-setting round. They have been thoroughly scrutinised throughout the budget preparation and are as follows:

- Pay awards – the assumed pay award for police officers and police staff in 2020/21 is 3% and remaining at this amount throughout the MTFS because of the removal of the Public Sector pay cap for the policing service.
- Pensions – in 2019/20, the shortfall in the pensions funding was partly covered by increased core grant from the Home Office and a grant from the Treasury. We have assumed that the former will be baselined into the 2020/21 allocation, once announced, and the Treasury grant will be continued in 2020/21. After allowing for this, there will be a £440K shortfall in funding for Police Pensions, as was the case last year, funded from core funding and reserves. Future years' forecasts assume the same level of shortfall but that could increase in future. No further changes to the Local Government Scheme have been assumed.
- Non-staff inflation (2019/20 to 2022/23) - between 3% and 3.2% throughout the period. This is slightly higher than current RPI, but provides for Brexit uncertainty.

Additional borrowing revenue costs for capital investment have been included to help fund the Capital Programme. This amounts to budgeted capital financing costs (revenue) of £13.295M in 2020/21, repeated in following years. Borrowing is essential to fund future Capital Programmes as Committed Funds become fully utilised. This is to the backdrop of the significant disinvestment of capital funding by the Government and the finite nature of the Commissioner's Reserves and other Committed Funds. This is further covered in later sections.

6. Capital

The budget on proposed schemes for 2020/21 is £48.465M. The Estate schemes total £39.205M. The estates strategy includes major projects relating to a tactical firearms range and a new learning and development centre at Police Headquarters, which is in progress. Plans to develop a long-term case file document store and a replacement Bridewell in the Western BCU will be considered on a business case basis.

The vehicle replacement programme is set at £2.064M in 2020/21. The budget has been intentionally reduced through the use of automatic location technology and is now typically 20% less per annum than previously. The core fleet remains at an acceptable standard.

The Information and Communication Technology (ICT) projects total £1.950M in 2020/21, with a further £1.314M on Digital Services. The force has now transitioned to an enhanced mobile data capability, and is on target to deliver the 'Right Person, Right Place, at the Right Time' ambition.

Capital Funding

The capital investment requirements over the next five years are becoming clear as the implementation of the Estate, Fleet and ICT strategies are progressed. Capital Expenditure over the four years from 2020/21 to 2023/24 totals £100.627M of which the 2020/21 element amounts to £48.465M.

The external grant for capital has been significantly reduced in recent years and now stands at £0.9M per annum, reduced from £3M in 2010/11, and likely to reduce further over the coming years. This means that additional internal resources are required to fund core estate and infrastructure requirements.

The financing of the £100.627M capital requirements (which is net of £15.4M contributions from Gwent and Dyfed Powys towards a new joint Fire Arms Unit) over the next four years is anticipated to be:

- Home Office Capital Grants £2.4M
- Revenue Contributions £40.416M
- Use of Capital Reserves £3.278M
- Capital Receipts £13.5M
- Borrowing £25.512M

This totals £85.106M and leaves a shortfall of £15.521M which will need to be addressed in future years.

7. Reserves & Provisions

The Commissioner, as part of his financial obligations, has regard to the level of contingency reserve and provisions in the financial forecasts.

The table below shows the target level of Reserves at 31st March 2021.

Reserves and Provisions	Target 2020/21 £M
Unallocated Reserves	
General Reserve	10.7
Health & Wellbeing Reserve	1.5
Earmarked Reserves	
Specific Requirements	3.3
Partnership Fund	1.3
Capital Reserve	30.3
Provisions	
Insurance Liabilities	4.6
Total	51.7

General Reserve

This is held as working capital to help cushion the impact of uneven cash flows and as a contingency to mitigate the impact of unexpected events and emergencies. The General Reserve amounts to £10.7M which represents 3.5% of Net Revenue Expenditure and in the view of the Chief Constable's Chief Finance Officer represents an appropriate level in terms of the overall risk-profile.

Health & Wellbeing Reserve

This will ensure the reorientation and organisational development necessary to deliver a motivated and productive force.

Earmarked Reserves

Specific Requirements - these are designed to address known liabilities that the force has identified and will be reassessed at the year-end, depending on outcomes. The force retains a detailed analysis of the breakdown of these requirements. They are reviewed on a case-by-case basis on whether they are still required (committed).

Capital Reserve

This is made up of two approximately equal elements – firstly, the total backlog maintenance costs as identified in the buildings condition survey. Secondly, the borrowing shortfall required to part-finance the capital strategy. Longer term, there will be a need to assess the fitness-for-purpose of our buildings and building up a capital reserve is a prudent way of ensuring the capital programme can be funded. Ideally, reserves should start to build over future years to fund these items, and so the shortfall is effectively a target reserve level to achieve over the next four years.

Treasury Management & Borrowing

The Commissioner has responsibility for the Treasury Management and Borrowing strategy.

The South Wales Police Corporate Finance Department undertakes the Treasury Management function on behalf of the Commissioner. Responsibilities are defined in the Manual of Corporate Governance, with references to Chief Financial Officer (to the Police and Crime Commissioner) and Chief Financial Officer (to the Chief Constable).

The Treasury Strategy and Prudential Indicators for the period 2020 to 2024 are shown in Part B of the attached Medium Term Financial Strategy.

Banking services for the Commissioner are currently provided by Lloyds Banking Group. The service was tendered in 2019 and Lloyds have been re-appointed as Bankers.

External Advice

A contract is agreed on an annual fee basis with Link Asset Services (Treasury Solutions) to provide advice and information services. Whilst the advisors provide

support to the internal treasury function, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the Commissioner.

Investment and deposit dealings are undertaken via brokers, who are intermediaries with wholesale financial markets facilitating the trading activities of its clients, in particular commercial and investment banks. They are reimbursed on a commission basis. Investments and deposits are also made directly with counterparties.

8. Summary Analysis of Cost Pressures and Growth for 2020/21

The table below summarises the estimated pay and price rises for 2020/21, together with known cost pressures.

	Essential and unavoidable cost increases	£m
1	Pay inflation, incremental drift and pay inflation, externally funded programmes	12.3
2	Base Budget Adjustments, re-allocations and inflation	4.4
3	Increase in externally funded programmes	(3.6)
4	Changes in the Tax base	(1.8)
4	Total standstill cost increases	11.3

The detailed medium term revenue account projections 2020 to 2024 are summarised in the table in section 10 below, using broad income and expenditure classifications. The £11.3M total standstill cost increases, before precept is applied, reduces to £4.9M after one has applied the planning assumption of a 5% precept, included in the previous Medium Term Financial Strategy. This is before any efficiency savings are factored in to the budget. The challenge to identify further cash releasing efficiency savings, having already delivered £58M of savings to date, should not be underestimated. The police officer establishment budget now has to match to additional officer funding, and so around 68% of our pay budget is constrained.

However, a thorough examination of all other areas of the budget has been undertaken as part of this exercise, and further efficiency savings of £1.25M are included in 2020/21. This is an ambitious target to find on top of £58M already found, and is further explained below.

9. Efficiencies/ Value for Money

By way of context, South Wales Police will have already made £58M of savings by the end of the 2019/20 year, necessary in order to withstand successive cuts in grant and make the necessary investments in order to maintain a resilient force.

A Value for Money Plan is included at Appendix 13 of the Financial Strategy. This shows the detail behind the £1.25M of savings planned for 2020/21. They cover savings from increased collaboration, procurement, transport, income generation and fleet management. These savings are essential in order to arrive at a balanced budget for 2020/21, and will take cumulative savings up to £60M since 2010.

10. Financial Standing 2020-2024

A summary of the base medium term projections is shown in the table below. It is based on a flat cash settlement and precept set at a 5% increase. This leaves a £4.9M unfunded gap, before any new efficiency savings are applied.

SUMMARY REVENUE ACCOUNT	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M
Employees	269.0	280.5	288.9	297.5	306.5
Indirect Staff	3.0	3.5	3.5	3.6	3.7
Premises	11.3	13.2	13.5	13.9	14.2
Transport	5.0	5.8	5.9	6.1	6.2
Supplies and Services	23.0	26.8	27.5	28.1	28.8
Agency & Contracted Services	17.5	20.4	20.9	21.4	22.0
Capital Financing Costs	12.9	13.3	13.3	13.3	13.3
Gross Expenditure	341.7	363.4	373.5	384.0	394.7
Less income & specific grants	(54.5)	(59.9)	(60.4)	(60.8)	(61.3)
Net Expenditure	287.2	303.5	313.2	323.2	333.5
External grants	(160.7)	(163.8)	(163.8)	(163.8)	(163.8)
Precept based on 5% increase in 2020/21 and 5% thereafter.	(126.5)	(134.7)	(142.2)	(150.0)	(158.3)
Total Resources	(287.2)	(298.6)	(306.0)	(313.9)	(322.2)
Cumulative Unfunded Expenditure 2020/21 onwards	0.0	4.9	7.2	9.3	11.3

This table will be updated, as appropriate, once the precise grant settlement is known and presented to the Panel as part of the updated set of information on the day of the meeting.

11. Precept Considerations

By way of context, for a number of years the precept in South Wales was kept low as a result of decisions by the former Police Authority. The precept in South Wales over the years has been lower than in Gwent and North Wales resulting in a difference in annual income of £3M compared to the income if South Wales was at the Welsh Police average, and moving closer to that average would strengthen the baseline.

The level of precept in 2019/20 for each Welsh force was:

Force	2019/20 £	Potential Impact of a 1% £
North Wales	278.10	2.78
Dyfed Powys	248.56	2.49
Gwent	255.53	2.56
Average	260.73	2.61
South Wales	257.52	2.58

In the light of the unprecedented situation, we find ourselves in, modelling and scenario planning has been necessary to undertake. The table below summarises some of the scenarios tested.

Option	Precept Increase (%)	Shortfall (£)
Flat cash grant, but with 3.1% inflation allowance	5%	N/A
Flat cash with no inflationary allowance	7.85%	N/A
Limiting Precept increase to 5% - with inflation	N/A	£3.65M
Limiting Precept increase to 5% - without inflation	N/A	£4.9M

Once the precise grant settlement is known, known, the figures in the above scenarios can be adapted can be to match the precise allocation and produce the proposed Precept increase.

It is hoped that we will have been given our allocation from the Home Office for 2020/21 by the time the Panel meets. If that happens, I will be able to present a firm Precept proposal at the meeting.

12. Equalities Considerations

This proposal has considered the general duty to promote equality, as stipulated under the Strategic Equality Plan and has been assessed not to discriminate against any particular group, in accordance with the Equality Act 2010.

In preparing the Financial Strategy, consideration has also been given to the requirements of the Articles contained in the European Convention on Human Rights and the Human Rights Act 1998.

The force change programme has an embedded process to ensure consideration of these statutory requirements.

13. Conclusion

Although this year's process has been significantly impeded by the absence of the grant announcement, this document nevertheless lays out openly and transparently the cost pressures, assumptions and growth areas that need to be considered for 2020/21.

Scenario planning has to be used in compiling this report given the absence of the announcement of the grant settlement from the Home Office for 2020/21, and so it is a complex picture at present. Our analysis has shown that on all realistic expectations of the Grant Settlement, increases in the range between 5% and 7.85% will be required in order to produce a balanced budget.

Subject to our learning of our Home Office allocation by the date of the Panel meeting, I will propose a Precept for 2020/21 based on final financial projections, and details of total Precept per Local Authority.

Rt Hon Alun Michael, Police & Crime Commissioner for South Wales

Supported by Peter Curran, Treasurer (Chief Finance Officer) to the Police & Crime Commissioner for South Wales

January 2020