

1.Introduction & Purpose

This report presents an analysis of the Comprehensive Spending Review 2021 plus other salient financial issues, which the Police & Crime Panel is asked to note.

2. Comprehensive Spending Review 2021

The Chancellor announced the Comprehensive Spending Review 2021 (CSR21) during his autumn Budget speech on October 27th 2021. It is a three-year SR, from 2022/23 to 2024/25.

The announced total new money for Policing over the three years is as follows:

	2022/23 (£ million)	2023/24 (£ million)	2024/25 (£ million)
Police Uplift	432*	486*	540
Core Funding	118*	164*	260
Total	550	650	800
Estimated Allocation to South Wales Police	12.1*	14.3*	17.6*

- These figures are our assessments of allocations in the years shown – confirmed figures are in bold in the table above

The precise and detailed allocations to Commissioners will be announced in mid-December.

Other Announced Funding in the CSR

Efficiency savings (cashable) - limited to £100 million over the three-year period

Crime Reduction & Drug Misuse – an additional £42 million

Money Laundering & Fraud – an additional £18 million in 2022/23, £12 million in 2023/24 & 2024/25

Emergency Services Network - £125 million in 2022/23

Illegal Migration – an additional £85 million by 2024/25

Resettlement of Refugees – an additional £468 million by 2024/25

Analysis of Settlement

Until the precise allocations are known, it is not possible to give a definite overview of the announcement since figures are presently at a high level and inevitably “the devil will be in the detail”. Pensions funding, for example, was excluded from the announcement and is being considered by the Treasury, and so in the short-term,

there remains uncertainty over the continuation of receipt of grant from the Treasury to part-fund the deficit on the Scheme, and longer-term, we await confirmation of how the strategic issues, detailed later in this paper, will be addressed by the Treasury.

So below is a high-level analysis of what can be ascertained at this stage, with reference to the work undertaken in the lead-up to the Home Office submission to the Treasury in September. It will focus on three areas:

- Efficiencies
- Police Uplift Programme (PUP) Funding
- Core Funding / Budget Pressures

Efficiencies

As stated above, the announced cashable efficiency savings in the CSR, for the three-year period, will amount to £100 million. Assuming this is allocated in accordance with the Funding Formula, the share to South Wales Police should equate to around £2.2 million, or £733K per annum.

The necessary efficiency gains are anticipated to be delivered from the following means:

- Demand management – mental health triage teams, incident resolution teams, missing persons improved partnership working;
- Absorbing additional work from existing resources – Attorney General guidance on Disclosure;
- Multi force collaborations that pool knowledge and resources for better value;
- Better use of technology data analytics, artificial intelligence such as facial recognition as well as Drones;
- Agile working and Apps development to increase consistency and standards of work;
- Office 365 and tools to reconfigure business processes;
- Increasing use of volunteers;
- Continuous improvement and process re-engineering;
- Establishing Productivity Innovation and Efficiency Boards to better initiate and capture benefits realisation;
- Commercialisation of collaborative procurement including BlueLight Commercial and Police Digital Services;
- Implementing logistics and telematics;
- Investing in Prevention activity; and
- Creation of single digital evidence repository to enhance investigative processes and positive outcomes.

Police Uplift Programme (PUP)

Estimates of additional funding to deliver the PUP were also submitted to the Home Office over the summer. In summary, they showed that the total annual revenue expenditure forecast for 2024/25 across all four Forces was £55.1 million, with South Wales Police accounting for £25 million of this amount.

In terms of funding this expenditure, South Wales Police would expect to receive around £11.9 million from the additional £540 million announced in the CSR. When added to base allocations received in previous years, our early modelling shows that broadly funding will cover costs over the first three years, but noting that the grant per Officer is likely to be reduced compared to the previous two years' allocations.

The residual risk lies beyond 2024/25, when costs are expected to rise due to promotions, refresh of capital, etc, and we have no guarantee from the Government that these increases will be funded. Also, given the expectation to maintain Police Officer numbers, budgetary pressures elsewhere could invoke the real dichotomy of 'reverse workforce modernisation'.

Core Funding / Budget Pressures

As noted above, the CSR announcement included an additional £260 million by 2024/25, which could equate to around £5.7 million for South Wales Police. We know that this will need to cover the additional employer National Insurance Contributions from April 2022, estimated to be £2 million per annum for South Wales Police. That leaves £3.7 million to cover all other cost increases and pressures, which is in one sense positive in that it is better than the expected "flat-cash" settlement, but on the other will be insufficient to cover pay awards, inflation (which could hit 4% next year), technology and other cost pressures that were put forward in the Home Office submission.

The 2022 pay award in particular could be higher than the estimated 2.5% increase that was assumed in the Home Office submission and has been reflected in the CSR announcement.

Council Tax Receipts

The pandemic is affecting Council Tax collection rates, which may have an implication on Precept collection levels in 2021/22 and beyond.

Welsh Government is aware of this situation, and through the Council Tax Reduction Scheme will compensate Local Authorities for up to 75% of shortfalls. Each Local Authority sets its collection rates which will impact on the level of Precept collected.

For information, in England, the repayment of collection fund deficits arising in 2020-21 will be spread over 3 years rather than the usual period of a year. A similar 75% compensation scheme is in place. This issue needs to be kept under review.

The CSR announcement included the Office for Budget Responsibility's (OBR) forecasts of Council Tax Forecasts including growth in the tax base in England and Wales. This is reproduced below. The OBR's forecasts assume that the tax base is anticipated to grow faster per annum in England than in Wales, and consequently a compensatory adjustment to the level of police precept was included to maintain funding parity.

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
England – Tax Base	0.4%	1.1%	1.5%	1.4%	1.2%	0%
England – Precept	4.8%	3%	2.7%	2.6%	1.8%	3%
Wales – Tax Base	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Wales – Precept	5.5%	5.6%	5.3%	5.5%	5.5%	5.4%

It is important to add, however, that the OBR's forecasts are totally independent from the Treasury's assumptions in growth in Precept over the CSR period, assumed to be £774 million.

4. Review of Police Funding Formula

The Home Office is now committed to reviewing the police funding formula, with changes possibly coming into place from the 2023/24 financial year, although any changes are likely to be gradually introduced. The past exemplifications of funding formula proposals showed scenarios where Wales had a net reduction in central funding and it is important that the Wales voice is heard in this process. There are salient issues relating to Welsh Forces, for example the current lack of funding for Cardiff as a Capital City. South Wales Police stands to gain from an equitable review of the Formula.

5. Government Plan for Health & Social Care

The Government published its paper "Build Back Better" on September 7th, which outlined how National Insurance contributions would increase by 1.25% for both employers and employees from April 2022, as a Health and Social Care Levy.

The document included a paragraph stating "the Government intends to compensate departments and other public sector employers in England at the Spending Review for the increased cost of the Levy and provide Barnett consequential on this funding to the devolved administrations". It is estimated that the gross increase in salary on-costs for South Wales Police will be £2 million per annum, which will need to be funded from the all-Forces £260 million core funding (£5.7 million for SWP) allocation explained above.

There are, however, other cost implications associated with this Levy:

- In terms of the increase for employees, this will place further pay pressures on our officers and staff, resulting in reduced net pay for those affected. Additionally, given the pay freeze in 2021, there is likely to be a push for an above-inflation increase in 2022 (CPI in September 2021 was 3.1%, so there will be pressure to “put this right”) and on top of this, there is the 1.25% additional National Insurance increase.
- If either Forces or the Home Office were to compensate for this with some sort of pay award, there would be consequential on-cost implications for employers, including the national insurance implications of pay awards and pensions (which are nearly a third of Officers’ salary costs), which would need to be considered
- As the additional contributions are a national levy, the supply chain is unlikely to absorb this cost (with similar workforce wage inflation pressure) and therefore the costs of goods and services is expected to rise.

6. Additional PCSOs

Following discussions between the South Wales Commissioner and the Deputy Minister, it is pleasing to report that the Welsh Government has agreed to restore PCSO funding to real cost levels. The funding applied for the final quarter of 2020/21 and was baselined into the current financial year.

During 2021/22, the Welsh Government formally announced the ambition to recruit an additional 100 PCSO posts by the end of the financial year with South Wales Police’s allocation of this being an extra 41 PCSOs posts and an additional £1.5M grant. This will increase the establishment for PCSOs from 406, (of which 200 are funded by SWP and 206 by Welsh Government grant), to 447 PCSOs, in total. Recruitment plans have been reviewed and the Force is planning on reaching a full establishment of 447 by the end of March 2022 (subject to leaver variations).

A new way of reporting progress against total target recruitment numbers is being developed by South Wales Police, with the intention of rolling this out to the other three Forces once agreed.

7. Apprenticeship Levy

The full reimbursement of Policing Education Qualifications Framework (PEQF) costs remains an issue. The apprenticeship levy and PEQF costs (before the Police Uplift Programme) were estimated at £6.7 million per annum across all four Forces for 2021/22, with a £1 million grant from the Home Office to partly offset these costs, meaning approximately 85% of costs being borne by forces in Wales (SWP approximately £2.6 million). This is understood by the Secretary of State for Wales, Rt Hon Simon Hart MP, and the Police Minister at the Home Office, Kit Malthouse MP and we understand that discussions are continuing in Whitehall to resolve this.

8. Policing Response to Covid-19

Recording and reporting by Forces on Covid-19 expenditure to the Home Office has been relaxed in recent months. There was an additional funding allocation at the close of the last financial year (£58M in total across all Forces), and across Wales a consistent treatment of creating an Earmarked COVID 19 Reserve was agreed and has proven to be sound. This has allowed Forces to mitigate some of the costs incurred in 2021/22. The provision of PPE from the Department of Health & Social Care, via the national hub will continue to March 2022 and the Home Office are not anticipating the need for additional general funding for Covid-19 in the 2021/22 financial year.

9. Pensions

The deficit on the Police Pension Fund is not fully funded. A pensions grant has been in place for the past two years and will continue into 2021/22. However, this is not consolidated into base grant settlements, and so there remains a risk this will be discontinued at a later date. In addition, the pensions grant remains at the same cash value, while pensions contributions are increasing proportionate to both pay increases and additional officers (Operation Uplift).

The implications of the McCloud/Sargeant judgement (unlawful discrimination against younger members of the Judicial and Firefighters' pension schemes) will impact upon all main public sector schemes, with significantly increased employer contributions likely from 2024. The indications are that this could increase employer contributions from 31% to 45%. Maintaining Officer numbers without additional funding will be difficult. In addition, it is emerging that the economic environment is driving the discount factor used to calculate the long-term cost of pensions upwards, and it remains uncertain how that will be funded.

The NPCC pensions team is preparing for the Employment Tribunal in December 2021, relating to the circa 13,000 'Injury To Feelings' (ITF) claims. In addition, a further 37,000 ITF claims are in the process of being issued to forces by the ET. This is on top of addressing the remedy consequences in terms of scheme membership. To ensure we have a consistent approach in Wales, we have formed an All Wales Pension Hub with staff from each force to ensure a co-ordinated approach.

The CSR was silent on future Pensions funding, since this is a Treasury issue which will be picked up separately.

10. Summary

Based on the headline announcements, the three-year settlement, whilst more favourable than it had widely been anticipated, again represents a real-terms cut to funding.

11. Recommendation

It is recommended that the Police & Crime panel notes the contents of this report, in particular the analysis of the Comprehensive Spending Review 2021.

Peter Curran

Treasurer to the South Wales Police & Crime Commissioner

November 2021