

# POLICE AND CRIME COMMISSIONER FOR LEICESTERSHIRE

## POLICE AND CRIME PANEL

Report of	POLICE AND CRIME PANEL
Subject	FINANCE STRATEGY – EFFICIENCY SAVINGS REPORT
Date	WEDNESDAY 26 SEPTEMBER 2022
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### **Finance Strategy – Securing value for money, efficiency and investment**

#### **Background and Context**

1. The Home Office Revised Financial Management Code of Practice (FMCP) (pursuant to Section 17 (6) of the Police Reform and Social Responsibility Act 2011) provides clarity around the financial governance arrangements within the police in England and Wales, and reflects the fact that the police have a key statutory duty to secure value for money in the use of public funds. The FMCP is one element of a comprehensive framework for financial governance within the police which includes primary legislation, secondary legislation (including the Policing Protocol) and guidance.
2. Locally, the Chief Constable and Police and Crime Commissioner (PCC) have a number of strategies and plans governing financial management. These include:
  - Capital Strategy and Programme
  - Treasury Management Strategy
  - Reserves Strategy
  - Efficiency Plan
3. These documents are regularly reviewed and form part of an annual report setting out the proposed precept which is submitted to the Police and Crime Panel. That report also includes the Medium-Term Financial Plan (MTFP), details of planned investments and an agreed efficiency savings target.
4. The Force is recognised by HMICFRS and its external auditors as having a long and successful track record of prudent financial management, and of identifying efficiency savings and implementing change programmes to realise these.

#### **The Purpose of this Strategy**

5. This Strategy focuses on the Force's continuing approach to delivering value for money, securing efficiency and investing to improve performance and outcomes.
6. The Police and Crime Commissioner and the Chief Constable both have statutory duties to secure value for money in the use of public funds. The Chief Constable has

a specific statutory duty under section 35 of the Police Reform and Social Responsibility Act 2011 to secure that they and the persons under their direction and control obtain good value for money in exercising their functions. The PCC is required by sections 1(8) and 3(8) of the 2011 Act to hold the Chief Constable to account, in particular, for their compliance with this duty.

7. The FMCP states: -

- a. "Achieving value for money bears on nearly all aspects of deployment of public resources: procurement, asset management, disposals, administrative systems and financing arrangements. It means finding solutions which achieve the best mix of quality and effectiveness for least outlay. This may not always mean choosing the immediately cheapest option since, for instance, it may be more cost effective to buy a more reliable service or a better-quality asset with lower maintenance costs and a longer operating life."

8. Additional notes on the scope of value for money as defined by HM Treasury are set out in the FMCP and these inform the approach outlined in this Strategy.

9. As also set out in the FMCP, the Chief Finance Officer of the PCC and the Police Force Chief Finance Officer are required to advise the PCC and the Chief Constable respectively on value for money in relation to all aspects of PCC and force expenditure. HMICFRS and internal and external audit reports should also be considered when considering value for money.

10. The current MTFP covers the four-year period 2022/23 to 2025/26 and is balanced without the use of reserves. In addition, the PCC determined that the Force is required to deliver annual efficiency savings equivalent to 0.5% or circa £1.1m, of its net revenue budget for each and every year of the MTFP period. These savings can be a combination of cash and non-cash and potentially be reinvested back into operational priorities.

- This Strategy therefore aims to:
- Support and guide the discharge of the value for money duties placed on the PCC and Chief Constable.
- Secure efficiency in day to day operations.
- Guide achievement of savings and efficiencies to invest in improving performance and outcomes.
- Set out the approach to closing future budget gaps and achieving sustainable financial balance and stability throughout the term of the MTFP.

### **Guiding principles**

11. A number of principles guide our approach: -

- a. Maintain police officer numbers at 2,242.
- b. Maintain and where possible, enhance current service levels.
- c. Invest in digital and cloud technology, assets and infrastructure that support measurable, sustainable increases in the effectiveness, efficiency and productivity of police officers and support staff and which contribute to managing risks to service delivery.
- d. Maintain prudent levels of reserves which are held as a contingency for unexpected, unplanned events or for a specified purpose. Ongoing reliance will not be placed on reserves to deal with the funding of financial deficits.

- e. Take an evidence-led, sustainable approach to financial planning and decision making, with value for money, return on investment, benefits and outcomes for the public being key considerations.
- f. Identify savings and efficiencies that can be re-invested and contribute towards the PCC's efficiency savings target described above, prioritising those that can be realised at pace in non-frontline activity.
- g. Optimise the use of external sources of income that can deliver a net cash benefit to the Force to fund service provision or recover costs e.g. maximising use of s106 of the Town and Country Planning Act 1990 within the legislative parameters, charging for policing specific events, services and sponsorship
- h. Continue to deliver services in partnership with other bodies where this can demonstrate better outcomes and value for money including improved service efficiency and/or lower costs. This may include: -
  - i. Working collaboratively with partners, particularly other police forces in the region.
  - ii. Commissioning services from other bodies.
  - iii. Contracting out services to private sector providers.
- i. Put in place robust enabling strategies and business plans that link prioritised activity with the resources available and intended outcomes, and mechanisms for evaluating return on investment
- j. Apply rigorous options appraisal and business case processes for all major projects involving new revenue or capital spending. All business cases will include the Chief Finance Officer's approval, financial implications, and assessment of risk and value for money. Benefits realisation and improved service efficiency and/or productivity will be clearly demonstrated for all new investment.
- k. Maintain an appropriate balance between investment in technology, infrastructure, and people, ensuring spend is apportioned appropriately across police officers, police staff and enabling assets. The force intends to continue the approach set out by Government for the use budgets to facilitate the police officer uplift programme, i.e. for every additional £60 spent on police officer salaries, £20 investment in police staff and £20 in equipment, assets and infrastructure is required to support them.

### **Medium Term Financial Plan (MTFP)**

12. It is good financial management to have a medium-term financial plan (MTFP) that covers a period of at least four financial years. This provides a longer-term view which enables informed decision making to take place for the period of the plan. This is not without its challenges, given that there is only a firm Government announcement of funding for 2022-23 and an indication of potential funding through to 2024-25 only.
13. The medium-term financial plan is based on the best information that is available at the time of producing it, accepting that it is subject to change as new information emerges that can and will change the assumptions inherent in the plan.
14. In 2022/23, the PCC has continued to allocate 97.3% of the net budget requirement to the Chief Constable for use on local policing and regional collaborations.
15. The key assumptions that have been included in seeking to outline the financial challenge for the medium term are:

- a. That the council tax base grows at 1.5% for financial years 2023/24, 2024/25 and 2025/26 respectively.
  - b. All existing council tax related grants continue up to and including 2025/26.
  - c. Core Government funding increases by 1.45% in 2023/24 and 2024/25. The uplift grant has been increased from £1.5m in 2021-22 to £2.0m from 2022-23 onwards to align with funding expectations around officer growth. The spending review was for the next 3 years therefore core grant has been assumed to be flat cash for year 4.
  - d. The precept increases by £10.00 per Band D equivalent property for 2022-23 and by £10 each year thereafter in line with the prevailing national view, and modelling assumptions in each of the other East Midlands region Force areas.
  - e. At the time of budget setting the Pay awards for officers and staff were included at 2% for 2022-23, and each year thereafter. The 2022-23 pay award for officers was confirmed that all Police Officers in England and Wales, irrespective of rank, would receive a consolidated pay uplift of £1,900 from 1 September 2022. This is equivalent to 8.8% for the lowest paid, reducing to less than 1% for the highest paid. The average uplift is around 5.5%. The additional 3.5% uplift represents a significant unbudgeted increase in the cost of police pay from 2022/23 onwards.
  - f. In order to support Forces in meeting this unexpected pay increase, the Home Office has confirmed it will provide additional grant funding of £70m in 2022/23, rising to £140m in 2023/24 and 2024/25. It is assumed this will continue at the same level in 2025/26. Leicestershire's share of the available funding is estimated to be £1.05m in 2022/23 rising to £2.1m in 2023/24 and beyond, or £7.3m in total during the MTFP period. The estimated unfunded element of the pay award is £1.2m in 2022/23 rising to £2.2m in 2025/26, or £7.3m in total during the MTFP period.
  - g. Non-pay inflation is currently included at 2% for 2022-23 and for each year thereafter. These costs are being monitored carefully and increases will be reflected in the MTFP when more information becomes available.
  - h. At this stage, there are no significant impacts on grant funding incorporated into the MTFP from the Funding Formula Review.
  - i. No additional, unfunded responsibilities are given to the Commissioner.
16. Considering the above assumptions, the MTFP is balanced for 2022/23 however a funding gap has been identified for financial years 2023/24, 2024/25 and 2025/26.
17. The Force will continue to face financial challenges and will therefore need to drive out further efficiencies to be able to manage increasing demand and continue to invest in improving our capability in future years. As mentioned, the PCC has set the Force an annual efficiency savings target of at least 0.5% of the total annual budget.
18. Over 80% of the Force revenue budget is allocated to people costs and a significant proportion of the non-pay costs in the remaining budget are fixed. Opportunities for non-pay cash savings are therefore limited. This is supported by the HMICFRS Value for Money profiles. As a result, future activity will be focussed on optimising the value for money, efficiency, effectiveness and productivity of people, processes and assets.
19. The MTFP will be regularly reviewed and the assumptions updated, as new information emerges to ensure the Force's plans can be revised, if required.
20. The 2023/24 budget round process and subsequent refresh of the MTFP will commence in October. This will allow the PCC in consultation with the Chief Constable, to agree the best way forward around balancing the budget for 2023/24 and beyond.

## **Use of Reserves and Balances**

21. The use of reserves to fund recurrent expenditure has been removed and reserves are only now being used to fund one-off expenditure. This has improved the overall resilience of the MTFP and leaves the PCC with a healthy level of reserves.
22. In January 2022, a Reserves Strategy was agreed which set out the following 'guiding principles' for managing reserves: -
- a. General fund reserves should be in the range of 2% to 5% of the total net budget (between £4.46m and £11.16m based on the 2022/23 budget).
  - b. The Budget Equalisation Reserve (BER) can be used to support the budget but there must be a strategy to move reliance away from the reserve over a period of time.
  - c. Other earmarked reserves should only be used for specific time limited projects, to provide financial cover for potential future financial liabilities and for 'invest to save' projects.
  - d. Ongoing reliance should not be placed on reserves to deal with the funding of financial deficits and a clear plan should be in place to move reliance away from one off reserves.
  - e. There should be an annual review of reserves.
23. Three types of Reserve are held and these are explained further below: -

### **A. General Reserve**

24. The General Reserve will remain at the current level of 2.2% (£5m) of the net budget requirement for 2022/23 and is within the recommended limits referred to above. It is prudent to have such a reserve to enable the organisation to withstand unexpected events which may have financial implications. There is no further planned use of this reserve during 2022/23 or beyond.

### **B. Budget Equalisation Reserve (BER)**

25. Over recent years, due to the impact of effective efficiency programmes and through financial prudence, a Budget Equalisation Reserve (BER) has been created. This reserve is currently £13.3m. Its purpose when established was twofold:
- a. To fund 'invest to save' and other new initiatives and investments.
  - b. To recognise that some savings would take time to implement and to smooth the impact of these changes.
26. It is proposed that £9m of the BER is used during the MTFP period to fund ongoing historical investigations of £0.2m, Job Evaluation Pay protection costs of £1.4m, and a further £0.4m is ring fenced in 2025-26 for ESN dual running costs, Cloud migration costs of £5m, and peripatetic investigators of £2m. This will reduce the BER to £4.6m at the end of the MTFP period.

### C. Earmarked Reserves

27. The Commissioner currently holds a number of Earmarked Reserves which at 31 March 2022 are total over £6m (excluding the General Reserve and BER) and those to note are as follows:

- a. **OPCC & Commissioning Reserve £0.6m** – This contributes towards supporting the cost of the Commissioning Framework.
- b. **Civil Claims £1.2m** – This reserve holds funds set aside where considered prudent for Civil Claims (Public and Employer liability) in line with professional advice.
- c. **Capital Reserve £0.2m** – to support future Capital expenditure.
- d. **Proceeds of Economic Crime - £1.4m** – reserve funded from proceeds of crime, used to support the Force’s capability in specific investigative areas.

28. The following transfers to and from reserves form part of these budget proposals: -

<u>Transfers from Reserves</u>	
	£m
<u>Budget Equalisation Reserve</u>	
Historical Investigations	-0.060
Job Evaluation	-0.119
	<hr/>
	-0.179
<u>Other Earmarked Reserves</u>	
Economic Crime (POCA)	-0.054
Equipment Reserve	-0.425
Capital Reserve	-0.014
MAPPA	-0.028
Collection Fund	-0.071
	<hr/>
	-0.591
	<hr/>
	-0.771

<u>Transfers to Reserves</u>	
	£m
<u>Specific Reserves</u>	
Equipment Reserve	0.050
Fleet Insurance Claims	0.125
Civil Claims Liability	0.130
	<hr/>
	0.305
	<hr/>
	0.305

	£m
<u>Net Transfers to/(from)</u>	<hr/>
Earmarked Reserves	<u>-0.466</u>

29. The force has a good record of joint working arrangements and continues to significantly contribute to a complex picture of collaborative working with neighbouring forces across the East Midlands building resilience and reducing cost. This includes Increase ICT interoperability, share systems and infrastructure, particularly in relation to the Crime and Intelligence system.

30. Partnership working is well developed with local health agencies particularly in the areas of mental health triage and the SARC.

31. The force also works collaboratively at shared locations with other agencies. The Local Policing Team share a building with Fire and Rescue service at Coalville, and specialist

staff from the force and other agencies work together to deal with the exploitation of children, domestic abuse and integrated offender management in shared accommodation.

32. A model of Neighbourhood offices in partner accommodation has been embedded in the force's operational delivery. This with the joint working arrangements has allowed for the estate to be rationalised, thereby reducing running costs. Our Estates expenditure is one of the lowest compared to all similar forces in the 2021/22 Value for Money profiles.
33. The Force has identified more efficient ways of working, in particular use of technology. It has sought to increase the ability of the workforce to work in a more agile way, by encouraging remote working. This has contributed to the force making better use of its buildings and increasing visibility.
34. Clear governance arrangements are established for 'Change' with costs, savings and investments and associated staffing changes clearly tracked by HR and Finance and agreed at a senior level. The Force is introducing a new process to track and log business benefits from business cases in 2022/23

### **Savings and efficiencies achieved to date**

35. The Force has a long and successful track record of identifying efficiency savings and implementing change programmes to realise these.

<b>36. Year</b>	<b>37. Savings (and additional income*) (£m)</b>
38. 2017/18	39. 6.9
40. 2018/19	41. 2.4
42. 2019/20	43. 2.8*
44. 2020/21	45. 4.6*
46. 2021/22	47. 3.6*

48. Above figures are taken from the published Council Tax leaflets. In years marked with an asterisk, the figure includes additional income.

### **Assurance and Risk Management**

49. The Force employs a dynamic approach to the application of internal controls, assurance and risk management. This includes utilising a 'three lines of defence' model, which is recognised best practice, i.e.
  - a. Functions that own and manage the risks (business area leads)
  - b. Functions that oversee the management of risks and compliance (Senior leaders of business areas, business area management and governance boards, internally commissioned reviews and the Strategic Organisational Risk Board)
  - c. Functions that provide independent assurance (Internal and external audit, independent inspectorates, and externally commissioned reviews).
50. The Force continually utilises benchmarking and seeks out good practice from others to inform continuous improvement.
51. The HMICFRS Value for Money profiles provides valuable analysis enabling comparisons to be made with other forces.

52. Based on the most recent dashboards, Leicestershire Police has the lowest cost support functions per total Force staff among all English and Welsh forces. Further detail can be found in the attachment below and on the HMICFRS website.



VFM 2021.docx

53. The last annual audit report to the PCC and Chief Constable for the year ended 31 March 2021 (dated August 2022) provides additional assurance around financial management and value for money. It concludes proper arrangements were in place to secure economy, efficiency and effectiveness in the use of resources.

54. The annual audit letter for 2020/21 is still pending.

### **Enabling Strategies and Performance Framework**

55. The Force is introducing a new strategic framework, suite of enabling strategies and performance framework. These will provide clarity about prioritised activities that will deliver defined outcomes. Power BI is enabling people across the Force to have access to data analysis and information management at the right time to monitor outcomes and inform decision making. When used alongside products such as the Force Management Statement, these enable demand to be understood, informing decisions about resourcing, and ensuring activity is linked with resources and value for money judgements.

### **Other Governance and Oversight Arrangements**

56. The PCC's Corporate Governance Board acts as the primary governance mechanism for financial matters and provision of assurance around value for money.
57. Oversight of the force transformation programme is provided by Executive Group where business cases are approved.
58. Other Boards, including Strategic Organisational Risk Board and those covering specific areas of business contribute to our overall approach.

### **Procurement and Management of Goods, Services and Supply Contracts**

59. The Force's aim is to maximise value for money, including through taking advantage of central or collaborative procurement where appropriate and regulations allow.

### **Future Priorities**

#### Efficiency plan

60. An efficiency savings plan will be implemented. It will deliver on-going annual savings of around 0.5% or circa £1.1m of the Force's net revenue budget from 2022/23 onwards.

#### Rich Picture

61. The Rich Picture is the Force organisational wide transformational programme and seeks to build on the Target Operating Model introduced in March 2020. Phase 2 includes four workstreams:



- a. Workforce development
- b. Digital
- c. Operational
- d. Corporate

62. Among other benefits the programme will:

- a. Deliver a sustainable policing model with less reliance on the use of reserves.
- b. Optimise technology to meet both public expectations and become more effective, productive and efficient.
- c. Enhance approaches to workforce and succession planning, talent management learning and development.

63. The Rich Picture is overseen by the Executive Group, where all business cases for new change activity are approved. Business cases are required to demonstrate how proposed activity links to strategic priorities/the police and crime plan, specify the intended benefits that will be delivered, assess risks, carry out options appraisal and cost benefit analysis, specify required resources and proposed costs. Change programme activity is evaluated to track benefits and measure return on investment.

### **Continuous Improvement and Innovation**

64. We will maintain our support for continuous improvement activity with dedicated resource and a Chief Officer lead, empowering officers and staff to take responsibility for delivering improvement and innovation in their areas of activity.

### **Income Generation**

65. The majority of the police budget is funded through local taxation (council tax precept) and central government grants. We will seek to optimise generation of external income that can be used to deliver a net cash benefit to the Force to provide additional funds for service provision rather than simply seeking to recover costs e.g. maximising use of s106 of the Town and Country Planning Act 1990, and/or charging for policing specific events, sponsorship etc.

66. Work has been undertaken to explore the potential of these areas. Income generation from charging for services has the potential to provide marginal contributions, particularly when the cost of administration is considered. Whilst greater potential exists with s.106, there is no certainty around success, the quantum or timings. Discussions with Local Government partners remain on-going.

### **Force Management Statement**

67. The deep analysis within the annual Force Management Statement around current and predicted demands, and the resources necessary to respond to them, will continue to inform our plans.

### **Value for Money Reviews**

68. We will review all areas of resource allocation periodically through a planned programme of value for money reviews, including our collaborations with partners.

## **Asset and Fleet Strategy**

69. We will review these strategies to maximise utilisation, secure value for money and further support improved effectiveness and productivity.

## **Vacancy Management**

70. We will implement a robust approach to the authorisation of recruitment to vacant posts, creation of new posts and deletion of existing vacant posts with decisions based on risk and business need.

## **Job Evaluation**

71. The Force has an on-going project to implement a sustainable job evaluation model for police staff roles. This will provide further assurance and contribute to our approach to achieving value for money from the workforce.

## **Financial Sustainability**

72. The Force continues to take a prudent approach that is sustainable, achievable and in line with the guiding principles stated above. This will require activity to identify savings in each of the next four years without the need to rely on reserves to support business as usual activity.

## **Appendices**

### **Value for Money principles as set out in the FMCP**

[Managing Public Money](#) defines value for money as: the process under which an organisation's procurement, projects and processes are systematically evaluated and assessed to provide confidence about suitability, effectiveness, prudence, quality, value and avoidance of error and other waste, judged for the Exchequer as a whole.

This places a responsibility on the PCC, the Force and the s.4A FRA to put in place proper arrangements to secure value for money in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control. The PCC, the Force and the s.4A FRA should be able to satisfy the following principles which are set out in HMT's Managing Public Money guidance:

- i. The process for allocating resources against desired outcomes is transparent and based on clear, quantified evidence
- ii. Risks to performance, improving processes and productivity are assessed. This is used to target improvement activity or develop contingency plans
- iii. Services and support functions are tested against appropriate benchmarks to identify and tackle excessive costs or weak performance
- iv. Public demand for services is understood and quantified, and informs deployment of staff
- v. Staff are used efficiently. Programmes to minimise waste and increase employee engagement are in place to support this (most likely through Continuous Improvement)

- vi. End-to-end operational processes are focused on delivering for the customer, with data used to demonstrate this. Processes are streamlined, unbureaucratic and efficient
- vii. Goods and services are procured, and supply contracts are then managed in a way that maximises value, including through taking advantage of central or collaborative procurement where appropriate
- viii. Data is fit for its intended purpose and used and published routinely, providing clear line of sight between consumption of resources, production of outputs and realisation of outcomes.

### **Implications**

Financial: As per report

Legal: None

Equality Impact Assessment: None

Risks and Impact: As Stated

Link to Police and Crime Plan: Budget

### **Person to Contact**

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