

**NOTICE OF  
DECISION**

[002/2018]

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**Title: 2018/19 Revenue Budget and Precept and Capital Budget and Programme 2018/19 to 2021/22**

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**EXECUTIVE SUMMARY**

This report sets out the Police and Crime Commissioner's 2018/19 Revenue Budget and Precept and Capital Budget and Programme 2018/19 to 2021/22.

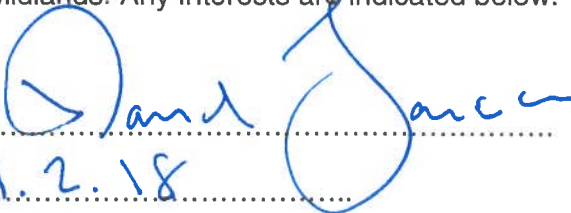

**DECISION**

- (a) That, for 2018/19, a total revenue expenditure level of **£548,138,000** be approved;
- (b) That, net contributions from Reserves to support the precept of **£12,850,000** be made in 2018/19;
- (c) That, a net budget requirement for 2018/19 of **£535,288,000** be approved;
- (d) That the Commissioner's General Reserve remains at **£12,042,000**;
- (e) That the capital budget and programme as set out in **paragraphs 19 – 20 and Appendix 2** be approved;
- (f) That the Band D precept for 2018/19 should be set at **£128.55** an increase of £12 compared to 2017/18;
- (g) That, a total precept on the District Councils of the West Midlands be approved and apportioned between such Districts, on the basis of relevant tax base as determined by the District Councils and set out in **Appendix 4**;
- (h) That, District Councils be required to make payments on account of such precept upon them, by way of twelve equal instalments on or before the last banking day of each month, commencing in April 2018;
- (i) The continued commitment to maintain Community Safety Funding at 2017/18 levels;
- (j) That, the Operational Budget for 2018/19, be delegated in accordance with the Scheme of Consent, as set out in **Appendix 3**;

- (k) That the Police and Crime Commissioner's budget be delegated to the Chief Executive in accordance with **paragraph 9**;
- (l) That the Prudential Guidelines and Indicators set out in **Appendix 6** be approved;
- (m) That, the Chief Finance Officer (CFO) to the Commissioner be authorised to arrange the necessary financing for the Capital Programme, in accordance with the approved Treasury Management Strategy and the CIPFA Code of Treasury Management;

**West Midlands Police and Crime Commissioner**

I confirm that I do not have any disclosable pecuniary interests in this decision and take the decision in compliance with the Code of Conduct for the Police and Crime Commissioner for the West Midlands. Any interests are indicated below.

Signature.....  
Date.....

# NON – CONFIDENTIAL FACTS AND ADVICE TO THE POLICE AND CRIME COMMISSIONER

## INTRODUCTION AND BACKGROUND

### PURPOSE

1. Following the meeting of the Police and Crime Panel on 5th February, this paper sets out the Police and Crime Commissioner's 2018/19 Revenue Budget and Precept and Capital Budget and Programme 2018/19 – 2021/22.

### BACKGROUND

#### GOVERNMENT GRANT SETTLEMENT 2018/19

2. The total grant settlement from government has remained at £444.1m. This is made up of £247.3m from Police Grant, £177.8m from DCLG Formula Funding and £19.0m from Council Tax Support Grant.
3. The points to note from the grant settlement are:
  - (a) The settlement includes the expectation for PCC's to raise their precept by up to £12 per year per Band D property in 2018/19.
  - (b) The government expects PCCs to pay for the 2017 pay award and costs of the 2018 pay award from the funding settlement.
  - (c) For 2018/19 existing formula damping arrangements remain unchanged.
  - (d) There is a commitment to broadly maintain police grant in 2019/20 at the current cash levels and allow PCCs to further increase precept to a maximum of £12 in 2019/20. This is dependent on police forces delivering clear progress against agreed milestones on productivity and efficiency in 2018/19.
  - (e) For the West Midlands capital grant allocations of £2.5m remain the same in 2018/19 as in the current year.
  - (f) The settlement allows PCCs to retain the full benefit from any additional local council tax income. It is assumed this means any additional funding from increased council tax base across the West Midlands are retained locally.

## BALANCES AND RESERVES

4. The prudent use of reserves to support spending continues to be a key factor in the Medium Term Financial strategy. The following table details the level of reserves at 31 March 2017 and the estimated level of reserves up until March 2019.

	<i>Balance as at March 2017 £m</i>	<i>Estimated Balance as at March 2018 £m</i>	<i>Estimated Balance as at March 2019 £m</i>
<i>Capital Reserve</i>	6.7	0.0	0.0
<i>Budget Reserve (Including Devolved Budget)</i>	35.2	8.0	5.9*
<i>Budget Resilience</i>	25.5	25.5	11.2*
<i>Risk Reserve</i>	1.0	1.0	1.0
<i>POCA Income Reserve</i>	0.8	0.6	0.4
<i>Redundancy and Equal Pay Reserve</i>	8.1	8.1	8.1**
<i>Self-funded Insurance Reserve</i>	10.3	10.3	10.3
<i>Uniform and Protective Equipment Reserve</i>	4.1	2.8	2.8
<i>Major Incident Reserve</i>	2.2	2.2	2.2
<b><i>Earmarked Reserves</i></b>	<b>94.0</b>	<b>58.5</b>	<b>41.9</b>
<i>General Reserve</i>	12.0	12.0	12.0
<b><i>TOTAL RESERVES</i></b>	<b>106.0</b>	<b>70.5</b>	<b>53.9</b>

\*These reserves are to be combined from this point onwards

\*\*Use of this earmarked reserve to be determined during 2018/19

5. The Commissioner needs to maintain adequate General Reserve balance because:
- A substantial organisation with a turnover of £0.5 billion, there are no other such reserves to call on.
  - There are no budgeted contingencies for very major incidents, which may require significant resource levels for a long period.

### PROPOSED REVENUE BUDGET 2018/19

6. The Commissioner is proposing a Revenue Budget for 2018/19 based on the following:-
- The priorities of the Police and Crime Plan.
  - The implications of the provisional funding settlement.
  - Existing budget commitments and inflationary pressures.
  - The costs and benefits arising from the continued support for the WMP2020 transformation programme.
  - The continued commitment to maintain Community Safety Funding at 2017/18 levels.
  - The uncertainty of funding beyond 2019/20 in light of the review of the police

funding formula.

7. The Revenue Budget for 2018/19 is based on the following:-
  - (a) Maintaining the numbers of police officers and police community support officers (PCSOs) at least in line with the medium term financial plan up to the end of March 2020.
  - (b) The opportunity to have a workforce more representative of the public we serve by recruiting more BME police officers, police staff and PCSOs.
  - (c) The provision of improved equipment and technology to frontline officers to support capability, safety and welfare.
  - (d) A precept increase of £12 in line with the Council Tax referendum limit principles that applies to West Midlands Police together with the prudent use of reserves.
  - (e) A planned use of the Budget Reserve in 2018/19 of £12.8m.
8. Recognising that in the medium term:
  - (a) There remains considerable uncertainty about Government funding levels, indications are that for 2019/20 funding will be in line with 2018/19 levels but beyond that there are likely to be further reductions in resources available for policing and crime.
  - (b) There are significant cost pressures to the organisation including inflation and other cost pressures.
  - (c) There is a need to strike a careful balance between spending levels, the use of reserves and a precept increase in 2018/19.

#### **OFFICE OF THE POLICE AND CRIME COMMISSIONER**

9. The proposed budget for the Office of the Police and Crime Commissioner for 2018/19, compared to the budget for 2017/18 is shown in the table overleaf. The OPCC's budget has absorbed cost pressures since its formation in 2012, including the requirement to undertake additional functions and the impact of inflation. For example, the government's requirement to have legally qualified chairs at police misconduct hearings from April 2016 and the office now supports the Active Citizen Fund initiative distributing funding to Neighbourhood Policing Units to support local projects. In addition the office manages a significant number of external funded projects totally £11m supporting crime prevention and tackling gangs and violence across the area. Also the office from April 2018 is administering the new West Midlands Community Safety Partnership which local authorities previously undertook. The office has also recently taken the responsibility officially for the Appropriate Adults scheme which supports vulnerable adults in custody. The 2018/19 budget includes provision for supporting revised arrangements relating to the handling of complaints as a result of the Police and Crime Act 2017.

	<i>Budget 2017/18 £000</i>	<i>Proposed 2018/19 £000</i>
<i>Governance</i>	290	318
<i>Staff &amp; Office Support Costs</i>	1,334	1,708
<i>Consultation, ICT and Systems</i>	75	77
<i>Police Misconduct Hearings incl Legally Qualified Chairs</i>	50	65
<i>Subscriptions</i>	33	33
<i>Bank Charges and External Audit Fees</i>	83	83
<i>Custody Visiting</i>	5	5
<i>Professional Services</i>	50	50
<i>Mental Health Commission Secondment</i>	25	18
<b>Total</b>	<b>1,945</b>	<b>2,357</b>

## COMMUNITY SAFETY FUNDING

10. The Commissioner has made a commitment to maintain the levels of Community Safety Funding in 2018/19 at 2017/18 levels at £3,863,308.

## OPERATIONAL POLICING BUDGET

11. In accordance with the Scheme of Consent, it is necessary for the Commissioner to approve an operational policing budget which can be delegated as detailed within the Scheme of Consent. It is consistent with the policies and priorities included in the Police and Crime Plan. The proposed operational policing budget is set out in Appendix 3 and 3a. This represents, in more detail, a cost centre based view of Operational and non-Operational policing in the West Midlands.

## STAFFING BUDGETS 2018/19

12. The 2017/18 budget funded 200 police staff posts (workforce mix) that would transfer duties from police officers. An extensive review has identified 170 posts that meet this criteria and are being implemented. The 2018/19 budget transfers the funding for the remaining 30 police staff posts to police officers. The proposed increase in council tax precept and greater certainty of grant funding over the next two financial years enables an increase of 50 police officer posts in 2018/19 and a further 50 police officer posts in 2019/20 than was original planned. The medium term financial plan to be published in 2018 will project longer term staffing profiles in line with future funding settlements. The table overleaf shows the revised staffing forecast.

13.

	31 Mar 18 (FTE)	31 Mar 19 (FTE)	31 Mar 20 (FTE)
<b>Police Officers</b>			
<i>Original</i>	6,528	6,400	6,400
<i>Revised</i>	6,528	6,450	6,500
<b>Increase</b>	-	50	100
<b>Police Staff</b>			
<i>Original</i>	3,500	3,479	3,423
<i>Revised</i>	3,470	3,449	3,393
<b>Decrease</b>	-30	-30	-30
<b>PCSO</b>			
<i>Original- no change</i>	464	464	464
<b>Total Original Staff</b>	10,492	10,343	10,287
<b>Total Revised Staff</b>	10,462	10,363	10,357

### USE OF RESERVES

14. There are a number of specific issues which need to be taken into account in considering how much of the earmarked reserves should be used in 2018/19, including:
- (a) retaining the maximum levels possible to support spending in 2018/19 and later years when resource levels will be significantly constrained;
  - (b) striking a fair balance between how much should be used to support spending over the planning period and by how much the precept should increase;
  - (c) risks and uncertainties in key budget assumptions, given that any over or additional spending in 2018/19 which cannot be met from in year redirections would have to be met from reserves;
15. Given these considerations and assuming a precept increase at the maximum permitted without a referendum it will be necessary to use £12.8m of reserves to support revenue spending in 2018/19.
16. The proposed net budget requirement for 2018/19, compared to 2017/18 would therefore be calculated as follows:

	2017/18 £'m	2017/18 £'m
<i>Total revenue spending</i>	544.1	548.1
<i>Use of Budget Reserve</i>	-18.2	-12.8
<b>Revenue Expenditure</b>	<b>525.9</b>	<b>535.3</b>



## **MEDIUM TERM FINANCIAL PLAN (MTFP)**

17. Following receipt of the provisional grant settlement, the Commissioner is now in the process of revising the Medium Term Financial Plan (MTFP). Early in 2018/19 a refresh of the financial strategy linked to the WMP2020 programme of work will take place.
18. It is planned that both the Budget and the Budget Resilience Reserve will be used to support the revenue budget including the change programme up to 2020 and these two reserves will be combined during 2018/19. The forecast drawdown will be known when the revised MTFP financial plan is produced. In addition, £2.1m of reserves is planned to be used in 2018/19 to support invest to save opportunities.

## **CAPITAL PROGRAMME 2018/19 – 2021/22**

19. The main items in the capital programme contained in Appendix 2 include major investments in new technology through the Connect, Emergency Services Mobile Communications Programme and Data Driven Insight Projects. In addition there is funding for the vehicle and plant replacement programme; and investment in ICT. The capital programme will be financed by a combination of revenue reserves, capital grants, capital receipts and additional borrowing as required.
20. During 2018 a revised Estates Strategy will be launched. As the plans develop further the strategy and its financing will be incorporated into the overall capital programme. The estates strategy requires a detailed amount of work to establish proposals that will enable assets to be used in a more cost effective way, enable further partnership working with other bodies and deliver service benefits. The impact of future of costs and savings of the estates strategy will be brought to the Commissioner's Strategic Policing and Crime Board for detailed consideration in due course.

## **PRUDENTIAL GUIDELINES**

21. In relation to capital financing the Commissioner is required to set a number of prudential indicators and these are covered in detail in Appendix 6.

## **RISKS AND UNCERTAINTIES**

22. Details of the risks and uncertainties inherent in these Budget proposals are summarised in Appendix 7.



## PRECEPT IMPLICATIONS

23. The table below shows a summary of the precept calculation including the notified Collection Fund net surplus, and compares the precept level with last year's figures:

<i>Summary Precept Calculation</i>	<i>2017/18</i>	<i>2018/19</i>
	<i>£m</i>	<i>£m</i>
<i>Revenue Expenditure</i>	544.12	548.14
<i>Contribution from Reserves</i>	-18.18	-12.85
<b><i>Net Budget Requirement</i></b>	<b>525.94</b>	<b>535.29</b>
<i>Police Grant</i>	-247.32	-247.32
<i>DCLG Formula Funding</i>	-177.75	-177.75
<i>Council Tax Support Grant</i>	-19.03	-19.03
<i>Surplus/Deficit on Collection Fund</i>	-1.52	-0.95
<b><i>Precept Requirement</i></b>	<b>80.32</b>	<b>90.24</b>
<i>Total Tax Base</i>	689,149	701,961
<b><i>Band D Precept*</i></b>	<b>£116.55</b>	<b>£128.55</b>

*\*An increase of £12.00 per annum*

24. This produces a charge for each property for 2018/19 as follows:

		<i>2017/18</i>	<i>2018/19</i>	<i>Change</i>	<i>Change</i>
	<i>Statutory Proportion</i>	<i>Precept</i>	<i>Precept</i>	<i>Annual</i>	<i>Weekly</i>
		<i>£ : p</i>	<i>£ : p</i>	<i>£ : p</i>	<i>£ : p</i>
<b>A</b>	6/9	77.70	85.70	8.00	0.15
<b>B</b>	7/9	90.65	99.98	9.33	0.18
<b>C</b>	8/9	103.60	114.27	10.67	0.21
<b>D</b>	<b>9/9</b>	<b>116.55</b>	<b>128.55</b>	<b>12.00</b>	<b>0.23</b>
<b>E</b>	11/9	142.45	157.12	14.67	0.28
<b>F</b>	13/9	168.35	185.68	17.33	0.33
<b>G</b>	15/9	194.25	214.25	20.00	0.38
<b>H</b>	18/9	233.10	257.10	24.00	0.46

25. The statutory calculations required by Local Government Finance Act, 1992 are shown in Appendix 4.

## FINANCIAL IMPLICATIONS

26. Are as detailed in this report.

## LEGAL IMPLICATIONS

27. Section 40 of the Local Government Finance Act, 1992, requires the Commissioner to set budget and precept by 1st March each year.
28. The Commissioner must ensure that the precept is sufficient to provide for the expenditure estimates it will incur in the year in performing functions, defraying

outstanding expenditure incurred earlier, any expenditure before precepts become sufficiently available and any payments into reserves.

29. The Localism Act 2011 has abolished the council tax capping regime and replaced it with the requirement for Authorities to hold a taxpayers referendum if excessive increases are proposed. For the West Midlands an excessive increase would be £12.01 or greater.
30. Section 25 of the Local Government Act 2003 requires the CFO to report to the Commissioner on the robustness of the estimates made for the purposes of the statutory budget calculations and the adequacy of financial reserves and the Commissioner must have regard to that report when making decisions about the statutory budget calculations.
31. Section 19 of the Police Act 1996 makes special provision covering the Commissioner's decision, in respect of the precept it proposes to levy for the forthcoming year.

### **EQUALITY IMPLICATIONS**

32. The budget provides for the continuation and development of policing services for all people in the West Midlands, irrespective of their protected characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. Both the Commissioner and the Force are committed to delivering the principles, strategies and priorities of their respective Equality Schemes.

### **SCHEDULE OF BACKGROUND PAPERS**

- Appendix 1 – Summary of Revenue Budget 2018/19
- Appendix 2 – Capital Programme 2018/19 – 2021/22
- Appendix 3 – Operational Budget 2018/19
- Appendix 4 - Statutory Council Tax calculation 2018/19
- Appendix 5 – Report of the Chief Financial Officer
- Appendix 6 – Statement of Prudential Indicators
- Appendix 7 – Risk Assessment

## REVENUE BUDGET 2018/19

	<b>Base Budget 2017/18 £,000</b>	<b>Base Budget 2018/19 £,000</b>
<i>Police pay</i>	352,799	352,481
<i>Police Community Support Officers</i>	13,249	14,048
<i>Support staff pay</i>	98,126	108,002
<i>Other employees expenses</i>	2,118	1,805
<b>Sub total</b>	<b>466,292</b>	<b>476,336</b>
<i>Premises</i>	17,052	17,308
<i>Transport</i>	7,892	6,844
<i>Supplies and services</i>	43,850	40,497
<i>Agency</i>	5,407	4,980
<i>Capital Financing Costs</i>	3,342	4,049
<i>External income</i>	-26,267	-27,734
<i>WMP2020 Project Costs</i>	18,660	17,550
<b>Police Force</b>	<b>536,228</b>	<b>539,830</b>
<i>Police &amp; Crime Commissioner Community Safety Funding)</i>	1,945	2,357
<i>Active Citizens</i>	3,863	3,863
<i>Grant Expenditure</i>	800	800
<i>Victim Services Expenditure</i>	1,288	1,288
<i>Victim Services Income</i>	3,322	3,330
<i>Victim Services Income</i>	-3,322	-3,330
<b>Total Police &amp; Crime Commissioner</b>	<b>7,896</b>	<b>8,308</b>
<b>Total Revenue Budget</b>	<b>544,124</b>	<b>548,138</b>

## CAPITAL BUDGET AND PROGRAMME 2017/18 – 2021/22

	2017/18 Current Budget £m	2018/19 Proposed Budget £m	2019/20 Proposed Budget £m	2020/21 Proposed Budget £m	2021/22 Proposed Budget £m	Total Prog £m
<b>WMP2020:</b>						
Connect	7.4	3.4	0.2	0.0	0.0	11.0
ESMCP	1.0	5.4	0.0	0.0	0.0	6.4
Data Driven Insight (DDI)	5.8	0.5	0.0	0.0	0.0	6.3
New Ways of Investigating	2.1	1.2	0.0	0.0	0.0	3.3
New Ways of Responding	2.1	0.3	0.3	0.1	0.0	2.8
Next Generation Enabling Services	2.4	0.0	0.0	0.0	0.0	2.4
Command & Control	0.4	0.7	1.0	0.0	0.0	2.1
Smarter Responding	1.8	0.0	0.0	0.0	0.0	1.8
Redesigning Investigations	0.1	0.0	0.0	0.0	0.0	0.1
<b>Total WMP2020</b>	<b>23.1</b>	<b>11.5</b>	<b>1.5</b>	<b>0.1</b>	<b>0.0</b>	<b>36.2</b>
<b>Business as Usual</b>						
Fleet	4.6	3.0	3.0	3.0	3.0	16.6
IT & Digital	5.5	1.8	1.6	0.6	0.5	10.0
Equipment	0.3	1.2	0.7	0.2	0.2	2.6
CTU	1.2	0.0	0.0	0.0	0.0	1.2
<b>Total BAU</b>	<b>11.6</b>	<b>6.0</b>	<b>5.3</b>	<b>3.8</b>	<b>3.7</b>	<b>30.4</b>
<b>Total Spend</b>	<b>34.7</b>	<b>17.5</b>	<b>6.8</b>	<b>3.9</b>	<b>3.7</b>	<b>66.6</b>
<b>Funded By:</b>						
Capital Grant (estimated)						-12.1
Capital Receipts						-27.2
Reserves/Borrowing						-26.1
Specific Capital Grant						-1.2
<b>Total Funding</b>						<b>-66.6</b>
<b>Net Surplus/Deficit</b>						<b>0.0</b>

## OPERATIONAL BUDGET

2018/19	
£m	
Police Pay & Allowances	352.481
Police Staff & Allowances	122.050
Other Employee Expenses	1.805
<b>Total Employee Costs</b>	<b>476.336</b>
Running Costs	69.629
Income	-27.734
<b>Total Operational Budget</b>	<b>518.231</b>
WMP2020 Project Costs	17.550
Capital Financing	4.049
<b>TOTAL</b>	<b>539.830</b>

2018/19	
£m	
Community Justice Services	22.638
CTU	3.385
Force CID	68.572
Force Contact	33.752
Force Response	61.070
Forensics	10.516
Integrated Offender Management	1.651
Intelligence	12.902
Operations	37.207
Public Protection	39.233
Traffic & CMPG	11.895
ROCU	18.365
Support Services	81.419
<b>Departments Total</b>	<b>402.605</b>
Neighbourhood Policing Units	86.245
Central Costs	29.381
<b>Operational Total</b>	<b>518.231</b>
WMP2020 Project Costs	17.550
Capital Financing	4.049
<b>TOTAL</b>	<b>539.830</b>

## OPERATIONAL ANALYSIS

<b>Support Services Analysis</b>	<b>2018/19 £m</b>
Business Transformation	3.344
Corporate Asset Management	26.873
Corporate Communications	1.725
Finance	1.618
Force Executive Team	2.316
Information Management	2.613
Insurance	3.555
IT & Digital	17.577
Legal Services	1.599
People and Organisation Development	17.302
Professional Standards	2.897
<b>TOTAL</b>	<b>81.419</b>

<b>NPU Analysis</b>	<b>2018/19 £m</b>
Birmingham East	17.948
Birmingham West	18.299
Coventry	11.217
Dudley	6.696
Sandwell	9.285
Solihull	5.309
Walsall	7.694
Wolverhampton	9.797
<b>TOTAL</b>	<b>86.245</b>

## WEST MIDLANDS POLICE AND CRIME COMMISSIONER PRECEPT CALCULATION 2018/19

	£
Gross Budget Requirement	548,138,000
Less: Balances and Reserves	(12,850,000)
<b>Net Budget Requirement</b>	<b>535,288,000</b>
Less: Police Grant	(247,319,672)
Legacy Council Tax Grant	(19,025,734)
DCLG Formula Funding	(177,750,962)
<b>Gross Council Tax Requirement</b>	<b>91,191,632</b>
Add/Less: Balance on Collection Funds	(952,668)
<b>Net Council Tax Requirement</b>	<b>90,238,964</b>

Apportioned on the relevant tax base as follows:

	Relevant Tax base	Total Precept £	April-Feb £	Monthly Instalments March £
Birmingham	248,838.00	31,988,791	2,665,733	2,665,728
Coventry	80,815.40	10,389,036	865,753	865,753
Dudley	91,427.39	11,753,236	979,436	979,440
Sandwell	72,206.05	9,282,281	773,523	773,528
Solihull	75,972.00	9,766,404	813,867	813,867
Walsall	69,742.96	8,965,644	747,137	747,137
Wolverhampton	62,959.19	8,093,572	674,464	674,468
	<b>701,960.99</b>	<b>90,238,964</b>	<b>7,519,913</b>	<b>7,519,921</b>
				Monthly Instalment x 11
				82,719,043
				<b>Total Precept</b>
				<b>90,238,964</b>
				<b>Net Precept for Band D property</b>
				<b>£128.55</b>

	Proportion of Band D £	Calculated Value £	Rounded Value £
Band A	6/9	85.7000	85.70
Band B	7/9	99.9833	99.98
Band C	8/9	114.2667	114.27
<b>Band D</b>	<b>9/9</b>	<b>128.5500</b>	<b>128.55</b>
Band E	11/9	157.1167	157.12
Band F	13/9	185.6833	185.68
Band G	15/9	214.2500	214.25
Band H	18/9	257.1000	257.10



**REPORT OF THE CHIEF FINANCIAL OFFICER AS REQUIRED BY SECTION 25 OF THE LOCAL GOVERNMENT ACT 2003**

1. Section 25 of the Local Government Act 2003 requires the designated Chief Finance Officer of the Commissioner to report to it on the following matters:
  - (a) the robustness of the estimates made for the purposes of the statutory budget calculations;
  - (b) the adequacy of the proposed financial reserves;
2. The Commissioner must then have regard to that report when making decisions about the statutory budget calculations.
3. Appendix 7 analyses the risks and implications if key budget assumptions vary during the year. Any overspendings which cannot be contained within approved budget levels will have to be financed from the Budget Reserve.
4. Details of the Commissioner's general balances and reserves are set out in paragraphs 5 and 6 of the report. I am recommending that the level of General Balances remains at £12m.
5. The 2018/19 Revenue Budget and Medium Term Financial Plan requires the use of a significant proportion of the reserves. I have advised the Commissioner that I believe this represents an entirely reasonable, balanced and prudent approach, given current levels of crime and anti-social behaviour, the priorities set out in the Police and Crime Plan and the levels of Government resources likely to be available in the medium term.
6. The Insurance Fund will continue to be maintained at a level consistent with the insurance cost borne by the Commissioner's reserve and the level of outstanding self-funding insurance claims at any time. Financing for the Capital Programme includes the full use of the increased Capital Reserve over the Programme period. Other earmarked reserves will be applied as expenditure levels and service requirements dictate.
7. It will be necessary to retain as much flexibility as possible over the levels of reserves, including maximising the level of the Budget Reserve and prudent use over the plan period.
8. The total level of revenue reserves is estimated to be around £54m by 31<sup>st</sup> March 2019, depending on the use of earmarked reserves and the other factors influencing the use of reserves in 2018/19.
9. I am therefore able to confirm that, in my professional opinion:
  - (a) The estimates made for the purposes of the calculations of the commissioner's budget requirement for 2018/19, under Section 32 of the Local Government Finance Act 1992 contained in the report, are robust.
  - (b) The financial reserves that will remain available to the Commissioner, as a result of agreeing the proposals contained in this report, are adequate.

**Mark Kenyon**  
**Chief Finance Officer**

**STATEMENT OF PRUDENTIAL INDICATORS**

1. The Prudential Code for Capital Finance in Local Authorities (Prudential Code) is applicable to the Police and Crime Commissioner and has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide a code of practice to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003. PCCs, like Local Authorities, are free to determine their own level of capital investment controlled by self-regulation.
2. The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.
3. The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the PCC should operate to ensure the objectives of the Prudential Code are met.
4. The Prudential Indicators for which the PCC is required to set limits are as follows:

**Capital Expenditure**

5. This indicator forms the background to all other indicators, given that the overall rationale of the prudential system is to provide flexibility for borrowing to fund capital investment.
6. The actual amount of capital expenditure that was incurred during 2016/17, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2018/19 Budget are as follows:

	<i>2016/17</i>	<i>2017/18</i>	<i>2018/19</i>	<i>2019/20</i>	<i>2020/21</i>	<i>2021/22</i>
	<i>Actual</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
	<i>£'m</i>	<i>£'m</i>	<i>£'m</i>	<i>£'m</i>	<i>£'m</i>	<i>£'m</i>
<i>Capital Expenditure</i>	<i>40.5</i>	<i>34.7</i>	<i>17.5</i>	<i>6.8</i>	<i>3.9</i>	<i>3.7</i>

**Net Borrowing and the Capital Financing Requirement (CFR)**

7. This Prudential Indicator provides an overarching requirement that all the indicators operate within and is described in the Prudential Code as follows:

**“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the PCC should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years”.**

8. In considering the proposed capital programme for 2018/19, the anticipated future borrowing requirements are considered in the context of overall capital resources and the impact on the revenue budget.

	31 <sup>st</sup> March 2017 £'m	31 <sup>st</sup> March 2018 £'m	31 <sup>st</sup> March 2019 £'m	31 <sup>st</sup> March 2020 £'m	31 <sup>st</sup> March 2021 £'m
Capital financing requirement (CFR)	44.2	46.9	48.0	48.1	48.5
External borrowing	-47.2	-47.2	-51.3	-53.7	-53.1
<b>Variance</b>	<b>-3.0</b>	<b>-0.3</b>	<b>-3.3</b>	<b>-5.6</b>	<b>-4.6</b>

Note: The CFR increases when expenditure is incurred and reduces when provision is made to repay debt.

### **Ratio of Financing Costs to Net Revenue Stream**

9. This indicator is intended to demonstrate the affordability of capital investment decisions in terms of the ratio of capital financing costs to overall resources, expressed as a percentage.
10. Financing Costs include the amount of interest payable in respect of borrowing or other long-term liabilities and the amount the PCC is required to set aside to repay debt, less interest and investments income.
11. The Net Revenue Stream is the amount to be met from government grants and local taxation. The prediction of the Net Revenue Stream for future years assumes decreases in the PCC's funding from government and the local taxpayer consistent with expectations in the Medium Term Financial Plan.
12. The estimates of the ratio of financing costs to net revenue stream, which are at very low levels, are as follows:

	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Financing Costs	3.3	3.3	3.3	3.3	3.3
Net Revenue Stream	525.9	535.3	544.0	543.6	543.3
Ratio	0.63%	0.62%	0.61%	0.61%	0.61%

### **Capital Financing Requirement**

13. The capital financing requirement is a measure of the extent to which the PCC needs to borrow to support capital expenditure and does not include any temporary borrowing to support day to day cash flow.

14. The estimates of the end of year capital financing requirement are as follows:

	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate
	£'m	£'m	£'m	£'m	£'m
<i>Capital Financing Requirement at 31st March</i>	45.6	44.2	46.9	48.0	48.1

#### **Authorised Limit, Operational Boundary and Actual External Debt**

15. These indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The Authorised Limit for external debt is a statutory limit that should not be breached under any circumstances. The proposed limits set out below have been calculated to take account of the current PCC's Capital Expenditure and Financing Plans and allowing for the possibility of unusual cash movements. If this limit is likely to be breached, it would be necessary for the PCC to determine if it is prudent to raise the limit or to instigate procedures to ensure that such a breach does not occur.
16. The Operational Boundary for External Debt is a management tool for day to day monitoring and has been calculated with regard to the PCC's Capital Expenditure and Financing Plans allowing for the most likely, prudent, but not worst case scenario for cash flow. Temporary breaches of the Operational Boundary, due to variations in cash flow, will not be regarded as significant.
17. The following limits are recommended:

	2018/19	2019/20	2020/21
	£'m	£'m	£'m
<b>Authorised Limit for external debt:</b>			
<i>Borrowing</i>	100.0	100.0	100.0
<b>Operational Boundary:</b>			
<i>Borrowing</i>	90.0	90.0	90.0

The PCC's actual external debt as at 31/03/18 is anticipated to be £47.2m, excluding transferred debt managed by Dudley MBC.

#### **The Incremental Impact of Capital Investment Decisions on the Council Tax**

18. This indicator is intended to demonstrate the affordability of capital investment decisions in terms of their impact on the precept.
19. As per the Capital Programme, the PCC may propose to undertake borrowing to fund capital investment, the incremental impact on the precept is shown overleaf.

	2017/18	2018/19	2019/20	2020/21	Total
	£m	£m	£m	£m	£m
<i>Total borrowing</i>	0.0	4.1	2.4	0.0	6.5
<i>Interest (2.90%)</i>	0.0	0.1	0.1	0.0	0.2
<i>Repayment of Principal (25yrs)</i>	0.0	0.2	0.1	0.0	0.3
<i>Revenue consequences</i>	0.0	0.0	0.0	0.0	0.0
<b><i>Total revenue effect</i></b>	<b>0.0</b>	<b>0.3</b>	<b>0.2</b>	<b>0.0</b>	<b>0.5</b>

20. There will also be a reduction in interest earnings as capital grants, capital receipts and the capital reserve are used to finance capital in the plan period, and some additional revenue costs resulting from capital investment, the effects of which are included in the medium term revenue forecasts.

### **Prudential Indicators For Treasury Management**

21. The following prudential indicators will be included in the PCC's 2018/19 Treasury Management Strategy that will be reported in March.

### **Treasury Management Code of Practice**

22. The PCC has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA): Code of Practice for Treasury Management in the Public Services.

### **Fixed Interest Rate Exposures**

23. It is recommended that the PCC sets an upper limit on fixed interest rate exposures as follows.

#### **Upper limits for net principal sums outstanding at fixed rates**

	2018/19	2019/20	2020/21
<b>Fixed Interest Exposure</b>	<b>%</b>	<b>%</b>	<b>%</b>
<i>Upper Limit</i>	100	100	100

This represents the position that all of the PCC's authorised external borrowing may be at a fixed rate at any one time.



### **Variable Interest Rate Exposures**

24. It is recommended that the PCC sets an upper limit on variable interest rate exposures as follows.

#### **Upper limits for net principal sums outstanding at variable rates**

<i>Variable</i>	<i>2018/19</i>	<i>2019/20</i>	<i>2020/21</i>
	<i>%</i>	<i>%</i>	<i>%</i>
<i>Upper Limit</i>	<i>20</i>	<i>20</i>	<i>20</i>

This is the maximum external borrowing judged prudent that the PCC should expose to variable rates.

### **Maturity Structure of Borrowing**

25. It is recommended that the upper and lower limits for the maturity structure of borrowings are as follows:

#### **Amount of projected borrowing that is fixed rate maturing in each period as percentage of total projected borrowing that is fixed rate.**

<i>Period of Maturity</i>	<i>Upper Limit</i>	<i>Lower Limit</i>
	<i>%</i>	<i>%</i>
<i>Under 12 months</i>	<i>25</i>	<i>0</i>
<i>12 months and within 24 months</i>	<i>25</i>	<i>0</i>
<i>24 months and within 5 years</i>	<i>50</i>	<i>0</i>
<i>5 years and within 10years</i>	<i>75</i>	<i>0</i>
<i>10 years and above</i>	<i>100</i>	<i>25</i>

### **Investments for longer than 364 days**

26. It is recommended that the upper limits of total principal sums invested for periods longer than 364 days are £40.0 million for 2018/19, 2019/20, 2020/21 and 2021/22.

## Risk Assessment

<i>Risk</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Comment</i>
<i>The IIP programme costs are significantly higher than planned. Also the planned savings from the IIP and other savings included within the 2018/19 budget are not achievable.</i>	<i>Low</i>	<i>Medium</i>	<i>IIP governance structures in place to deliver the IIP programme. In addition Budget Managers have considered the planned savings and confirmed they believe them to be achievable, however if circumstances change and the planned level of savings is not achievable alternatives will be sought in year from the devolved budget. If these cannot be found any shortfall would become a call on the Budget Reserve.</i>
<i>The Capital Programme requirement changes as work streams develop, for example, development of the Estates Strategy.</i>	<i>High</i>	<i>High</i>	<i>The programme has been written with some flexibility built in but should strategic choices vary significantly the programme would be reviewed and re-shaped in line with the new requirement. The addition of the Estates Strategy is being programme managed and would be reported through the appropriate governance channels.</i>
<i>Pay awards in the future differ from the assumptions in our financial planning</i>	<i>Low</i>	<i>Medium</i>	<i>Current assumptions are in line with pay award offers to Police Officers and Staff. If pay awards are higher than this, the savings requirement will increase.</i>
<i>Increase in volume and/or cost of policing public order incidents linked to the general economic conditions or other factors</i>	<i>Medium</i>	<i>Medium</i>	<i>Depending on the volume and complexity of any incidents, this could place a significant strain on current contingency budgets. The Commissioner has a Major Incidents Reserve which would need to be used if any overspendings could not be contained within the overall devolved budget.</i>
<i>Interest rates increase</i>	<i>Low</i>	<i>Medium</i>	<i>The budget reflects the low rates of interest being received on investments. Forecasts from our Treasury Management advisers suggest that borrowing rates are likely to increase which will add to the costs of financing the capital programme should borrowing be required over the medium term.</i>
<i>General inflation is different to the assumptions included in the budget. We have assumed general price inflation on Gas, Electricity &amp; Water of 5%, Fuel of 2% and Supplies of 1.5% for 2018/19.</i>	<i>Medium</i>	<i>Medium</i>	<i>A 1% increase would cost around £0.5m. Significant increases in building costs in the medium term capital programme period could have an impact on some estimates.</i>
<i>Income levels not achieved</i>	<i>Low</i>	<i>Low</i>	<i>A 1% loss of income (excluding grants &amp; interest) would cost around £0.2m.</i>

## Public Access to Information

Information contained in this decision is subject to the Freedom of Information Act 2000 and other legislation. This decision will be made available on the Commissioner's website.