

# 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 6th February, and their subsequent report, this paper sets out the Police and Crime Commissioner's 2017/18 Revenue Budget and Precept and Capital Budget and Programme 2017/18 – 2019/20.

### BACKGROUND

#### GOVERNMENT GRANT SETTLEMENT 2017/18

2. The final levels of Government Grant for 2017/18 were confirmed on the 1st February 2017. The following table summarises the final settlement for the West Midlands Police and Crime Commissioner:

	2016/17	2017/18	Difference	
	£m	£m	£m	%
Police Grant	250.8	247.3	-3.5	-1.4
DCLG Formula Funding	180.3	177.8	-2.5	-1.4
<b>Sub Total</b>	<b>431.1</b>	<b>425.1</b>	<b>-6.0</b>	<b>-1.4</b>
Council Tax Support	19.0	19.0	0.0	0.0
<b>Total</b>	<b>450.1</b>	<b>444.1</b>	<b>-6.0</b>	<b>-1.3</b>

3. The points to note from the grant settlement are:
  - (a) As the table in paragraph 2 shows, the total funding allocated to West Midlands is £444.1m, a reduction of £6.0m or 1.3% compared to 2016/17.
  - (b) The provisional settlement is worse than expected with government grant being reduced by £3.5m in 2017/18 more than forecasted in the Commissioner's Medium Term Financial Plan that was presented to the Police and Crime Panel in September 2016. Central Government is implementing this cut to reflect the increases in council tax bases across local authority areas since the financial year 2015/16. This essentially means the total resources for Police and Crime Commissioners (PCCs) including government grant and council tax income will remain at roughly the 2015/16 levels throughout the period up until 2019/20.
  - (c) The settlement due to a reduction in central government grant will result in approximately a total of £10.5m less in resources to the period 2019/20 in comparison to the 2016 medium term financial plan. Therefore, there is a requirement to revise the Commissioner's medium term financial plan over the coming months. This will include the availability of reserves to fund

ongoing revenue budgets and the capital programme.

- (d) Reducing the level of grant funding to PCC's has enabled Central Government to increase by £44m its allocation to the transformation fund. In addition the Home Office has committed additional funding in 2017/18 to the Emergency Services Network, Police Special Grant and a new allocation for pre-bail charging which has increased the top-slice from the grant funding. Although not confirmed the national increase in the top slice of police funding from 2016/17 to 2017/18 is believed to be £240m.
  - (e) For 2017/18 existing formula damping arrangements remain unchanged.
  - (f) The settlement makes provision as it did in 2016/17 for the 10 PCC's in England with the lowest precept levels, to raise their precept by up to £5 per year per Band D property. All other Forces will have a maximum referendum precept increase limit of 2%. The West Midlands has the second lowest precept in the country, so the £5 increase option is open to the PCC.
  - (g) For all PCC's the increases in precept income, whether £5 or 2% on average is mandated by Central Government. Otherwise police funding will reduce even more than it has since 2010.
  - (h) The settlement has increased counter terrorism police revenue funding to a total of £670m. Allocations to individual PCCs will not be known until later in the year.
  - (i) The reduction in police grant of £6m in 2017/18 is disappointing and the settlement fails to recognise that crime is changing and not falling.
4. The settlement only provided funding figures for 2017/18.

## BALANCES AND RESERVES

5. The estimated levels of General Balances and Earmarked Reserves at 31st March 2017 are:

	<i>Estimated Balance as at March 2017 £000</i>
<i>Capital Reserve</i>	<i>0</i>
<i>Budget Reserve</i>	<i>25,718</i>
<i>Budget Resilience</i>	<i>25,492</i>
<i>Devolved Budget Reserve</i>	<i>8,233</i>
<i>Risk Reserve</i>	<i>3,240</i>
<i>POCA Income Reserve</i>	<i>882</i>
<i>Redundancy and Equal Pay Reserve</i>	<i>10,097</i>
<i>Self-funded Insurance Reserve</i>	<i>9,500</i>
<i>Uniform and Protective Equipment Reserve</i>	<i>3,015</i>
<i>Major Incident Reserve</i>	<i>2,153</i>
<b><i>Earmarked Reserves</i></b>	<b><i>88,330</i></b>
<i>General Reserve</i>	<i>12,042</i>
<b><i>TOTAL RESERVES</i></b>	<b><i>100,372</i></b>

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

## PROPOSED REVENUE BUDGET 2017/18

7. The Commissioner is proposing a Revenue Budget for 2017/18 based on the following:-
- (a) The priorities of the Police and Crime Plan.
  - (b) The implications of the provisional funding settlement.
  - (c) Existing budget commitments and inflationary pressures.
  - (d) Continued support for the Innovation and Integration Partnership (IIP) to deliver the WMP2020 programme, and the requirement for the programme to deliver significant savings in the medium term. The programme will help the Force to continually challenge the way services are provided, maximise

innovation and drive efficiency and productivity.

- (e) Savings from police officer and staff retirements and turnover and non-pay savings.
  - (f) The Budget Reserve available (which is estimated to be about £25.7m at the end of March 2017) to support the 2017/18 revenue budget.
  - (g) The uncertainty of funding beyond 2017/18 in light of the review of the police funding formula.
8. The Revenue Budget for 2017/18 is based on the following:-
- (a) The recruitment of 1,150 individuals, including 800 police officers, 200 police staff and 150 police community support officers (PCSOs) in line with the Medium Term Financial Plan up to the end of 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 creation of more flexible, modern and cost effective roles through police officer modernisation and apprenticeships.
  - (d) A precept increase of £5 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 2017/18 of £18.2m.
9. Recognising that in the medium term:
- (a) There is considerable uncertainty about Government funding levels, 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, increases in employer National Insurance contributions 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 2017/18.

## POLICE AND CRIME COMMISSIONER

10. The proposed budget for the Police and Crime Commissioner for 2017/18, compared to the approved revised budget for 2016/17 is shown in the following table.

	<b>Revised Budget 2016/17 £000</b>	<b>Proposed Budget 2017/18 £000</b>
<i>Governance</i>	326	290
<i>Staff &amp; Office Support Costs</i>	1,274	1,334
<i>Consultation, ICT and Systems</i>	103	75
<i>Police Misconduct Hearings inc Legally Qualified Chairs*</i>	50	50
<i>Subscriptions</i>	45	33
<i>Bank Charges and External Audit Fees</i>	92	83
<i>Custody Visiting</i>	5	5
<i>Professional Services</i>	50	50
<i>Mental Health Commission Secondment</i>	0	25
<b>Total</b>	<b>1,945</b>	<b>1,945</b>

\*Requirement for legally qualified chairs of Police Conduct Panels

## POLICE GRANT - COMMUNITY SAFETY

11. The Commissioner made a commitment of a two year allocation of Community Safety Funding (CSF) when the budget was agreed for 2016/17. This means the Community Safety Funding allocations for 2017/18 are as follows:

<b>District</b>	<b>CSF Allocation 2016/17 £</b>	<b>Proposed CSF Allocation 2017/18 £</b>
<i>Birmingham</i>	1,873,187	1,873,187
<i>Coventry</i>	409,728	409,728
<i>Dudley</i>	297,273	297,273
<i>Sandwell</i>	397,643	397,643
<i>Solihull</i>	214,454	214,454
<i>Walsall</i>	301,652	301,652
<i>Wolverhampton</i>	369,371	369,371
<b>Total</b>	<b>3,863,308</b>	<b>3,863,308</b>

## OPERATIONAL POLICING BUDGET

12. 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 2017/18

13. The implications for staffing budgets are shown below:

	Police Officer FTE	Police Staff FTE	PCSO FTE	Total FTE
<b>1st April 2016: Revised Budgeted Establishment</b>	<b>6,789</b>	<b>3,249</b>	<b>519</b>	<b>10,557</b>
New Recruits	208	39	0	247
Workforce Mix	0	200	0	200
Forecast Leavers / Programme of Work 2017/18	-403	-145	-54	-602
<b>1st April 2017: Budgeted Establishment</b>	<b>6,594</b>	<b>3,343</b>	<b>465</b>	<b>10,402</b>
New Recruits	250	22	0	272
Forecast Leavers / Programme of Work 2018/19	-344	0	0	-344
<b>1st April 2018: Budgeted Establishment</b>	<b>6,500</b>	<b>3,365</b>	<b>465</b>	<b>10,330</b>

14. The forecast leavers assumed within the budget represent anticipated turnover of staff. For police officers this forecast is based on assumptions of the amount who will leave upon reaching 30 years service, plus additional leavers from resignation or transfers to other forces.

### THE BUDGET RESERVE

15. There are a number of specific issues which need to be taken into account in considering how much of the Budget Reserve should be used in 2017/18, including:
- (a) retaining the maximum levels possible to support spending in 2017/18 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 therefore limit the impact on local taxpayers, and by how much the precept should increase;
  - (c) risks and uncertainties in key budget assumptions, given that any over or additional spending in 2017/18 which cannot be met from in year redirections would have to be met from the Budget Reserve;
16. Given these considerations and assuming a precept increase at the maximum permitted without a referendum it will be necessary to use £18.2m of the Budget Reserve to support revenue spending in 2017/18.

17. The proposed net budget requirement for 2017/18, compared to 2016/17 would therefore be calculated as follows:

	2016/17 £'m	2017/18 £'m
Total revenue spending	536.3	544.1
Use of Budget Reserve	-9.1	-18.2
<b>Revenue Expenditure</b>	<b>527.2</b>	<b>525.9</b>

### MEDIUM TERM FINANCIAL PLAN (MTFP)

18. Following receipt of the provisional grant settlement, the Commissioner is now in the process of revising the Medium Term Financial Plan (MTFP). During 2017/18 a refresh of the WMP2020 programme of work will take place and will inform the financial strategy over the medium term.
19. 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. The forecast drawdown will be known when the revised MTFP financial plan is produced. In addition, in line with the existing MTFP £2.1m of the Devolved Budget Reserve is planned to be used in 2017/18 to support invest to save opportunities.

### CAPITAL PROGRAMME 2017/18 – 2019/20

20. The Capital Programme to 2019/20 (including the current year) is shown at Appendix 2 and includes provision for the force change programmes, estates and ICT strategies. In addition to these, the annual replacement requirement in relation to ICT and vehicles has been modelled and included within the programme. The programme constructed lists the priorities that are currently known but it is important to acknowledge that the timescales, magnitude and content of schemes may alter over the life of the programme.
21. The programme has been prepared with the medium term strategic context in mind, and as such is structured in the following way:
- **Section 1 (WMP2020 Programme)** represents schemes that have been incorporated into the WMP2020 programme of work, some have an approved business case, others are an outline and will need more definition before they can be written into a business case format.
  - **Section 2 (Business as usual)** represents schemes that are for the replacement of assets.
  - **Section 3 (funded by)** this shows how the total spend of the capital programme will be funded over the medium term. The exact combination of funding sources will depend upon:-
    - The extent to which reserves will be required to support total revenue spending over the medium term
    - The outcome of detailed business cases particularly for invest to save schemes, where the use of one-off reserves to generate recurring

savings makes good sense

- The long term costs of borrowing and the impact of borrowing costs on total revenue spending, although the proportion of the total budget allocated to capital financing charges is significantly lower than similar force areas.
- The use of short term internal borrowing where cash surpluses are not invested to delay the need to borrow in the low interest rate environment.

22. The proposed funding plan will be reviewed and updated as necessary in accordance with changes to the Treasury Management Strategy and emerging market conditions. It may be advantageous to borrow long term for the purchase of land or the creation of buildings to maximise value for money scenarios as they present themselves further into the programme.

### PRUDENTIAL GUIDELINES

23. 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

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

### PRECEPT IMPLICATIONS

25. 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>2016/17</i>	<i>2017/18</i>
	<i>£m</i>	<i>£m</i>
<i>Revenue Expenditure</i>	<i>536.30</i>	<i>544.12</i>
<i>Contribution from Reserves</i>	<i>-9.07</i>	<i>-18.18</i>
<b><i>Net Budget Requirement</i></b>	<b><i>527.23</i></b>	<b><i>525.94</i></b>
<i>Police Grant</i>	<i>-250.82</i>	<i>-247.32</i>
<i>DCLG Formula Funding</i>	<i>-180.28</i>	<i>-177.75</i>
<i>Council Tax Support Grant</i>	<i>-19.03</i>	<i>-19.03</i>
<i>Surplus/Deficit on Collection Fund</i>	<i>-1.70</i>	<i>-1.52</i>
<b><i>Precept Requirement</i></b>	<b><i>75.40</i></b>	<b><i>80.32</i></b>
<i>Total Tax Base</i>	<i>675,989</i>	<i>689,149</i>
<b><i>Band D Precept*</i></b>	<b><i>£111.55</i></b>	<b><i>£116.55</i></b>

*\*An increase of £5.00 per annum*



26. This produces a charge for each property for 2017/18 as follows:

		<b>2016/17</b>	<b>2017/18</b>		
	<b>Statutory</b>	<b>Precept</b>	<b>Precept</b>	<b>Change</b>	<b>Change</b>
	<b>Proportion</b>			<b>Annual</b>	<b>Weekly</b>
		<b>£ : p</b>	<b>£ : p</b>	<b>£ : p</b>	<b>£ : p</b>
<b>A</b>	6/9	74.37	77.70	3.33	0.06
<b>B</b>	7/9	86.76	90.65	3.89	0.07
<b>C</b>	8/9	99.16	103.60	4.44	0.09
<b>D</b>	<b>9/9</b>	<b>111.55</b>	<b>116.55</b>	<b>5.00</b>	<b>0.10</b>
<b>E</b>	11/9	136.34	142.45	6.11	0.12
<b>F</b>	13/9	161.13	168.35	7.22	0.14
<b>G</b>	15/9	185.92	194.25	8.33	0.16
<b>H</b>	18/9	223.10	233.10	10.00	0.19

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

#### **FINANCIAL IMPLICATIONS**

28. Are as detailed in this report.

#### **LEGAL IMPLICATIONS**

29. Section 40 of the Local Government Finance Act, 1992, requires the Commissioner to set budget and precept by 1st March each year.

30. 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.

31. 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 £5.01 or greater.

32. 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.

33. 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**

34. 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 2017/18
- Appendix 2 – Capital Programme 2016/17 – 2019/20
- Appendix 3 – Operational Budget 2017/18
- Appendix 4 - Statutory Council Tax calculation 2017/18
- Appendix 5 – Report of the Chief Financial Officer
- Appendix 6 – Statement of Prudential Indicators
- Appendix 7 – Risk Assessment

## REVENUE BUDGET 2017/18

	<b>Base Budget 2016/17 £,000</b>	<b>Base Budget 2017/18 £,000</b>
<i>Police pay</i>	349,134	352,799
<i>Police Community Support Officers</i>	13,367	13,249
<i>Support staff pay</i>	100,829	98,126
<i>Other employees expenses</i>	1,994	2,118
<b>Sub total</b>	<b>465,324</b>	<b>466,292</b>
<i>Premises</i>	17,543	17,052
<i>Transport</i>	7,911	7,892
<i>Supplies and services</i>	41,529	43,850
<i>Agency</i>	5,260	5,407
<i>Capital Financing Costs</i>	3,195	3,342
<i>External income</i>	-25,058	-26,267
<i>WMP2020 Project Costs</i>	13,475	18,660
<b>Police Force</b>	<b>529,179</b>	<b>536,228</b>
<i>Police &amp; Crime Commissioner Community Safety Funding)</i>	1,970	1,945
<i>Active Citizens</i>	3,863	3,863
<i>Grant Expenditure</i>	0	800
<i>Victim Services Expenditure</i>	1,288	1,288
<i>Victim Services Income</i>	3,089	3,322
	-3,089	-3,322
<b>Total Police &amp; Crime Commissioner</b>	<b>7,121</b>	<b>7,896</b>
<b>Total Revenue Budget</b>	<b>536,300</b>	<b>544,124</b>

## CAPITAL BUDGET AND PROGRAMME 2017/18 – 2019/20

	2016/17 Current Budget £m	2017/18 Proposed Budget £m	2018/19 Proposed Budget £m	2019/20 Proposed Budget £m	Total Prog £m
<b>WMP2020:</b>					
NWOW (inc Lloyd House)	11.3	0.0	0.0	0.0	11.3
Criminal Justice	0.9	0.0	0.0	0.0	0.9
Next Generation Enabling Services	4.5	0.0	0.0	0.0	4.5
Operational Policing Solution	6.2	1.7	3.1	0.0	11.0
Data Driven Insight (DDI)	0.0	1.5	1.2	1.2	3.9
Estates Strategy*	0.0	3.0	2.0	0.0	5.0
Other WMP2020	7.7	3.2	2.2	1.2	14.3
<b>Total WMP2020</b>	<b>30.6</b>	<b>9.4</b>	<b>8.5</b>	<b>2.4</b>	<b>50.9</b>
<b>Business As Usual:</b>					
Fleet	4.2	3.0	3.0	3.0	13.2
ICT	1.5	0.6	0.6	0.6	3.3
Equipment (inc Firearms & NABIS)	0.9	0.2	0.2	0.2	1.5
CTU	2.4	0.0	0.0	0.0	2.4
<b>Total BAU</b>	<b>9.0</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>	<b>20.4</b>
<b>Total Spend</b>	<b>39.6</b>	<b>13.2</b>	<b>12.3</b>	<b>6.2</b>	<b>71.3</b>
<b>Funded By:</b>					
Capital Grant (estimated)					-10.4
Existing Capital Receipts					-11.0
Estimated Future Capital Receipts					-17.1
Reserves/Borrowing					-29.7
Specific Capital Grant					-3.1
<b>Total Funding</b>					<b>-71.3</b>
<b>Net Surplus/Deficit</b>					<b>0.0</b>

\*A more detailed Estates Strategy is subject to agreement of a finalised plan

## OPERATIONAL BUDGET

2017/18	
£m	
Police Pay & Allowances	352.799
Police Staff & Allowances	111.375
Other Employee Expenses	2.118
<b>Total Employee Costs</b>	<b>466.292</b>
Running Costs	74.201
Income	-26.267
<b>Total Operational Budget</b>	<b>514.226</b>
WMP2020 Project Costs	18.660
Capital Financing	3.342
<b>TOTAL</b>	<b>536.228</b>

2017/18	
£m	
Community Justice & Custody	22.102
CTU	2.606
Force CID	50.542
Force Contact	25.878
Force Response	65.117
Forensics	8.596
Integrated Offender Management	1.144
Intelligence	12.968
Operations	32.718
Public Protection	42.695
Traffic & CMPG	10.032
ROCU	17.359
Support Services	82.221
<b>Departments Total</b>	<b>373.978</b>
Neighbourhood Policing Units	112.060
Central Costs	28.188
<b>Operational Total</b>	<b>514.226</b>
WMP2020 Project Costs	18.660
Capital Financing	3.342
<b>TOTAL</b>	<b>536.228</b>

## OPERATIONAL ANALYSIS

<b>Support Services Analysis</b>		<b>2017/18</b>	<b>NPU Analysis</b>		<b>2017/18</b>
		<b>£m</b>			<b>£m</b>
Business Transformation		3.829	Birmingham East		12.913
Corporate Asset Management		28.327	Birmingham West		27.448
Corporate Communications		1.353	Coventry		15.606
Finance & Shared Services		9.233	Dudley		9.592
Force Executive Team		2.350	Sandwell		13.241
Human Resources		3.321	Solihull		8.051
Information Management		3.037	Walsall		11.177
Insurance		3.562	Wolverhampton		14.032
Learning & Development		7.112			
Legal Services		1.498			
Professional Standards		3.291			
ICT & Digital Services		15.308			
<b>TOTAL</b>		<b>82.221</b>	<b>TOTAL</b>		<b>112.060</b>

## WEST MIDLANDS POLICE AND CRIME COMMISSIONER PRECEPT CALCULATION 2017/18

	£
Gross Budget Requirement	544,124,000
Less: Balances and Reserves	(18,184,000)
<b>Net Budget Requirement</b>	<b>525,940,000</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>81,843,632</b>
Add/Less: Balance on Collection Funds	(1,522,159)
<b>Net Council Tax Requirement</b>	<b>80,321,473</b>

Apportioned on the relevant tax base as follows:

	Relevant Tax base	Total Precept £	April-Feb £	Monthly Instalments March £
Birmingham	243,955.00	28,433,365	2,369,447	2,369,448
Coventry	78,971.90	9,204,307	767,026	767,021
Dudley	89,561.62	10,438,557	869,880	869,877
Sandwell	71,217.34	8,300,501	691,708	691,713
Solihull	74,971.00	8,737,996	728,166	728,170
Walsall	69,074.69	8,050,771	670,898	670,893
Wolverhampton	61,397.45	7,155,976	596,331	596,335
	<b>689,149.00</b>	<b>80,321,473</b>	<b>6,693,456</b>	<b>6,693,457</b>
				Monthly Instalment x 11
				<u>73,628,016</u>
				<b>Total Precept</b>
				<b>80,321,473</b>
				<b>Net Precept for Band D property</b>
				<b>£116.55</b>

	Proportion of Band D £	Calculated Value £	Rounded Value £
Band A	6/9	77.7000	77.70
Band B	7/9	90.6500	90.65
Band C	8/9	103.6000	103.60
<b>Band D</b>	<b>9/9</b>	<b>116.5500</b>	<b>116.55</b>
Band E	11/9	142.4500	142.45
Band F	13/9	168.3500	168.35
Band G	15/9	194.2500	194.25
Band H	18/9	233.1000	233.10

**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 2017/18 Revenue Budget and Medium Term Financial Plan requires the use of a significant proportion of the Budget Reserve. 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 £100m by 31<sup>st</sup> March 2017, depending on the use of earmarked reserves and the other factors influencing the use of the Budget Reserve in 2016/17.
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 2017/18, 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 2015/16, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2017/18 Budget are as follows:

	<i>2015/16</i>	<i>2016/17</i>	<i>2017/18</i>	<i>2018/19</i>	<i>2019/20</i>	<i>2020/21</i>
	<i>Actual</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
	<i>£'000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£'000</i>	<i>£'000</i>
<i>Capital Expenditure</i>	<i>40,511</i>	<i>39,596</i>	<i>13,242</i>	<i>12,298</i>	<i>6,204</i>	<i>4,926</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 2017/18, 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 2016 £'m	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
Capital financing requirement (CFR)	45.6	44.2	46.9	48.0	48.0
External borrowing	-47.2	-47.2	-51.3	-53.7	-53.1
<b>Variance</b>	<b>-1.6</b>	<b>-3.0</b>	<b>-4.4</b>	<b>-5.7</b>	<b>-5.1</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:

	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Financing Costs	3.2	3.3	3.3	3.3	3.3
Net Revenue Stream	525.5	524.4	524.7	526.1	527.6
Ratio	0.61%	0.63%	0.63%	0.63%	0.63%

### **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:

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
<i>Capital Financing Requirement at 31st March</i>	45,610	44,192	46,925	47,979	47,979

### **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:

	2017/18	2018/19	2019/20
	£'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 31/03/17 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 below.

	2016/17	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m	£m
Total borrowing	0.0	4.1	2.4	0.0	6.5
Interest (2.90%)	0.0	0.1	0.1	0.0	0.2
Repayment of Principal (25yrs)	0.0	0.2	0.1	0.0	0.3
Revenue consequences	0.0	0.0	0.0	0.0	0.0
<b>Total revenue effect</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 2017/18 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**

	2017/18	2018/19	2019/20
Fixed Interest Exposure	%	%	%
Upper Limit	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>2017/18</i>	<i>2018/19</i>	<i>2019/20</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 £60.0 million for 2017/18, 2018/19, 2019/20 and 2020/21.

## 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 2017/18 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.</i>	<i>Medium</i>	<i>Medium</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.</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 2017/18.</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.