

Report of the Chief Finance Officer of the PCC to the Police and Crime Commissioner for Cleveland

27th February 2017

Status: For Information

Long Term Financial Plan (LTFP) 2017/18 to 2020/21 and Capital Plans 2017/18 to 2020/21

1. Executive Summary

1.1 Purpose of the Report

This report asks the PCC to agree the Budget proposals for 2017/18 and the Long Term Financial Plan (LTFP) for 2017/18 – 2020/21 in line with the legal requirement to set a budget prior to the 1st March each year for the following financial year. It also asks the PCC to agree the funding for the Capital Programme for 2017/18 and the indicative allocations for the period 2018/19 to 2020/21.

2. Recommendations

2.1 The PCC is requested to approve the allocation of the £131,705k of revenue funding, that is forecast to be received by the PCC in 2017/18, in the following areas:

- £850k to run the Office of the PCC
- £3,245k to support PCC Initiatives and Victims and Witnesses Services
- £8,950k for Corporate Services
- £119,835k to the Police Force
- £750k to the Capital Programme

This will be supported by £1,925k from Reserves

2.2 The PCC is asked to note that the 2017/18 budget is based on the approved 1.99% increase in precept for 2017/18.

- 2.3 The PCC is asked to take cognisance of the Robustness of Estimates and Adequacy of Financial Reserves Report of the PCCs CFO that was discussed prior to this report.
- 2.4 The PCC is asked to agree that quarterly updates to the LTFP forecast will be brought to the PCC in 2017/18 to provide an update on the progress of the work to develop the future plans.
- 2.5 The PCC is asked to agree that quarterly updates on the 2017/18 budget will be brought to the PCC in 2017/18 to provide updates on performance against the 2017/18 budget.
- 2.6 The PCC is asked to approve borrowing of up to £11,760k can be taken out to fund the capital expenditure in 2017/18.
- 2.7 The PCC is asked to allocate £14,615k of Capital Budgets to the Chief Constable to deliver new schemes on behalf of the PCC.

3. Planning and Funding Assumptions

3.1 National Context

Since the 2016/17 Budget was approved there have been some significant changes to the political landscape and also a number of key financial announcements. These include the following:

- There has been a National Budget; this took place on the 16th March 2016.
- On the 23rd June the UK voted to leave the European Union
- David Cameron resigned as Prime Minister
- Theresa May subsequently became leader of the Conservative Party and on the 13th July 2016 she became Prime Minister.
- The Autumn Statement took place on the 23rd November 2016.

The key areas for these developments, in terms of financial planning and budgeting, have been incorporated into updated financial plans which have discussed throughout the year and are now incorporated into this budget proposal.

3.2 2017/18 Police Funding Settlement

The Provisional 2017-18 Police Finance Settlement was announced in a written ministerial statement by the Minister of State for Policing and Fire Services, Brandon Lewis, on Thursday 15th December with this provisional settlement being confirmed on the 1st February 2017. There were no changes between the provision and final settlements.

3.3 Headlines

The statement announced that 'Following the principles set out on the 4 February 2016 when publishing the final police funding settlement for 2016/17

direct resource funding for each PCC, including precept, will be protected at flat cash levels compared to 2015/16, assuming that precept income is increased to the maximum amount available in both 2016/17 and 2017/18. No PCC who chooses to maximise precept in both years will face a reduction in cash funding next year compared to 2015/16. We have updated our precept forecasts for 2017/18 since February to reflect actual tax base increases in 2016/17'

- 3.4 The reduction applied to grant funding in 2017/18 is 1.4% in cash terms, which equates to a cash reduction of £1,184k for Cleveland.
- 3.5 As expected, this provisional settlement covers just one year and confirms the previously-announced council tax flexibility whereby the 10 Policing Areas with the lowest Band D precept level can increase their Band D precept by £5. Cleveland is not one of these areas.
- 3.6 Top-slices/Reallocations totalling £812m have been announced for 2017/18. The areas this funding will now be spent on, instead of being allocated to PCC's is as follows:
- PFI - £73m
 - Police Technology Programme - £417m
 - Arm's Length Bodies - £54m
 - Strengthening the response to organised crime - £28m
 - Police Transformation Fund - £175m
 - Special Grant - £50m
 - Pre-Charge Bail - £15m
- 3.7 Legacy Council Tax funding is still separately identifiable and has not changed from 2016/17. The statement confirmed that there would be no council tax freeze scheme in 2017/18.
- 3.8 Police Capital Grant that is to be allocated to PCC's has reduced by a further £8.2m, or just over 15%. This will have the impact of reducing the Capital Grant payable to Cleveland by £91k. The total Capital Grant now available to the PCC is only £515k which is nearly 60% lower than it was just 3 years ago.
- 3.9 Counter Terrorism
In the statement the Minister announced that he 'will continue to allocate specific funding for counter-terrorism policing over the course of the Spending Review period to ensure that the police have the capabilities to deal with the terrorist threats that we face, in addition to the funding set out in this settlement. Funding for counter terrorism policing is protected. The indicative Spending Review profile for counter terrorism police funding in 2017/18 is £670m; this figure will be confirmed separately. In addition a further £32m will be provided for armed policing from the Police Transformation Fund in 2017/18.'

3.10 For security reasons these allocations will not be available in the public domain.

3.11 Ministry of Justice (MoJ) Funding

The Victim's Funding comes from the MoJ. The recently announced allocation to PCC's has provided £613k for Victims Services and a further £46k for Child Sexual Abuse services. This is £4k less than last year as this funding is allocated based on population, which has grown quicker in other parts of the country than in Cleveland.

3.12 Funding Formula

The Government has been clear that existing arrangements for distributing core grant funding to police force areas in England and Wales need to be reformed. These arrangements are complex, outdated and reflect a picture of policing risk and demand which has moved on and – fundamentally – are born out of the interaction between separate Home Office and DCLG funding formulae which can no longer be updated.

3.13 The Minister of State for Policing and the Fire Service wrote to all Police and Crime Commissioners on 14 September setting out plans for continuing work to review these arrangements, focussed on developing a new Police Core Grant Distribution Formula. The first stage of this work will be a period of detailed engagement with the policing sector and relevant experts. Any final decisions on implementation of a new formula will follow a period of public consultation.

3.14 The Review will take place between October 2016 and February 2017 and comprise a period of detailed engagement with the policing sector and relevant independent experts, which will make recommendations to the Home Office on a new formula for distributing Police Core Grant funding to PCCs (and their London equivalents) in England and Wales.

3.15 Specifically, the Review will have the following objectives:

- To agree a set of core principles that a future formula should be based on (using fairness; transparency; stability; alignment with expected relative risk and demands; and, appropriately incentivising efficiency and effectiveness as the starting point, and the balance that a new formula should strike between them;
- To develop proposals on a new police core grant distribution formula which aligns with these principles and takes account of the significant drivers of risk and demands for policing services;
- To consider whether and how to take into account regional cost variations in a new formula;
- To consider whether and how a new formula should take into account forces' local council tax base;
- To advise the Home Office on the options for transition to a new formula.

- 3.16 The formula will be based on 5 key principles:
- Stability
 - Fairness
 - Transparency
 - Incentivising efficiency & effectiveness, and
 - Alignment with risk.
- 3.17 These are complemented by 6 policy objectives:
- Encourages efficiency
 - Recognises local circumstances including ability to raise council tax
 - Avoids prolonged transition
 - Stable and predictable
 - Enables transformation and future proofing, and
 - Encourages upstream crime prevention.
- 3.18 There are 3 building blocks:
- Relative needs and demands (likely to be based around population, socio-economic factors, geography & environmental)
 - Relative costs and needs
 - Variation in local tax raising powers
- 3.19 While this is a new process, with a new minister, many of the key principles, objectives and building blocks are not that dissimilar to those previously looked at during the last Funding Formula Review. That review, prior to the discovery of an error in the formula by Devon and Cornwall, was forecast to result in an increase in Funding for Cleveland of around £3.5m per annum. After the discovery of the error in the Formula a subsequent recasting of the Formula, although on an unofficial basis, suggested an increase in funding of around £2m per annum to Cleveland.
- 3.20 The results from this original formula, across all Policing areas, were presumably acceptable to the Home Office and therefore it is unlikely that there will be any adverse impact from the Funding Formula review on Cleveland. Until further information becomes available the LTFP assumes there would be no impact on the Funding received by Cleveland as a result of any new funding formula.
- 3.21 As more information becomes available these assumptions will be reviewed.
- 3.22 LTFP Funding Assumptions
Based on the information now provided to PCC's the assumptions in relation to reductions in Government Grant have been revised to reflect the final settlement for 2017/18 and the indicative figures for future years. The assumption for the 2 years beyond 2017/18, is therefore that the level of Government Grants will reduce by 1.4% per annum.

- 3.23 Precept
Only 26% of the Net Budget Requirement within Cleveland is funded by the local precept and therefore this provides less of a cushion to cuts in government grants, than in most Police Force areas.
- 3.24 The assumption throughout this plan, for planning purposes, is that this element will continue to increase at a rate of 1.99% per annum, although this will be subject to an annual decision.
- 3.25 The Government have informed PCC's that 'You should plan on the basis that the overall referendum limit for police precept will be maintained at 2% over the Spending review period for Police and Crime Commissioners in England.' Therefore the risk in relation to this assumption going forward is manageable locally and subject to local decision and consultation annually.
- 3.26 There have therefore been no changes to the assumptions within this area.
- 3.27 Number of Band D Equivalent Properties and Collection Surplus'
Over the last 4 years there have been significant increases in both the number of calculated Band D properties within Cleveland and also significant Collection Surpluses to which the PCC has benefited from.
- 3.28 In line with Government projections and based on historic trends the financial plans previously included a 0.5% increase in the underlying tax base on an annual basis and a £320k per annum collection surplus.
- 3.29 The growth in the Calculated Tax Base have been as follows:
- 2014/15 – 1.8%
 - 2015/16 – 2.2%
 - 2016/17 – 2.8%
 - 2017/18 – 1.6%
- 3.30 Therefore in line with projections from the Local Councils the financial plans referenced in this report include an increase in the Tax Base of 1% per annum.
- 3.31 The collective Collection Surpluses reported by the 4 local councils over the last 4 years have been:
- 2014/15 – £559k
 - 2015/16 – £1,157k
 - 2016/17 – £776k
 - 2017/18 – £673k

- 3.32 Some of the surpluses reported by the individual councils do vary quite significantly year on year and therefore the LTFP includes an expectation that the PCC will benefit from Collection Surpluses totalling £300k per annum.
- 3.33 These changes will be kept under review as part of the LTFP planning process and revised as necessary in line with the rest of the plan.
- 3.34 Specific Grants, Other Income and Partnership Fees and Charges
These sources of income and funding are forecast to provide between £7.8m and £8.9m across the life of the plan.
- 3.35 The entire funding therefore expected to be available to the PCC for the next 4 years in comparison to 2015/16 and 2016/17 is shown below. The table also shows the likely impact of the revised assumptions around Precept and Grant reductions, in comparison to February 2016.

	Actual	Actual	Forecasts			
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Funding	£000s	£000s	£000s	£000s	£000s	£000s
Government Grant	(35,170)	(34,634)	(33,500)	(32,331)	(31,178)	(31,990)
Council Tax Precept	(30,590)	(31,642)	(32,656)	(33,245)	(34,235)	(35,260)
Council Tax Freeze Grant	(800)	(800)	(800)	(800)	(800)	(800)
Council Tax Support Grant	(6,868)	(6,868)	(6,868)	(6,868)	(6,868)	(6,868)
Funding for Net Budget Requirement	(123,428)	(123,994)	(123,824)	(123,244)	(123,081)	(124,918)
%age change in Net Budget Requirement	-1.8%	0.5%	-0.1%	-0.5%	-0.1%	1.5%
Specific Grants	(5,640)	(5,843)	(4,558)	(4,911)	(4,436)	(5,436)
Witness and Victims Funding	(599)	(663)	(659)	(659)	(659)	(665)
Partnership Income/Fees and Charges	(2,153)	(2,760)	(2,664)	(2,681)	(2,754)	(2,790)
Total Funding	(131,820)	(133,260)	(131,705)	(131,494)	(130,930)	(133,810)
%age change in Total Funding	-1.4%	1.1%	-1.2%	-0.2%	-0.4%	2.2%
NBR Forecast - February 2016	(123,428)	(123,994)	(123,799)	(124,114)	(124,373)	(126,834)
Changes to NBR Funding Forecast	0	0	(25)	871	1,292	1,916

- 3.36 As can be seen from the above the Net Budget Requirement¹ is still expected to reduce in 2017/18, by £170k even though the precept has increased by 1.99%, from 2016/17.
- 3.37 This is £25k more than the organisation was planning for in 2017/18, as at February 2016 however it is worth noting that the following unavoidable additional costs to the organisation in 2017/18, in comparison to 2016/17, mean that the organisation is having to make significant savings to meet this flat cash budget position:

- National Pay Award agreements - £1.0m

¹ This is the amount the PCC estimates as its planned spending, after deducting any income it expects to raise from fees and charges, specific grants from the Government and any movements on reserves.

- Contribution to Apprentice Levy - £0.4m
- Higher Contributions to the Local Government Pension Scheme - £0.2m

3.38 The strong growth in the underlying Tax Base and the significant, but non-recurring Collection Surplus, have absorbed the larger than expected reductions in government grant for 2017/18.

3.39 However it is also important to look beyond 2017/18, when the potential impact of the revised view of what 'flat cash' means may impact negatively on the funding available for Policing and Crime within Cleveland in comparison to the forecast position 12 months ago.

3.40 Nearly 74% of the Net Budget Requirement is funded by 'Government Grants' that continue to reduce on an annual basis, with the remaining 26% funded by the local precept, this is despite Cleveland having one of the higher Band D precept levels in the country for Policing.

3.41 As a result of this higher reliance on Government Funding then Cleveland is closer to having a 'Net Flat Cash' funding position, since 2015/16, than most. Our funding, when measured at this level, has increased by 0.7% or £879k since 2015/16. Some Policing Areas have seen an almost zero increase, whereas others have seen increases of 2.5%.

4. Expenditure Plans

- 4.1 In setting the budget for 2017-18 the PCC will need to make decisions on how the overall funding discussed in Section 3 is allocated. The PCC will need to provide funding/budgets to the areas discussed in the following sections:
- 4.2 Office of the PCC
The first budget for the Office of the PCC was set at £930k to run the office, deliver the statutory functions of the office and aid the PCC in delivering their role and priorities.
- 4.3 This budget was £270k lower than the 2012/13 budget of the previous Police Authority, a reduction of over 22% in cash terms, which enabled this £270k to be spent supporting and delivering front line services.
- 4.4 The aim over the remainder of the first term of the PCC was to reduce the Office of the PCC's budget to £850k by 2016/17. This was achieved a year ahead of schedule in 2015/16 and has been maintained at this level since. This means the overall budget for the Office of the PCC has reduced, in Cash terms by £350k, (29.2%) and in real terms by £474k (39.5%) since the PCC was elected.
- 4.5 Further details are provided at Appendix A.
- 4.6 Community Safety and Victims and Witnesses Commissioning
The role and responsibilities of the PCC is wider than Policing and this has been acknowledged with the addition of responsibilities around Community Safety and Victims and Witnesses services. These additional responsibilities have also attracted some additional funding. The Community Safety grant was provided in 2013-14 before being absorbed into the main Police Grant, while the provision of grant funding from the Ministry of Justice for the commissioning of services in relation to Victims and Witnesses services continues.
- 4.7 In line with the changing and evolving responsibilities and needs in this area the plans are subject to change, however at the time of setting the budget it is expected that £986k will be allocated to areas of Community Safety and £1,009k allocated to Victims and Witnesses Services. Further details of these allocations are set out in Appendix B.
- 4.8 In addition to this the PCC has identified additional funding, rising to £1.5m, to support the delivery of neighbourhood policing with the specific objective of making our communities safer; helping them to be stronger.
- 4.9 This funding will be made available to the Chief Constable as needed to create additional police officer, PCSO and police staff posts to enhance existing or develop new capabilities across the Force with a particular focus on:
- The 'strengthen' areas of the Force

- Areas of community vulnerability - e.g. hate crime, refugee and asylum seekers
- Supporting schools in 'strengthen' areas of the Force
- Providing coordination and support for virtual communities – e.g. rural/business/students
- Enhancing Integrated Offender Management capability
- Improving the investigation of volume crime, in particular hate crime

4.10 The indicative budget for these areas are set out in the table below:

	Actual	Actual	Forecast		
	2016/17	2017/18	2018/19	2019/20	2020/21
Community Safety/Victims and Witness	£000s	£000s	£000s	£000s	£000s
Community Safety Initiatives	1,345	986	1,008	1,008	1,007
Service Improvement and Development	750	1,250	1,300	1,350	1,420
Victims and Witnesses Services	715	1,009	987	987	988
Total Planned Expenditure	2,810	3,245	3,295	3,345	3,415

4.11 Corporate Services

Corporate Services include the costs of the PFI contracts, strategic contract management, asset management costs, treasury management and planning.

4.12 The areas of expenditure incorporated in this area and the forecasts for the life of the plan are included in the table below:

	Actual	Actual	Forecasts		
	2015/16	2016/17	2017/18	2018/19	2019/20
Corporate Services	£000s	£000s	£000s	£000s	£000s
Staff Pay	195	295	330	335	340
Non Pay Expenditure	40	40	100	100	100
PFI Action Stations	5,070	5,120	5,145	5,230	5,315
PFI Urlay Nook	1,735	1,770	1,770	1,825	1,870
Asset Management	1,950	1,625	1,605	1,850	2,150
Total Corporate Costs	8,990	8,850	8,950	9,340	9,775
%age Change in Expenditure	-1.9%	-1.6%	1.1%	4.4%	4.7%

4.13 Over £400k of cashable savings have been delivered from this area over the 5 years to 2017/18. This has enabled the PCC to focus resources on front line services with the vast majority of the savings coming from the decision made by the PCC to change the way that Capital is financed within the organisation and also the conscious decision to reduce the amount of debt the organisation has.

4.14 Maintaining this approach, as the reductions in Government Grant continue, is not going to be possible. The PCC will need to borrow more to fund Capital Expenditure and Replacement in future years than was previously expected as

the previous levels of Revenue support will not be possible and the continued reductions in Capital Grants leave little or no room for alternatives.

- 4.15 These higher levels of borrowing will result in higher 'Asset Management' costs in 2018/19 and 2019/20.

5. Police Force

- 5.1 The vast majority of the funding available to the PCC will be provided to the Chief Constable, in terms of providing the budgetary constraints in which the PCC expects the Force to work within, in delivering against the Police and Crime Plan.
- 5.2 The PCC tries to provide a stable financial platform for the Force to work to and within, despite the significant level of unknowns around various areas of future funding. The aim of this approach is to support and enable good strategic planning, decision making and ultimately service delivery by the Force. In line with the above approach the table below sets out the indicative funding, and the movements over the last year or so, for the Force to work within when planning both financially and operationally.

Forecast Force Funding	2016/17	2017/18	Forecasts		
			2018/19	2019/20	2020/21
	£000s	£000s	£000s	£000s	£000s
Total at July 2015	(118,105)	(117,160)	(115,300)	(110,300)	
Additional Funds allocated to Force	(795)	(1,290)	(1,850)	(7,550)	
Accounting Change re: NPAS	(510)	(500)	(500)	(500)	
Apprentices Levy	0	(400)	(400)	(400)	
Revised Total - Feb 2016	(119,410)	(119,350)	(118,050)	(118,750)	(120,000)
Switch of funds for Cloud between Revenue and Capital		(450)	(450)	(450)	(450)
PCC Funding for Children's Hub Coordinator Post		(35)	(35)	(35)	(35)
Revised Total - February 2017	(119,410)	(119,835)	(118,535)	(119,235)	(120,485)

5.3 Details of the Force's plans are provided in a separate paper on today's agenda however a summary of the proposals are set out below:

	Actual	Actual	Forecast		
	2016/17	2017/18	2018/19	2019/20	2020/21
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay					
Police Pay & Allowances	66,552	66,740	66,419	67,064	67,424
Police Overtime	1,792	1,375	1,296	1,376	1,376
PCSO Pay & Allowances	4,072	4,250	4,580	4,630	4,690
PCSO Overtime	5	5	5	5	5
Staff Pay & Allowances	7,903	9,695	9,871	10,166	10,350
Staff Overtime	46	60	59	59	60
Pay Total	80,370	82,125	82,230	83,300	83,905
Major Contracts					
Custody & Medical Contract	3,190	2,938	2,986	3,060	3,110
Outsourcing Contract	18,395	17,139	17,418	17,763	17,568
Major Contracts Total	21,585	20,077	20,404	20,823	20,678
Non-Pay Budgets					
Other Pay & Training	287	380	374	374	374
Injury & Medical Police Pensions	2,775	2,435	2,430	2,433	2,433
Premises	3,740	3,620	3,530	3,308	3,331
Supplies & Services	6,423	7,035	5,402	4,830	5,597
Transport	1,635	1,576	1,576	1,576	1,576
External Support	2,595	2,587	2,589	2,591	2,591
Non-Pay Total	17,455	17,633	15,901	15,112	15,902
Total Planned Force Expenditure	119,410	119,835	118,535	119,235	120,485
%age Change in Expenditure	1.2%	0.4%	-1.1%	0.6%	1.0%
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,292	1,280	1,280	1,280	1,280
PCSOs	132	148	148	148	148
Police Staff - Police Force	232	285	280	280	280

5.4 An overview of the estimates and risks included within the whole financial plan, including the Force budget, is included within the Robustness of Estimates and Adequacy of Reserves report.

6. Overall Financial Summary

6.1 The table below shows the current projected position of the overall finances available to the PCC, however this is based on a significant number of assumptions, including that the Force can contain costs and deliver the level of services required within the financial constraints that were outlined above.

6.2 The paper from the Force provides an indication of the challenges that will be faced in being able to deliver this.

	Actual	Actual	Forecast		
	2016/17	2017/18	2018/19	2019/20	2020/21
Funding	£000s	£000s	£000s	£000s	£000s
Total Funding	(133,260)	(131,705)	(131,495)	(130,930)	(133,810)
%age Change in Funding	1.1%	-1.2%	-0.2%	-0.4%	2.2%
Office of the PCC Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	850	850	850	850	880
Community Safety/Victims and Witness	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	2,810	3,245	3,295	3,345	3,415
Corporate Services	£000s	£000s	£000s	£000s	£000s
Total Corporate Costs	8,850	8,950	9,340	9,775	9,405
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay Total	80,370	82,125	82,230	83,300	83,905
Major Contracts Total	21,585	20,077	20,404	20,823	20,678
Non-Pay Total	17,455	17,633	15,901	15,112	15,902
Total Planned Force Expenditure	119,410	119,835	118,535	119,235	120,485
%age Change in Expenditure	1.9%	0.4%	-1.1%	0.6%	1.0%
(Surplus)/Deficit	£000s	£000s	£000s	£000s	£000s
	(1,340)	1,175	525	2,275	375
Planned Transfers to/(from) General Fund	(1,550)	(2,000)	(600)	(850)	0
Contribution to Capital Programme	2,225	750	0	0	1,550
Planned Transfers to/(from) Earmarked Reserves	665	75	75	75	75
Net (Surplus)/Deficit After Reserves	0	(0)	(0)	1,500	2,000
General Reserves	£000s	£000s	£000s	£000s	£000s
General Fund Balance b/f	8,627	7,702	6,052	5,452	4,602
General Fund Movements	(1,550)	(2,000)	(600)	(850)	0
In Year General Fund movements	625	350	0	0	0
General Fund Balance c/f	7,702	6,052	5,452	4,602	4,602
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,292	1,280	1,280	1,280	1,280
PCSOs	132	148	148	148	148
Police Staff - Police Force	230	285	280	280	280
PCC/Corporate Staff	14	14	14	14	14
Assumptions					
Staff Pay Increases	1.0%	1.0%	1.0%	1.0%	2.0%
Police Pay Increases	1.0%	1.0%	1.0%	1.0%	2.0%
Non Pay Inflation	1.1%	1.6%	1.8%	1.9%	2.0%
RPI	2.0%	3.0%	3.0%	3.0%	3.0%
Precept Increases	2.0%	2.0%	2.0%	2.0%	2.0%
Government Grant Movements (Cash Basis)	-0.6%	-1.4%	-1.4%	-1.4%	1.0%

7. Capital Financing and Expenditure

7.1 The assets owned by the PCC are a vital platform for the delivery of the Police and Crime Plan, with the overall purpose of the capital plan to provide sufficient funding to renew the asset base of the organisation, informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes, business continuity requirements and invest to save expenditure. Plans have been drawn up and are being developed for capital investment which would aid the organisation in delivering against the Police and Crime Plan.

7.2 Capital Grant

The PCC is expected to receive £515k in terms of Capital Grant in 2017/18, this is £710k, or nearly 60%, lower than in 2014/15. If the PCC wants, or needs, to spend more on Capital Expenditure than this Grant provides then the options are as follows:

- Borrowing money (either through loans or from current cash balances) to fund Capital Purchases.
- The sale of Capital Assets resulting in a Capital Receipt.
- A contribution from the Revenue Budget
- The Use of Reserves

7.3 As a result of the changes to the way that Capital Expenditure is to be funded and financed, the PCC has sufficient funds available to support the current plans of the Police Force over the current year and the next 4 years.

7.4 As a result of the changes made to how Capital Expenditure has been financed, over £700k (or 29%) has been removed from the Interest Payable and Minimum Revenue Provision budgets, between 2013/14 and 2017/18, to help meet the savings required to balance the overall budget and therefore reduce the need to make these savings from front line services.

7.5 This has reduced the budget set aside for these asset management costs from around £2.3m to £1.6m.

7.6 Over the next 7 years all of the loans that the PCC currently has, which underpin the capital expenditure of the organisation, which total £18.16m and incur interest charges of £767k per annum, will gradually be due for repayment.

7.7 It is not possible, and was not expected, that all of these loans could be repaid and not replaced by further loans. Work is underway to determine the best strategy for the replacement of these loans, incorporating the expected temporary borrowing to fund the building of the Community Safety Hub, the likely funding needs of the expected Capital Programme in the shorter term and how this can be aligned with the low interest rates for borrowing that are currently available.

7.8 The current Capital Plans are set out below:

	2016/17	2017/18	2018/19	2019/20	2020/21
Future Funding Levels	£000s	£000s	£000s	£000s	£000s
Earmarked Reserve/Funding b/f	3,598	2,500	1,010	846	606
Capital Grant	606	515	500	500	500
Control Room Upgrade Grant	516	0	0	0	
Contribution from Revenue	2,104	750	0	0	1,550
PIF Bids	38				
Capital Receipts (from Vehicle sales)	100	100	100	100	100
Capital Receipts (from Property sales)	3,236		3,017	325	3,109
New Prudential Borrowing		11,000	3,000		-3,272
Supported Capital Borrowing	760	760	760	760	760
Projected In-year funding Available	7,359	13,125	7,377	1,685	2,747
Carry Forwards from previous years	1,005				
Community Safety Hub	2,303	10,000	2,956		
IT Replacement programme/Data Centre move	1,479				
Police Force New Capital Schemes	3,671	4,615	4,585	1,925	1,160
Total Capital Programme	8,457	14,615	7,540	1,925	1,160
Earmarked Capital Reserve/Funding c/f	2,500	1,010	846	606	2,194

7.9 Further details of the New Capital Schemes proposed by the Force are detailed in a report from the Chief Constable.

7.10 The CIPFA Prudential Code of Practice is a key element in the system of capital finance. Under this system individual PCC's are responsible for deciding the level of their affordable borrowing having regard to the prudential code. The associated report '2017/18 Prudential Indicators and Treasury Management' will provide the PCC with reasonable assurance that the proposed Capital Plan and its financing are within prudential limits.

9. Risks and Reserves

9.1 A specific report from the PCC CFO in relation to the Robustness of the Estimates within the LTFP and the Adequacy of the Reserves covers these areas in more detail and the PCC is asked to consider and take note of this report prior to approving the 2017/18 Budget and LTFP.

9.2 As at the end of 2015/16 the PCC had Usable Reserves of £15.2m. The main reserves currently being held are for the following reasons:

- General Reserves - £8.6m
- Capital Reserves - £3.2m
- Community Safety Initiatives Reserve - £0.6m
- Job Evaluation Reserve - £0.55m

9.3 The expected movements on all reserves held by the PCC will be kept under review in line with the development of the LTFP, current projections for 2017/18 are included within the table below:

	Balance at 31 March 2016 £000	Tranfers In 2016/17 £000	Tranfers Out 2016/17 £000	Balance at 31 March 2017 £000	Tranfers In 2017/18 £000	Tranfers Out 2017/18 £000	Balance at 31 March 2018 £000
Direct Revenue Funding of Capital	(3,228)	(2,104)	2,832	(2,500)	(750)	2,240	(1,010)
Injury Pension Reserve	(640)			(640)		320	(320)
PFI Sinking Fund	(295)	(40)	197	(138)	(75)		(213)
Incentivisation Grant	(193)	(80)	180	(93)	(80)	173	(0)
Specials	(39)		39	0		0	0
Urday Nook TTC	(81)			(81)			(81)
NERSOU	(3)			(3)			(3)
Estates Reserve	(173)		75	(98)		98	0
Job Evaluation Reserve	(550)			(550)		250	(300)
Police Property Act Fund	(17)		17	(0)			(0)
ER/VR/CR Reserve	0	(625)	625	0			0
Community Safety Initiatives	(600)		150	(450)		150	(300)
Road Safety Initiatives Fund	(449)	(240)	150	(539)	(240)	150	(629)
Collaboration Reserve	(204)			(204)			(204)
Revenue Grants Unapplied	(137)		137	(0)			(0)
Total Earmarked Reserves	(6,608)	(3,089)	4,402	(5,295)	(1,145)	3,381	(3,059)
General Reserves	(8,627)	(975)	1,550	(8,052)	0	2,000	(6,052)
Total Usable Reserves	(15,235)			(13,347)			(9,111)

Office of the PCC Budget 2017/18

2010/11 Budget	2011/12 Budget	2012/13 Budget	2013/14 Budget	2014/15 Budget	2015/16 Budget	PCC Budget	2016/17 Budget	Movement to 2017/18 Budget	2017/18 Budget
£	£	£	£	£	£	Category of Spend	£	£	£
523,340	500,210	549,282	590,000	585,000	585,000	Staff Pay and Allowances	620,000	25,000	645,000
300	4,300	200	5,300	5,300	5,300	Other Pay and Training	5,300	(200)	5,100
780,630	745,828	644,297	327,700	287,700	288,700	Supplies and Services	261,700	(22,800)	238,900
19,000	14,000	7,000	7,000	7,000	11,000	Transport	11,000	0	11,000
(500)	(643)	0	0	0	(40,000)	Miscellaneous Income	(48,000)	(2,000)	(50,000)
1,323,770	1,264,695	1,200,779	930,000	885,000	850,000	Total Budget	850,000	0	850,000

The PCC continues to make savings and in 2017/18 this has enabled additional costs in relation to inflation, Pay Increases (1%), Employer's Pension Contribution Increases (1%) and Apprenticeship Levy (0.5%) to be absorbed within the same overall budget. This has resulted in £25k of savings/budget reductions being developed in setting the budget for 2017/18. In line with all years of the PCCs term in office priority is being given to provide funding to frontline services.

The PCC has now made recurring cash savings of £350k from his Office budget during his 5 years in office; this is a reduction in his budget of 29.2% in cash terms and in real terms this equates to £474k or 39.5%. This is the equivalent of the funding to maintain around 15 PCSOs.

It will be increasingly difficult to maintain the budget at £850k given expected pay awards of 1% per annum, that Employers Pension Contribution Increases are due to increase by an additional 1% in 2018/19, on top of the 1% increase in 2017/18, and then a further 1% increase in 2019/20 and in more general terms wider inflation within the economy, which is likely to impact on non-pay expenditure, is increasing.