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**COMISIYNYDD  
HEDDLU A THROSEDDU  
DYFED-POWYS  
POLICE AND CRIME  
COMMISSIONER**

**Police and Crime**

**Commissioner for Dyfed-Powys**

**2016/17 Precept and Draft Budget**

**January 2016**

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## **Executive Summary**

In considering the level of precept, I have undertaken my statutory consultation, taken into account the performance of the force and reviewed the current level of reserves.

The draft settlement of £50.012m announced on the 17<sup>th</sup> December 2015 has resulted in a reduction in core government funding of 0.6% in cash terms. This equates to £287k less for Dyfed Powys in 2016/17 compared with 2015/16.

Useable reserves currently amount to £45.5m<sup>1</sup>, split between earmarked revenue reserves, capital reserves and a general reserve. We spent less in 2013/14 and in 2014/15 than budgeted. This resulted in underspends in those years. In 2015/16 we expect to spend close to budget. I therefore do not believe that there is a need to raise the current level of the council tax precept. I plan to freeze the council tax precept at the same level as for 2015/16. This is in line with the forecast contained within the 2015/16 precept report.

I therefore submit for scrutiny by the Dyfed-Powys Police and Crime Panel a police precept of £43.330m. Central and local funding combined will therefore amount to £93.342m. An average band D property will not see a change in the council tax precept, with the amount payable remaining at £200.07 as in 2015/16.

I am likely to receive notification of the final settlement for 2016/17 in February 2016. I will notify the Panel of any changes to the provisional settlement once I receive them.

<sup>1</sup> As at 31st March 2015

## 1. Introduction

- 1.1 The statutory arrangements established under the Police Reform and Social Responsibility Act impose a tight timescale of the 1<sup>st</sup> of February 2016 for me to present my initial precept proposal for 2016/17 to the Dyfed-Powys Police and Crime Panel following the announcement of the provisional settlement on the 17<sup>th</sup> of December 2015. A Seminar was held on the 9<sup>th</sup> of December 2015 at which my plans for the precept for 2016/17 were discussed.
- 1.2 In order to fulfil my responsibilities as Police and Crime Commissioner (PCC), I have consulted with the Chief Constable (CC) and have determined an initial position on the budget for 2016/17. This has informed my decision on the police precept. My budget settlement for the force includes a cost reduction plan. This plan, produced by the CC will continue work across Dyfed Powys to deliver a cost effective and efficient police force whilst meeting our financial challenges.
- 1.3 I have sought to act prudently and reflect the uncertainty which still remains in relation to future financial settlements for policing the Dyfed Powys area, whilst setting a challenging but achievable cost reduction target for the Chief Constable.
- 1.4 The Spending Review 2015 provided the welcome news that overall police funding would only see a cut of 1.3% in real terms over four years. However, a new funding formula is expected to be introduced from 2017/18 and there remains significant uncertainty as to the likely impact on Dyfed-Powys of the redistribution of policing funds between forces.
- 1.5 I am therefore seeking to balance my commitment to protect front line services by prioritising front line officers with my commitment to spend taxpayers' money wisely.
- 1.6 This report aims to provide Dyfed-Powys Police and Crime Panel Members with the information necessary to scrutinise my initial precept decision and the inherent budget position for 2016/17 upon which I have already consulted the public and the Chief Constable.

- 1.7 Appendix A contains the report of the Police and Crime Commissioner's Chief Finance Officer on reserves and budgetary risk.
- 1.8 Appendix B provides the medium term financial plan to 2019/20.

## 2. Funding – Provisional Settlement 2016/17

- 2.1 On the 17<sup>th</sup> December 2015, the provisional 2016/17 police finance settlement was announced in a written ministerial statement by the Minister for Policing, Criminal Justice and Victims, The Rt Hon Mike Penning MP. This was followed on the same day by Welsh Government's provisional 2016/17 settlement for Welsh PCCs.
- 2.2 The Minister's statement announced:
- A provisional settlement covering just one year;
  - Total funding of £640m for counter terrorism (an increase of 13% on last year);
  - Top-slices of £218m (including £80m for core Emergency Services Network costs and an innovation fund of £55m);
  - The creation of a Transformational Fund worth £76.4m to develop and deliver specialist capabilities such as those required to tackle cyber-crime and to enable a major uplift in firearms capability.
- 2.3 Overall, the Police Capital Grants have reduced from £120m (with £10m going to NPAS) to £82m in 2016/17 (with £16.5m going to NPAS). The result is that non-NPAS Capital Grants have fallen by 40%. The Dyfed-Powys allocation of Capital Grant will not be published until the Final Settlement in February 2016.
- 2.4 The settlement has resulted in a reduction of 0.6% in core grant for 2016/17 in cash terms. This equates to £0.287m less in central funding in cash terms for Dyfed Powys in 2016/17 compared with 2015/16.
- 2.5 Victim's funding comes from the Ministry of Justice (MoJ). In the Spending Review 2015, the Chancellor announced a slight increase in revenue funding for the MoJ in 2016/17 but an overall resource saving of 15% by 2019/20. We are awaiting confirmation from the MoJ as to when we will receive our grant allocation.

### Police Precept 2016/17

- 3.1 In setting the police element of the council tax (known as the precept) for 2016/17, I have again been conscious of balancing the pressures on household budgets against the need to provide an effective public policing service.
- 3.2 On 2<sup>nd</sup> December 2015, the Chief Constable and his Director of Finance provided details of the budget that they believed necessary to provide an efficient and effective police service whilst mindful of the need to continue to find efficiencies wherever possible. I accepted their proposal thereby providing certainty to the Chief Constable on his budget for 2016/17 and the savings required for the following three years.
- 3.3 A seminar was held with the Police and Crime Panel on 9th December 2015 where the Panel had the opportunity to discuss the current funding position, priorities and future uncertainties.
- 3.4 I have consulted with the public on the level of the precept that I will set for 2016/17. The public consultation was run between 12<sup>th</sup> November 2015 and 8<sup>th</sup> January 2016. In total, 449 responses were received although not all respondents answered the three questions posed.
- 3.5 In response to the first question, "In your opinion, do you pay too much, too little, or about right for the police?", 47% said that they felt they paid about the right amount for the police, 23% said they felt that they paid too much and 30% said they felt they paid too little.
- 3.6 In response to the second question, "In 2016/17 on which of these issues do you think the Commissioner should focus", the top five issues voted by respondents are shown on table 1. (Respondents were able to vote for more than one issue).

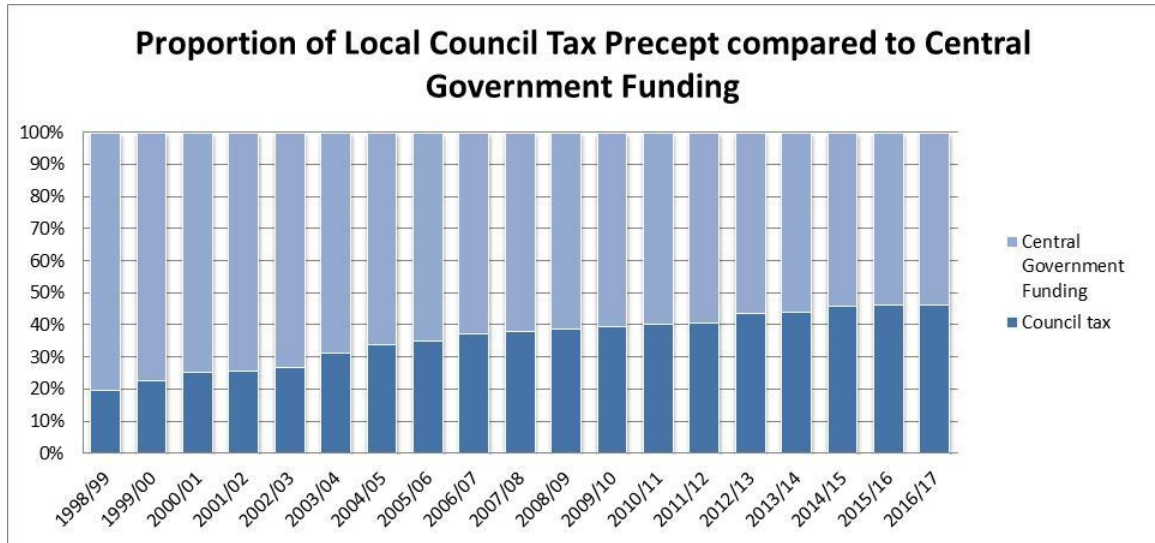
**Table 1: Top five issues voted by the public**

Issue	Percentage
Community policing	42%
Crime against the person	28%
Local low-level crime and antisocial behaviour	27%
Visible policing	26%
Serious crime	25%

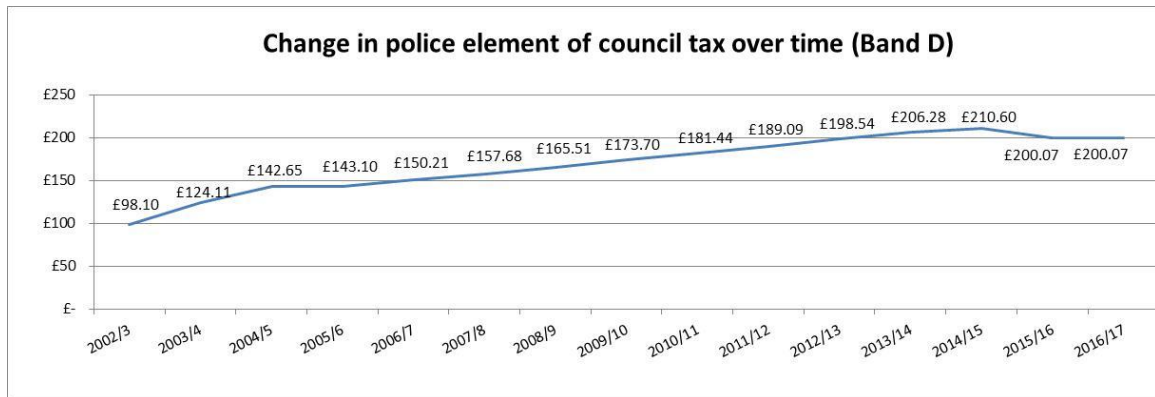


- 3.7 In addition to the provisional settlement I have taken into account the performance, both operational and financial, of Dyfed Powys Police (DPP) since I was elected.
- 3.8 The organisation held significant reserves a year ago and therefore I made the decision to utilise some of these reserves to reduce the council tax precept for 2015/16. Reserves at the end of 2015/16 will have reduced accordingly and DPP are expecting their financial performance for 2015/16 to be on target (after taking into account the planned contribution from reserves that I will make).
- 3.9 I have also considered the uncertainty of central police funding in the future:
- the latest Spending Review does not provide figures beyond 2016/17;
  - a review of the police funding formula is due to recommence in early 2016. Two rounds of consultation have already taken place. Initially, Home Office figures indicated that our allocation of the entire police fund would reduce from 0.71% to 0.7% (a reduction in budget of less than £1m). However, analysis by Devon and Cornwall PCC indicated that Dyfed-Powys could lose as much as £8m.
- 3.10 Despite these uncertainties, it is necessary to make estimates of the likely level of future central funding for planning purposes. Currently, a reduction in central funding of 0.6% in cash terms in each of the following three years is anticipated (although a worst case scenario of a 5% cash reduction each year has also been modelled). Previous under spends were not lost but instead have bolstered DPP's reserves. These reserves could be used to assist DPP in transitioning to a new operating model.
- 3.11 Financial performance for 2015/16 is expected to be on target and therefore, in line with my intention to minimise council tax precept rises as detailed in my Police and Crime Plan, I propose to set a precept level of £43.330m for 2016/17.
- 3.12 This equates to a freeze in the council tax precept payable by residents of Dyfed-Powys compared with 2015/16. This means that an average Band D property will continue to pay £200.07 in 2016/17.

3.13 The following graph shows how the proportion of income that Dyfed Powys receives from central sources compared with local sources has changed over time:



3.14 The following graph shows how the council tax precept has changed over time in Dyfed Powys:



#### 4. Draft Budget for 2016/17

- 4.1 The overall result of the provisional settlement and proposed precept is a funding reduction of £0.287m in 2016/17 compared with 2015/16 as shown in the table below.

**Table 2: Total Funding for 2016/17 (Provisional)**

Description	2015/16	2016/17	Change	
	£M	£M	£M	%
Core Police Grant	28.268	28.107		
Add Rule 1 + Floor Funding	9.243	9.010		
Welsh Government	12.788	12.895		
<b>Central Funding</b>	<b>50.299</b>	<b>50.012</b>		<b>-0.6</b>
Council Tax Base (Band D)	215,091	216,574		+0.7
Council Tax at Band D (£)	200.07	200.07		0.0
<b>Precept</b>	<b>43.033</b>	<b>43.330</b>		<b>+0.7</b>
<b>Total Funding</b>	<b>93.332</b>	<b>93.342</b>		<b>+0.0</b>

- 4.2 This has resulting in the following balanced budget being prepared for 2016/17:

**Table 3: Draft Revenue Budget for 2016/17**

	2015/16	2016/17
	£M	£M
OPCC Pay	0.632	0.642
OPCC Non Pay	0.337	0.337
<b>Total OPCC</b>	<b>0.969</b>	<b>0.979</b>
Commissioning	1.000	0.978
<b>Total OPCC and Commissioning</b>	<b>1.969</b>	<b>1.957</b>
<b>Total Force</b> (net of reserve movements)	<b>91.363</b>	<b>91.385</b>
<b>Total OPCC, Commissioning and Force</b>	<b>93.332</b>	<b>93.342</b>

- 4.3 A full breakdown of the proposed expenditure for the force for 16/17 (through to 2019/20) is provided in Appendix B.
- 4.4 In 2016/17 I am expecting the Ministry of Justice to provide funding to me to undertake commissioning work predominantly in relation to victim services and restorative justice. The amount of funding has yet to be announced however I anticipate it to be in the region of £550k in total.

- 4.5 I am also expecting to receive income from driver retraining courses that are administered on my behalf by the force. During 2015/16 I consulted with the public to determine whether this income should be ring-fenced to be spent on road safety initiatives or whether it should be spent on general policing activities. The public voted for the money to be spent on road safety initiatives. In response I awarded grants of £151k to four separate initiatives that encourage the safer use of our roads and reinvested £181k back into DPP's Roads Policing Unit. Therefore this income has not been budgeted for as the income will be re-invested in police services, having a zero impact on the budget overall.
- 4.6 In preparing the budget for 2016/17, the following inflationary factors were applied to the 2015/16 budget:

**Table 4: Budget Assumptions for 2016/17 (compared with 2015/16)**

<b>Budget Assumptions (%)</b>	<b>2015/16</b>	<b>2016/17</b>
Police Officers	1%	1%
Police Staff	1%	1%
Inflation	2%	1%
Premises Fuel	2%	1%
Vehicle Fuel	2%	1%
Grants	0%	0%
Income	1%	1%
Capital Financing	0%	0%

- 4.7 In addition to inflationary pressures in 2016/17, a change in the National Insurance contributions to be made by employers will add an additional £1.7m of cost (net effect).
- 4.8 Changes in operational policing structures at a local level and a unification of command structures covering Neighbourhood Policing and Response is set to deliver savings of £754k in 2016/17 and beyond. £600k should also be saved through better management of overtime and unsocial hours worked by officers.

- 4.9 During 2015/16 the PFI agreement for Ammanford Police Station was terminated. This will deliver annual savings until 2031. The saving in 2016/17 is £493k.
- 4.10 Smarter procurement of goods and services, use of nationally agreed prices and prudent investment and financing of capital projects will together deliver savings of £729k in 2016/17.
- 4.11 The outline budget for 2016/17 includes annual recurring cost reductions as outlined above. These amount to £3.133m and are detailed below. These savings can be achieved without reducing police officer numbers.

**Table 5: Cost Reduction Summary for 2016/17**

	<b>Expected Savings 2016/17</b>
	<b>£'000</b>
<b>Pay Related</b>	
Operating Model / Supervision Ratios	-754
Police Overtime and Unsocial Hours	-600
Crime Prevention Functions	-300
Collaboration /Business Support/Non pay	-405
<b>Total</b>	<b>-2,059</b>
<b>Non Pay</b>	
Green Policing	-206
Winsor Review - Police Officer allowances	-150
CLEP/Procurement	-329
Ammanford PFI - Savings	-493
Other Estates Savings	-92
Interest Income	-400
Pension Savings	-300
	<b>-1,970</b>
<b>Total Savings Identified</b>	<b>-4,029</b>
<b>Additional PCs to maintain current officer numbers (number)</b>	<b>896</b>
<b>Total Identified</b>	<b>-3,133</b>

## 5. Reserves

5.1 The opening and closing position for reserves during 2015/16 is shown in the table below.

**Table 6: Reserve Balances during 2015/16**

	<b>Balance as at 1<sup>st</sup> April 2015</b>	<b>Net Movement in year</b>	<b>Balance as at 31<sup>st</sup> March 2016</b>
	<b>Actual</b>	<b>Estimated</b>	<b>Estimated</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>
Earmarked Revenue Reserves	22.849	-14.710	8.139
Capital Reserves	18.155	-0.673	17.482
General Reserve	4.500	0.000	4.500
<b>Total</b>	<b>45.504</b>	<b>-15.383</b>	<b>30.121</b>

5.2 As can be seen in the table above, there is a significant movement in the earmarked revenue reserve during 2015/16. This is mainly as a result of two decisions that will draw a total of £11.6m from capital reserves in 2015/16. The capital reserve plays a significant role in funding the current estates programme of work and therefore the capital reserve will subsequently be replenished through a £11.6m transfer from revenue reserves.

5.3 This movement is to fund:

- The termination of the Ammanford Police Station PFI (£4m);
- Reducing the Capital Financing Requirement (CFR) to zero. The CFR currently stands at £7.6m and represents the organisation's underlying need to borrow for capital purposes and the amount that has yet to be permanently financed. However, the organisation has established a CFR before it is needed and therefore the CFR will be reduced to zero in 2015/16 and can be re-established at a later date when the need arises.

5.4 At the end of 2015/16 total reserves are expected to be approximately £30.121m. The table below provides detail on how our plans anticipate spending of £24.103m over the coming four years. At the end of 2019/20, I expect the general reserve to remain at £4.5m. Other reserves will amount to £1.518m.

**Table 7: Use of Reserves**

	2016/17	2017/18	2018/19	2019/20	Total
<b>Use of Reserves</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Contribution to Capital Financing	0.422	0.431	0.439	0.447	1.739
Pension	0.375	0	0	0	0.375
Continuous Improvement	0.268	0	0	0	0.268
Insurance	0.038	0.039	0.040	0.041	0.158
Contribution to revenue budget	2.288	1.502	0.631	0	4.421
Reserve before contribution	3.391	1.972	1.110	0.488	6.961
Contribution from revenue budget	-0.339	0	0	0	-0.339
<b>Revenue Reserves</b>	<b>3.052</b>	<b>1.972</b>	<b>1.110</b>	<b>0.488</b>	<b>6.662</b>
<b>Capital Reserves</b>	<b>5.321</b>	<b>7.609</b>	<b>4.551</b>	<b>0</b>	<b>17.481</b>
<b>Total use of Reserves</b>	<b>8.373</b>	<b>9.581</b>	<b>5.661</b>	<b>0.488</b>	<b>24.103</b>
<b>Balance at year end</b>	<b>21.748</b>	<b>12.167</b>	<b>6.506</b>	<b>6.018</b>	

- 5.5 The contribution to revenue budget line in the table above appears as the result of the PCC's decision last year to reduce the council tax precept by 5% and to use reserves to fund an element of the revenue budgets for 2015/16 to 2018/19.

## 6. Capital

- 6.1 Well maintained and managed assets play a vital role in the delivery of efficient policing services. Therefore it makes sense to plan how these assets will be maintained and managed. The draft capital programme for 2016/17 is shown below. The Home Office capital grant will be announced with the final settlement (expected in February 2016) and is expected to reduce significantly compared with previous years. An estimate has been included below:

**Table 8: Draft Capital Programme for 2016/17 to 2019/20**

Capital Programme	2016/17	2017/18	2018/19	2019/20	Total
	£M	£M	£M	£M	£M
Land and Buildings	2.700	6.800	5.800	0.700	16.000
Vehicles (Including Boat)	1.264	0.972	1.044	1.037	4.317
IT and Other Strategic Spending	3.893	1.336	0.975	0.975	7.179
<b>Capital Expenditure</b>	<b>7.857</b>	<b>9.108</b>	<b>7.819</b>	<b>2.712</b>	<b>27.496</b>
Grant Funding	0.500	0.500	0.500	0.500	2.000
Borrowing	0	0	2.106	1.765	3.871
Capital Receipts	1.500	0.500	0.200	0	2.200
NPAS Capital Credit	0.114	0.068	0.023	0	0.205
Contribution from Revenue Reserves	0.422	0.431	0.439	0.447	1.739
Capital Reserve	5.321	7.609	4.551	0	17.481
<b>Capital Financing</b>	<b>7.857</b>	<b>9.108</b>	<b>7.819</b>	<b>2.712</b>	<b>27.496</b>



## **Appendix A – Report of the Chief Finance Officer**

### **1. Balances, Provisions and Reserves**

- 1.1 In accordance with the “Financial Management Code of Practice” (FMCoP) the PCC has considered the role of reserves when compiling the medium term financial plan and annual budget. The PCC holds the responsibility for ensuring the adequacy of reserves each year so that unexpected demand led pressures on the budget can be met without adverse impact on the achievement of the key priorities.
- 1.2 The FMCoP requires the PCC to establish a policy on reserves (including how they might be used by the Chief Constable) in consultation with the Chief Constable (CC). This Section of the report sets out the PCC’s decisions on reserves so that these can be communicated clearly to local taxpayers thereby promoting accountability.
- 1.3 Within the existing reserves policy and associated governance arrangements, the Chief Finance Officer is accountable for:
  - Ensuring that advice is provided on the levels of reserves and balances in line with good practice guidance;
  - To report at the time the budget is considered and the precept set, on the robustness of the budget estimates and the adequacy of financial reserves, as required by s25 of the Local Government Act 2003, and in line with CIPFA guidance.
- 1.4 There are also a range of safeguards in place that militate against the PCC over-committing financially. These include:
  - The balanced budget requirement;
  - Chief finance officers’ Local Government Finance Act 1988 Section 114 powers which requires the Chief Finance Officer to report to the PCC if there is or is likely to be unlawful expenditure or an unbalanced budget; and
  - The external auditor’s responsibility to review and report on financial standing includes a review of the level of reserves taking into account their knowledge of the organisations performance over a period of time. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual organisations.

## 2. Statement on Reserves

### The level of general reserve and any movements on the fund

- 2.1 Legislation and other guidance require that a general reserve is maintained. Whilst CIPFA does not stipulate a minimum or optimal level of general reserve, its general guidance is to establish a reserve representing *“resources set aside for purposes such as general contingencies and cash flow management.”*
- 2.2 CIPFA’s “Guidance Note on Local Authority Reserves and Balances” states that a General Reserve is required to act as *“ a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves”*. A General Reserve is also required to act as *“a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves.”*
- 2.3 Maintaining a General Reserve ensures compliance with the Local Government Finance Act 1992 for Local Authorities to *“have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.”*
- 2.4 Historically, the Wales Audit Office recommended that the general reserve is set at a minimum 2.5% of the net revenue expenditure budget. The PCC’s policy on reserves states that the general reserve should not exceed 5% of the net revenue expenditure budget. The PCC’s policy on reserves also requires an assessment of risk when determining reserve levels.
- 2.5 The general reserve currently amounts to £4.500 million which equates to 4.8% of the 2016/17 net revenue expenditure budget and is therefore within the parameters set in the PCC’s reserves policy. The following three factors have been considered in determining the appropriate level of general reserve:

### A. Overall financial position and adequacy of financial control

- 2.6 In setting the level of the general reserve it is important to bear in mind Dyfed Powys Police’s overall financial position and the adequacy of financial controls in operation. The overall financial position has been considered by the PCC as part of the budget process and, whilst secure, is keenly affected by the threat of future government funding reductions which must be borne in mind.

- 2.6 It is also important to remember the context of the Medium Term Financial Strategy (MTFS) so that the PCC continues to comply with CIPFA's "Guidance Note on Local Authority Reserves and Balances" which suggests that *"Advice should be given on the adequacy of reserves over the lifetime of the medium term financial plan"*.

### **B. Risk exposure and risk assessment**

- 2.8 Formulation of reserve levels must be considered in the context of risk if we are to comply with CIPFA's guidelines which state that *"in order to assess the adequacy of unallocated general reserves...take account of the strategic, operational and financial risks facing the authority."*
- 2.9 Whilst risk exposure and mitigation of that risk may not necessarily drive a material increase in spending, it will influence the level of general reserves year by year.
- 2.10 Four key risks are currently relevant to the level of general reserves now and in the future, which are outlined below.
- Economic instability – the risk that due to worsening economic conditions, and real terms reductions in levels of precept and government grants, the increased resource requirements will have a significant effect on already stretched financial resources. This will result in a restriction on operational activity and developments over the next four years and beyond, for example, curbing the ability to offer the level of community policing that the public is expecting unless a bigger draw on reserves is authorised;
  - Capping – keeping council tax under control remains a priority for the Government;
  - External Risks – such as global financial markets have been taken into account in setting reserves, particularly in the light of the continued Bank of England base rate at 0.5%;
  - Operational major incidents – as part of the Dyfed Powys Local Resilience Forum a risk assessment into the likelihood and impact of a range of major incidents which could occur within the Force area has been carried out. Provision is made within the earmarked major incident reserve for funding such major incidents.

### C. Public Opinion

- 2.11 The public's acceptance of the precept is partly reliant on the understanding that the precept is spent on policing and that only a reasonable and prudent amount of any over-funding is being stored away as a general reserve. Conversely, when unforeseen expenditure arises, it is likely that the public would expect that the PCC would have sufficient resources to cover the expense without recourse to overspend.

#### **The adequacy of the general reserves and an estimate of provisions in respect of the forthcoming financial year and the PCC's and CC's medium term financial strategy**

- 2.12 Based on the above it is suggested that the level of general reserve is maintained at £4.5m which represents 4.8% of the proposed 2016/17 net revenue expenditure budget. It is suggested that this balance is retained at this level given the possible impact of a formula change and other financial pressures in future years.

#### **The annual review of earmarked reserves including estimates of the year end balances**

- 2.13 Earmarked reserves are held as a means of building up funds to meet known or predicted requirements. The main earmarked revenue reserves held by the PCC have been subject to review as part of the 2016/17 budget setting process.
- 2.14 At the beginning of 2015/16, earmarked revenue reserves amounted to £22.849m and the balance at the end of the financial year is expected to be about £8.139m. The year end balance reflects the position after the PCC uses £2.265m of revenue reserves as a contribution towards the 2015/16 revenue budget as planned during the 2015/16 budget and precept setting process and also as a result of replenishing capital reserves that are planned to fund the termination of the Ammanford Police Station PFI and to reduce the CFR to zero (see below for further details).

2.15 Capital reserves (including unapplied capital grants) at the beginning of 2015/16 stood at £18.155m. In addition to the expected use of reserves, two events took place that will significantly affect this reserve during 2015/16:

- The PCC terminated the Ammanford Police Station PFI early thereby delivering savings over the life of the agreement. The £4m payment made will most likely be funded from capital reserves. We are currently working with our external auditors, Wales Audit Office, to finalise treatment of this one-off payment. A transfer of £4m from the revenue reserve to the capital reserve is planned to fund this;
- Our treasury management advisers, Arlingclose, carried out a review of our current treasury management practices during 2015/16 with the aim of reducing revenue costs and increasing incomes generated. In this review Arlingclose advised applying £7.6m of our capital reserve against the whole of our current Capital Financing Requirement (CFR) thereby reducing to zero our Minimum Revenue Provision (MRP). (The MRP is an annual charge to our revenue budget to reflect the cost over time of our capital expenditure that was originally funded by debt.) Doing so will reduce our annual revenue budget. The saving in 2016/17 would be about £300k and this is built into the savings plan for 2016/17. Again, a transfer from the revenue reserve into the capital reserve will be made to fund this transaction and to ensure sufficient capital reserves are available to fund the ongoing estates programme of works.

2.16 Our current draft capital programme requires total funding of £27.496m over the next four years. £5.321m is expected to be spent in 2016/17 with a total of £17.481m predicted to be spent over the next four years. The transfer of £11.6m from revenue reserve into the capital reserve during 2015/16 allows the current capital programme to be fully financed over the next four years. Therefore, as our plans currently stand, the whole of the capital reserve will be depleted by the end of 2019/20.

**Jayne Woods – PCC’s Chief Finance Officer**

### **3. Budgetary Risk**

- 3.1 Section 25 of the Local Government Act 2003 requires that the Chief Finance Officer reports to the PCC, at the time the budget is being set, on the risks and uncertainties that might require more to be spent on the service than planned. Allowance is made for these risks by:
- making prudent allowance in the estimates; and in addition
  - ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
- 3.2 It is important that the PCC take responsibility for ensuring that budgetary risk has been minimised when the budget is set. The level of budgetary risk must be formally considered by the PCC informed by the advice and judgement of his Chief Finance Officer.
- 3.3 The proposed budget for 2016/17 reflects the identified, quantifiable risks; however it has not been possible to incorporate the following risks:
- Amendments to the final government grant notification from the provisional figures included in this report or for future years;
  - Full additional cost savings from revised future year budget figures – more work will be ongoing on this as the year progresses;
  - Impact of pension scheme reviews on employer contribution rates.
- 3.4 To enable the PCC to reach his decision, his Chief Finance Officer has performed a risk assessment of material items of revenue and capital budgets which is included in the following pages. The risk analysis has been performed on the various budget headings and assessed based on the % of the net revenue budget and known factors which could influence levels of actual expenditure or income.

Table 9: Risk Assessment of Material Budgets

Budget area	% of net costs	Risk level	Identified Risk	Mitigating factor
Police Officer Salary Costs	55%	High	<p>The number of officers in post increases above the approved funded establishment.</p> <p>Overtime incurred on major incidents/operations/investigations is not controlled and monitored and therefore exceeds the budget.</p> <p>Allowances paid for bonus payments, etc could exceed budget.</p>	<p>The establishment is monitored continually as part of budgetary control process. The Director of Finance and Director of Resources meet monthly to monitor and control the establishment on a strategic basis. A Budget Monitoring Procedure is in place with the budget being reported regularly to Chief Officer Group and Police Accountability Board.</p> <p>HR has a recruitment plan for the year ahead based on the projected number of police officer retirements, leavers and transferees. The required intake of probationers are planned and allocated accordingly.</p> <p>Finance representation on gold groups and other operational investigation groups now occurs as a matter of course. This enables overtime and other costs to be closely monitored and reported to each meeting.</p>

Budget area	% of net costs	Risk level	Identified Risk	Mitigating factor
Police Staff Salary Costs (including PCSO's)	27%	High	<p>The number of staff in post increases above the approved funded establishment.</p> <p>Projects requiring staff involvement out of normal working hours are accurately costed for additional costs such as overtime etc.</p>	<p>The establishment is monitored continually as part of budgetary control process. A Gateway process is being established to monitor and control the establishment on a strategic basis. A Budget Control Procedure is in place.</p> <p>Professional payroll and human resources staff will be engaged in establishing staff entitlement for additional hours.</p>
Police Officer Pensions	13%	Medium	<p>Linked to police officer salary costs above. Our contribution to pensions is due to drop, however, the Home Office will reap the rewards of the drop, rather than forces.</p> <p>There is a risk of future increased contributions that we must bear and changes in the way certain elements such as injury payments are treated.</p>	<p>Linked to police officer salary costs above.</p> <p>Ability to amend recruitment profiles during the year.</p>



Budget area	% of net costs	Risk level	Identified Risk	Mitigating factor
Indirect Staff Costs	0.8%	Medium	These might increase above budget.	Training budgets are have been set to reflect operationally critical requirements. Budgets are monitored on a monthly basis.
Premises Costs	4%	Medium	Increases in the estate require an increase in premises running costs. Fluctuations in electricity and gas prices may continue as contracts are renegotiated.	The capital programme is considered as part of Medium Term Financial Strategy and annual budget setting process. Procurement involves the finance department in discussions regarding contracts. Robust budget monitoring procedures are in place and adhered to.
Transport Costs	2%	Medium	An increase in the fleet size could occur without an adequate increase in running costs. We have recently benefitted from unexpected reductions in fuel prices. However, these recent reductions might equally quickly revert to significant fuel price increases, resulting in budget over spends.	The capital programme is considered as part of Medium Term Financial Strategy and annual budget setting process. The Strategic Vehicle Group meets to discuss the vehicle fleet – group is chaired by the Director of Finance. Fuel prices are monitored and their impact regularly assessed through the robust budget monitoring procedures that are in place.

Budget area	% of net costs	Risk level	Identified Risk	Mitigating factor
Supplies and Services and Commissioning	11%	Medium	Non purchase orders could result in over spends against the budget.	<p>Purchase orders are processed with a built in budget check for high value items.</p> <p>The Procurement Department ensure that the procurement of goods and services are made in accordance with Financial Regulations and Procedures.</p> <p>Robust budget monitoring procedures are in place and adhered to.</p> <p>PCC's commissioned services are authorised by the Director of Commissioning.</p>
Agency & Contracted Services	2%	Low	Not material	Not material
Capital Financing	1%	Low	Not material	Not material

Budget area	% of net costs	Risk level	Identified Risk	Mitigating factor
Specific Grant	-8%	High	<p>Grants should be utilised in accordance with the terms and conditions of grant.</p> <p>Grant providers may cease payments of grant with minimal notice.</p>	<p>A grant register records all grants due.</p> <p>Posts funded by grants should be recruited on a temporary basis for the duration of the grant.</p> <p>All terms of grant are authorised by the Chief Financial Officer.</p> <p>All Establishment Amendment forms are authorised by the Director of Finance and Head of Human Resources.</p> <p>PCC Commissioned services are authorised by the Director of Commissioning after consultation with the Chief Finance Officer.</p>
Other Income	-4%	Low	Not material	
Use of Reserves	-3%	Medium	<p>Reserves should not be utilised to fund recurring expenditure.</p> <p>Unexpected demand led pressures on budgets can be met without an adverse impact.</p>	<p>The Force has no operational Reserves other than limited virement opportunities. Regular monitoring of the financial position occurs through the forces' Chief Officer Group (COG).</p>

Budget area	% of net costs	Risk level	Identified Risk	Mitigating factor
Capital	N/A	High	The size, high cost and complexity of capital projects increases the risk of exceeding budgets, time overruns and not achieving the objectives of the original business case.	The capital programme is approved and monitored by the PCC. Chief Officers receive regular reports and monitor progress with capital projects at COG. Governance arrangements are in place covering all major projects for the force.

**Jayne Woods – PCC’s Chief Finance Officer**

## **Appendix B – Medium Term Plan**

### **1. Future Funding**

- 1.1 Considerable uncertainty has existed over future financial settlements for some time. However, the Home Secretary's letter written on the day of the 2015 Spending Review provided some helpful information. The settlement for policing, including funding for counter terrorism, will be reduced by 1.3% in real terms over four years. Taking into account local income, the settlement will protect police spending in real terms over the Spending Review period. This news was better than expected as previously, non-protected departments were expected to see reductions in the region of 27% over three years.
- 1.2 The Spending Review, however, did not explain how the overall police settlement would affect individual forces. This was provided by the provisional settlement that was announced on the 17<sup>th</sup> December 2015. Mike Penning's statement announced a flat rate reduction in grant funding of 0.6% in cash terms for all forces. As expected, this provisional settlement covered just one year.
- 1.3 The outcome of the Spending Review and provisional settlement has led a change in the assumptions made in the medium term plan. Previously, year on year reductions of 5% had been modelled and used as the most likely scenario. However, given the news above, year on year cash reductions of 0.6% have now been forecast as the most likely scenario. That said, the worst case scenario of annual 5% reductions in central funding has also been modelled for planning purposes.
- 1.4 Two rounds of consultation on the funding formula took place in 2015/16. The process was halted in November 2015 and, to date, no announcements on a further consultation or next steps have been issued by the Home Office. Whilst a change in the formula poses potential risks for us, we believe that there is no need to make any further adjustments to the medium term scenarios modelled as these should encompass all the likely outcomes of a formula funding review.
- 1.5 It has been assumed that the council tax precept will increase by 2% (mirroring the inflation increases assumed for non-pay costs) over the remainder of the medium term plan.

- 1.6 The most likely scenario results in a small increase in funding year on year as illustrated in the Table below:

**Table 10: Total Funding for 2016/17 to 2019/20**

	2016/17	2017/18	2018/19	2019/20
	£M	£M	£M	£M
Central Grants	50.012	49.712	49.414	49.117
Council Tax Precept	43.330	44.506	45.714	46.954
<b>Total Funding</b>	<b>93.342</b>	<b>94.218</b>	<b>95.127</b>	<b>96.072</b>
<b>Change against prior year (£million)</b>	<b>+0.010</b>	<b>+0.876</b>	<b>+0.909</b>	<b>+0.945</b>
<b>% Change</b>	<b>0.01%</b>	<b>0.9%</b>	<b>1.0%</b>	<b>1.0%</b>

- 1.7 The scenario above results in an increase in total funding of £2.740m over four years. Running the model for 5% year on year reductions in central funding results in a total decrease in funding of £3.499m.
- 1.8 The detailed calculations supporting the figures in the table above are included in the penultimate table below.

## 2. Unavoidable Cost Pressures

- 2.1 It is expected over the period that pay and price inflation will exert an upward pressure on the costs of providing policing services over the period and the following assumptions have been made in relation to these:

**Table 11: Inflation Assumptions for 2015/16 to 2019/20**

Budget Assumptions (%)	15/16	16/17	17/18	18/19	19/20
Police Officers	1.0%	1.0%	1.0%	1.0%	1.0%
Police Staff	1.0%	1.0%	1.0%	1.0%	1.0%
Inflation	2.0%	1.0%	2.0%	2.0%	2.0%
Premises Fuel	2.0%	1.0%	2.0%	2.0%	2.0%
Vehicle Fuel	2.0%	1.0%	2.0%	2.0%	2.0%
Grants	0.0%	0.0%	0.0%	0.0%	0.0%
Income	1.0%	1.0%	2.0%	2.0%	2.0%
Capital Financing	0.0%	0.0%	0.0%	0.0%	0.0%

- 2.2 The implementation of changes to National Insurance (NI) from April 2016 will also add considerably to the costs of policing. This is estimated to have a net effect of £1.7m for the year 2016/17 and a further £0.5m in 2017/18.
- 2.3 In addition to these increases in base costs, a savings plan has been developed that is due to deliver savings amounting to £6.217m over the next four years. These savings are detailed in the table below:

Table 12: Cost Reduction Summary for 2016/17 to 2019/20

Force cost reductions	Annual Plans				
	2016/17	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m	£m
Operating Model / Supervision Ratios	-0.754	-0.360	-0.360	0.000	-1.474
Workforce Modernisation	0.000	-0.100	-0.100	0.000	-0.200
Crime Prevention Functions	-0.300	0.000	0.000	0.000	-0.300
Criminal Justice - Custody	0.000	0.000	-0.500	0.000	-0.500
Police Overtime and Unsocial Hours	-0.600	0.000	0.000	0.000	-0.600
PFI Ammanford	-0.493	0.000	0.000	0.000	-0.493
Air Support / NPAS	0.000	0.000	0.000	0.000	0.000
Officer Allowances / Winsor	-0.150	0.000	0.000	0.000	-0.150
CLEP / Procurement	-0.329	0.000	0.000	0.000	-0.329
Green Policing	-0.206	0.000	0.000	0.000	-0.206
Estates Savings	-0.092	0.000	0.000	0.000	-0.092
Interest Income	-0.400	0.000	0.000	0.000	-0.400
Pension Reserve	-0.300	0.000	0.000	0.000	-0.300
Collaboration /Business Support/ Non pay	-0.405	-0.500	-0.500	-0.400	-1.805
<b>Total Savings Identified</b>	<b>-4.029</b>	<b>-0.960</b>	<b>-1.460</b>	<b>-0.400</b>	<b>-6.849</b>
Additional officers to retain current establishment	0.900	0.300	0.500	0.000	1.700
<b>Total Savings Identified</b>	<b>-3.129</b>	<b>-0.660</b>	<b>-0.960</b>	<b>-0.400</b>	<b>-5.149</b>



- 2.4 The impact of applying the funding assumptions, upward cost pressures and identified savings are summarised below. Above and beyond the identified savings, there remains a savings gap from 2017/18 onwards. These amount to £2.203m in total:

**Table 13: Savings gap for 2016/17 to 2019/20**

	16/17	17/18	18/19	19/20
	£M	£M	£M	£M
<b>Net Costs of Policing</b>	<b>93.342</b>	<b>95.378</b>	<b>96.455</b>	<b>98.275</b>
<b>Central Funding and Local Precept</b>	<b>-93.342</b>	<b>-94.218</b>	<b>-95.127</b>	<b>-96.072</b>
<b>Total savings gap (cumulative)</b>	<b>0</b>	<b>1.160</b>	<b>1.328</b>	<b>2.203</b>

### 3. Conclusion and Further Work required

- 3.1 Despite the future uncertainty of funding it is prudent for plans to be developed to meet a reduction in funding in future years. This work is underway.
- 3.2 The PCC and CC are engaged in discussions with other forces on collaboration and the CC will begin to make some significant changes to the force's operating model and supervisory ratios in 2016/17.
- 3.3 Further discussions about the future will take place during 2016/17 to ensure that the organisation continues to improve its efficiency whilst providing effective policing services to the public.

Table 14: High Level Financial Model for 2016/17 to 2019/20

	Baseline	Assumptions				Projected Financing Available			
	2015/16	2016/17	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Central Grants</b>		DRAFT	EST	EST	EST				
Allocation of Police Core Settlement	-28,268	-0.6%	-0.6%	-0.6%	-0.6%	-28,107	-27,938	-27,771	-27,604
Allocation under Additional Rule 1	-3,167	24.6%	-0.6%	-0.6%	-0.6%	-3,945	-3,921	-3,898	-3,874
Floor Funding	-6,076	-16.6%	-0.6%	-0.6%	-0.6%	-5,065	-5,035	-5,004	-4,974
Revenue Support Grant	-1,426	223.8%	-0.6%	-0.6%	-0.6%	-4,618	-4,590	-4,563	-4,535
National Non Domestic Rates	-11,362	-27.2%	-0.6%	-0.6%	-0.6%	-8,277	-8,227	-8,178	-8,129
	<b>-50,299</b>					<b>-50,012</b>	<b>-49,712</b>	<b>-49,414</b>	<b>-49,117</b>
	-5.1%					-0.6%	-0.6%	-0.6%	-0.6%
<b>Council Tax Precept</b>									
Base	215,090	0.69%	0.70%	0.70%	0.70%	216,574	218,090	219,616	221,154
Rate at Band D	200.07	0.00%	2.00%	2.00%	2.00%	200.07	204.07	208.15	212.32
<b>Projected Precept</b>	<b>-43,033</b>					<b>-43,330</b>	<b>-44,506</b>	<b>-45,714</b>	<b>-46,954</b>
<b>Total Financing Projected</b>	<b>-93,332</b>	<i>Total External Funding Available to OPCC / Force</i>				<b>-93,342</b>	<b>-94,218</b>	<b>-95,127</b>	<b>-96,072</b>
						0.0%	0.9%	1.0%	1.0%
<i>% Funded by Council Tax</i>	46%					46%	47%	48%	49%

Taxbase	Taxbase at Band D		
	2015/16	2016/17	Change
Carmarthenshire	70,376	70,929	0.79%
Ceredigion	30,468	30,661	0.63%
Pembrokeshire	53,358	53,798	0.83%
Powys	60,889	61,186	0.49%
	<b>215,090</b>	<b>216,574</b>	<b>0.69%</b>

Collection	Collection		
	2015/16	2016/17	Change
Carmarthenshire	97.50%	97.50%	0.0%
Ceredigion	96.50%	96.50%	0.0%
Pembrokeshire	97.75%	97.75%	0.0%
Powys	97.50%	97.50%	0.0%

Table 15: Revenue Account for 2015/16 to 2019/20

	Final Budget		Proposed Budget		Indicative Budget	
	2015/16	2016/17	2017/18	2018/19	2019/20	
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Budget for OPCC and Commissioning</b>						
Staff Costs	632	642	648	655	661	
OPCC Running Expenses	337	337	344	351	358	
Commissioning Budget	1,000	978	998	1,018	1,038	
<b>Total OPCC Costs</b>	<b>1,969</b>	<b>1,957</b>	<b>1,990</b>	<b>2,023</b>	<b>2,057</b>	
<b>Budget for Chief Constable and Staff under Direction and Control of Chief Constable</b>						
<b>Employees</b>						
Police Officers	51,497	51,751	52,398	52,942	53,472	
Police Staff	18,270	19,649	19,721	19,168	19,360	
PCSO's	4,713	4,831	4,894	4,943	4,993	
Police Pensions (net)	11,684	11,887	12,006	12,126	12,247	
Indirect Staff Costs	717	761	776	792	807	
<b>Total Employee Costs</b>	<b>86,882</b>	<b>88,879</b>	<b>89,796</b>	<b>89,971</b>	<b>90,879</b>	
<b>Running Expenses</b>						
Premises Costs	3,401	3,389	3,456	3,526	3,596	
Transport Costs	2,771	2,225	2,269	2,315	2,361	
Supplies & Services	8,602	9,019	8,949	8,878	9,056	
Agency & Contracted Services	2,385	1,908	1,946	1,985	2,025	
<b>Total Running Expenses</b>	<b>17,158</b>	<b>16,540</b>	<b>16,621</b>	<b>16,704</b>	<b>17,038</b>	
Capital Financing Costs	1,069	467	476	486	495	
<b>Total Expenditure</b>	<b>105,108</b>	<b>105,887</b>	<b>106,893</b>	<b>107,161</b>	<b>108,412</b>	
<b>Financed By:</b>						
<b>Income</b>						
Specific Grants	-6,844	-7,266	-7,266	-7,266	-7,266	
Other Income	-3,926	-4,184	-4,267	-4,353	-4,440	
<b>Total Income</b>	<b>-10,770</b>	<b>-11,450</b>	<b>-11,533</b>	<b>-11,619</b>	<b>-11,706</b>	
<b>Contribution From Reserves</b>						
Use of Reserves	-2,976	-3,391	-1,972	-1,110	-488	
	-2,976	-3,391	-1,972	-1,110	-488	
<b>Net Costs - Force</b>	<b>91,363</b>	<b>91,046</b>	<b>93,388</b>	<b>94,432</b>	<b>96,219</b>	
Contribution to Reserves	0	339	0	0	0	
<b>Total Costs for OPCC and Force</b>	<b>93,332</b>	<b>93,342</b>	<b>95,378</b>	<b>96,455</b>	<b>98,275</b>	
<b>Net Cost of Policing To be Funded From Grants and Precepts</b>						
	93,332	93,342	95,378	96,455	98,275	
<b>Grants and Precepts</b>						
Police Grant	-37,511	-37,117	-36,894	-36,673	-36,453	
NNDR	-11,362	-8,277	-8,227	-8,178	-8,129	
RSG	-1,426	-4,618	-4,590	-4,563	-4,536	
<b>Total External Support</b>	<b>-50,299</b>	<b>-50,012</b>	<b>-49,712</b>	<b>-49,414</b>	<b>-49,117</b>	
Precepts on Billing Authorities	-43,033	-43,330	-44,506	-45,714	-46,954	
<b>TOTAL RESOURCES</b>	<b>-93,332</b>	<b>-93,342</b>	<b>-94,218</b>	<b>-95,127</b>	<b>-96,072</b>	
Difference (Unidentified Savings @ -5%)	-0	-0	1,159	1,328	2,204	
<b>Taxbase</b>	215,091	216,574	218,090	219,617	221,154	
<b>COUNCIL TAX LEVEL</b>	£ 200.07	£ 200.07	£ 204.07	£ 208.15	£ 212.32	
Council Tax Increase		0.0%	2.0%	2.0%	2.0%	