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

**Police and Crime
Commissioner for Dyfed-Powys**

2017/18 Precept and Budget

January 2017

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Executive Summary

One of my key responsibilities as your Police and Crime Commissioner is to set the precept each year. In doing so, I take into account a number of different factors including the Chief Constable's future resourcing requirement, the level of reserves and future plans for investment in infrastructure. I have also considered the potential impact of the current review of central funding being carried out by the Home Office and have carried out a consultation and invited feedback from the residents of Dyfed-Powys.

The draft settlement of £49.313 announced on the 15th December 2016 has resulted in a reduction in core government funding of 1.4% in cash terms. This equates to £699k less for Dyfed Powys in 2017/18 compared with 2016/17.

In 2015/16 the council tax precept was reduced by 5% and then frozen at the same level in 2016/17. This resulted in a council tax precept in Dyfed-Powys of £200.07 for an average band D property. This compared with £207.85 in South Wales, £220.06 in Gwent and £240.12 in North Wales.

Useable reserves currently amount to £32.862m¹, split between earmarked revenue reserves, capital reserves and a general reserve and are predicted to reduce to £8.330m by 2020/21. In 2016/17 we expect to spend close to budget.

I therefore submit for scrutiny by the Dyfed-Powys Police and Crime Panel a police precept of £47.303m. Central and local funding combined will therefore amount to £96.616m (a 3.5% increase on funding levels in 2016/17).

An average band D property will pay £213.87. This band D tax will be at a level that is 6.9% higher than the 2016/17 level and is 1.55% higher than the 2014/15 level.

I am likely to receive notification of the final settlement for 2017/18 in February 2017. I will notify the Panel of any changes to the provisional settlement once I receive them.

¹ As at 31st March 2016

1. Introduction

- 1.1 The statutory arrangements established under the Police Reform and Social Responsibility Act impose a tight timescale of the 1st of February 2017 for me to present my initial precept proposal for 2017/18 to the Dyfed-Powys Police and Crime Panel following the announcement of the provisional settlement on the 15th of December 2016. A Demand and Finance Summit was held on the 7th of December 2016 at which my plans for the precept for 2017/18 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 discussed in detail his plans for staffing levels, police services and future investment needs in agreeing the Force's budget for 2017/18 and in order to determine the police precept.
- 1.3 The Spending Review in 2015 provided the welcome news that overall police funding would only see a cut of 1.3% in real terms over four years. Funding for the police service was not mentioned in the Autumn Statement however, a new funding formula is expected to be introduced from 2018/19 and there remains significant uncertainty as to the likely impact on Dyfed-Powys of the redistribution of policing funds between forces. The last (unimplemented) review of the funding formula saw Dyfed-Powys lose close to £8m in funding. Work has begun on the development of a new formula and it is expected that the Minister for Policing and the Fire Service will begin a consultation exercise on the potential new formula in February 2017.
- 1.4 I have therefore decided to act prudently and to reflect the uncertainty which still remains in relation to future financial settlements for policing the Dyfed Powys area and present a medium term financial plan that sees Dyfed Powys lose £5m of central funding over 2018/19 and 2019/20.
- 1.5 I am also very supportive of the service improvements that the Chief Constable is planning to implement – many of which are in direct response to recent recommendations made by Her Majesty's Inspectorate of Constabulary (HMIC).
- 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 2017/18 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 2020/21.

2. Funding – Provisional Settlement 2017/18

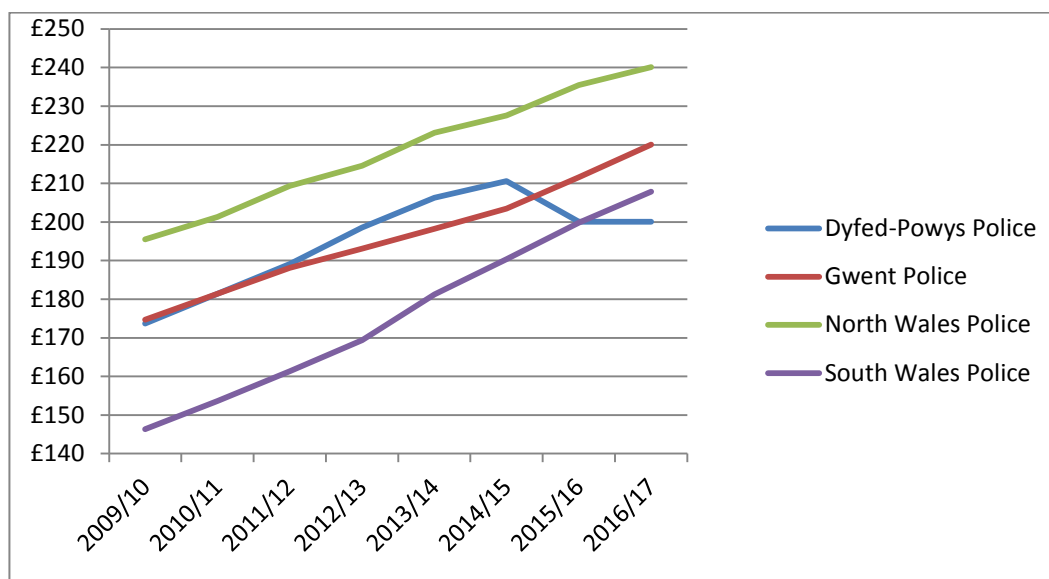
- 2.1 On the 15th December 2016, the provisional 2017/18 police finance settlement was announced in a written ministerial statement by the Minister for Policing and the Fire Service, The Rt Hon Brandon Lewis MP. This was followed on the same day by Welsh Government's provisional 2017/18 settlement for Welsh PCCs.
- 2.2 The Minister's statement announced:
- A one year settlement only;
 - A flat rate decrease of 1.4% in cash terms to all police forces in England and Wales;
 - Top-slices/reallocations of £812m (42% higher than 2016/17) from the total police fund;
 - A rise in the value of the Transformation Fund from £131.4m in 2016/17 (including the Innovation Fund) to £175m.
- 2.3 Transformation Fund – In recent months the Minister and Home Secretary have been speaking a lot about the benefits of transformation of services and collaboration so it comes as no surprise to see a growth in the value of the Transformation Fund (not to be confused with the Service Transformation Fund announced recently as part of a drive to tackle Violence against Women).
- 2.4 Emergency Service Network (ESN) - Included within the top-slices is funding for "core costs" of the new ESN. In total, the government is anticipating spending £1bn on ESN, the replacement for Airwave. We will continue to pay for Airwave until the transition to ESN has occurred. During the transition, and once it is in place, PCCs will then need to pay local ESN costs, including data and connection charges, devices and installation as well as control room upgrades, supported by specific grants reallocated through the "core costs" top-slice.
- 2.5 The settlement has resulted in a reduction in core grant from £50.012m in 2016/17 to £49.313m in 2017/18 in cash terms.

- 2.6 Overall, the Police Capital Grants have reduced from £82m in 2016/17 to £77.2m in 2017/18. Non-NPAS capital grants have reduced by 41% since 2015/16. There has also been a further £1m and £18.1m earmarked for Special Grant Capital and Police Live Services, respectively. With this taken into account, there has been a drop of 86.7% nationally in capital grants since 2015/16. The Dyfed-Powys allocation has reduced in the provisional settlement from £0.374m in 2016/17 to £0.318m in 2017/18.
- 2.7 Victim's funding comes from the Ministry of Justice (MoJ). In 2016/17 we received £611k of funding and the provisional settlement for 2017/18 is £605k.
- 2.8 Violence against Women and Girls Service Transformation Fund - In March 2016, the Government published a programme of reform supported by an increase in funding of £80m. The intention is to ensure that every victim gets the help and support that they require, coupled with bringing more perpetrators to justice. The £80m worth of funding has been pledged up to 2020. However, the majority of that funding is to go into other services such as national helplines, rape support centre and refuges. This Violence against Women and Girls Service Transformation Fund is available for the Police to bid for and is worth £15m from 2017 running until the end of the financial year of 2019/20.

3. Police Precept 2017/18

3.1 On 7th December 2016, I held a Demand and Finance Summit and invited members of the Police and Crime Panel, Joint Audit Committee and Wales Audit Office to attend. The purpose of the event was to allow the force to present a summary of the operational environment that they work within and the impact that this has on their demand levels and therefore resource requirements for 2017/18 and beyond. There was then the opportunity for my staff and all those present to scrutinise the information presented. Some interesting discussions ensued on future challenges, planned savings and reserves levels and I have taken account of the various viewpoints before deciding on the precept for 2017/18.

3.2 I considered police council tax levels throughout Wales:



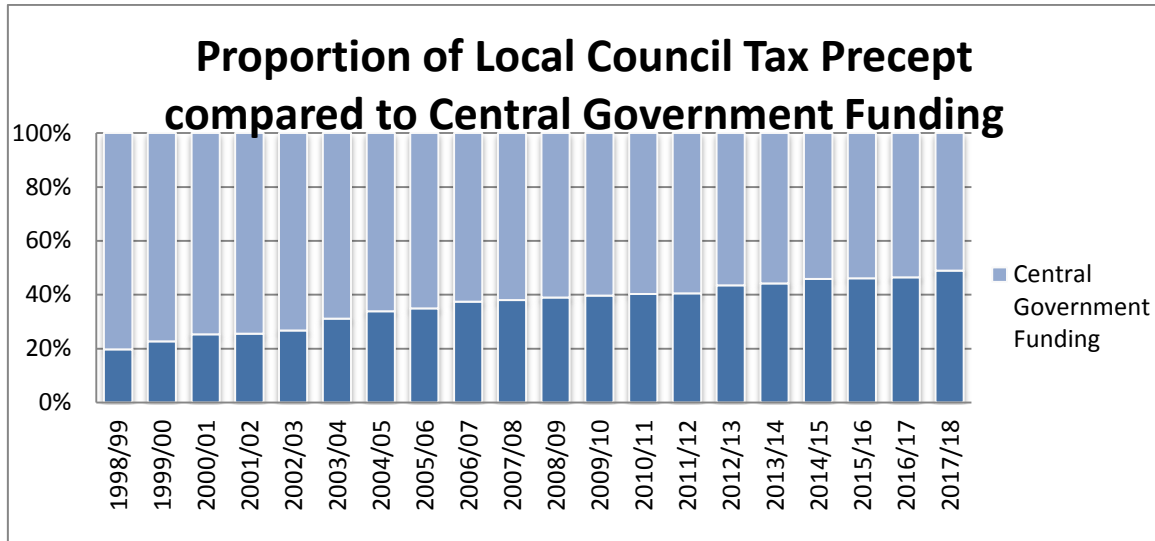
3.3 I have also consulted with the public on the level of the precept that I will set for 2017/18. The public consultation was run between 21st November and 14th December 2016 and 265 responses were received.

3.4 In response to the first question “Dyfed-Powys Police’s current budget is £93.342m with £43.33m of this coming from the police precept. In relation to the police precept element of Dyfed-Powys Police’s annual funding, in your opinion, does Dyfed-Powys Police receive enough/not enough funding”, 69% of respondents indicated that that Dyfed-Powys Police did not receive enough funding.

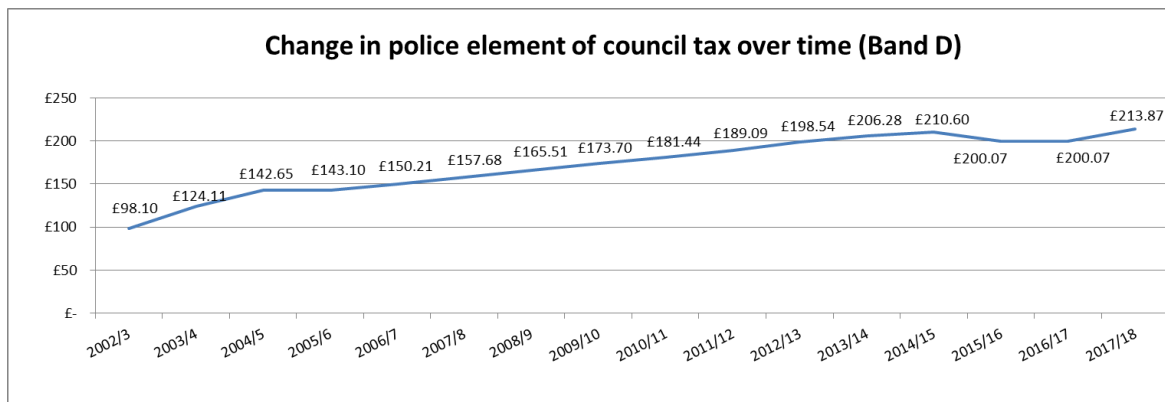
3.5 In response to the second question “Considering the police precept element of Dyfed-Powys Police’s annual funding, in your opinion, does your household pay: too much for the police/ too little for the police/ about right for the police”, 51% of respondents answered that too little was paid for the police with 34% indicating that they paid about the right amount for the police.

- 3.6 In response to the third question "If you were Police and Crime Commissioner, how would you change this year's Police Precept?", 14% indicated that they would increase the precept by 10%, 25% responded that they would increase the precept by 5% and 16% indicated that they would increase the precept by 2%.
- 3.7 In response to the fourth and final question "If you opted to increase the police precept in Q3, how would you like to see the money invested?" just over half respondents (51%) indicated that they wanted more frontline policing. The next most popular answers were improved technology (6%), targeting policing resources on local needs (5%) and CCTV (5%).
- 3.8 The organisation has significant reserves but also some significant future plans for some much needed investment in the estate and also further investment in technology. This investment sees the level of reserves reduce significantly over the medium term.
- 3.9 Financial performance for 2016/17 is currently expected to be on target however, I have also considered the uncertainty of central police funding in the future:
- once again, the latest provisional settlement is for one year only;
 - a review of the police funding formula is currently underway. This review will change the way that funds are allocated across the forces in England and Wales. The outcome of the last review (unimplemented) would have resulted in Dyfed-Powys losing £8m of central funding annually.
- 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 of £5m, as a result of a change in formula, spread over two years has been built into the medium term financial plan. This is in addition to a 1.4% year on year cash reduction as a result of a reducing police fund.
- 3.11 Further models depicting the impact of a zero, £3m and £8m formula funding change have also been created. Each model also includes an underlying year on year cash reduction of 1.4% to reflect the shrinking funds available for allocation across forces as the main police grant. The Chief Constable is currently developing the resource plans that support each of these models.
- 3.12 The impact of such a considerable reduction is discussed further in Appendix B.

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 2017/18

- 4.1 The overall result of the provisional settlement and proposed precept is a total funding increase of £3.274m in 2017/18 compared with 2016/17 as shown in the table below.

Table 1: Total Funding for 2017/18 (Provisional)

Description	2016/17	2017/18	Change	
	£M	£M	£M	%
Core Police Grant	28.107	27.714	-0.393	-1.4
Add Rule 1 + Floor Funding	9.010	8.729	-0.281	-3.1
Welsh Government	12.895	12.870	-0.025	-0.2
Central Funding	50.012	49.313	-0.699	-1.4
Council Tax Base (Band D)	216,574	221,177		2.1
Council Tax at Band D (£)	200.07	213.87		6.9
Precept	43.330	47.303	3.973	9.2
Total Funding	93.342	96.616	3.274	3.5

- 4.2 This has resulting in the following balanced budget being prepared for 2017/18:

Table 2: Draft Revenue Budget for 2017/18

	2016/17	2017/18
	£M	£M
OPCC Pay	0.642	0.695
OPCC Non Pay	0.337	0.336
Total OPCC	0.979	1.031
Research and Community Projects	-	0.153
Commissioning	0.978	0.793
Total OPCC and Commissioning	1.957	1.977
Total Force (net of reserve movements)	91.385	94.639
Total OPCC, Commissioning and Force	93.342	96.616

- 4.3 A full breakdown of the proposed expenditure for the force for 2017/18 (through to 2020/21) is provided in Appendix B.
- 4.4 On the 12th January 2017, we received notification that the Ministry of Justice will provide funding to undertake commissioning work predominantly in relation to victim services and restorative justice. The amount of funding is £604,715 in total.

- 4.5 In preparing the budget for 2017/18, the following inflationary factors were applied to the 2016/17 budget:

Table 3: Budget Assumptions for 2017/18 (compared with 2016/17)

Budget Assumptions (%)	2016/17	2017/18
Police Officers	1%	1%
Police Staff	1%	1%
Inflation	1%	1%
Premises Fuel	1%	1%
Vehicle Fuel	1%	1%
Grants	0%	0%
Income	1%	1%
Capital Financing	0%	0%

- 4.7 In addition to inflationary pressures in 2017/18, the Force has needed to implement the following main investments during 2016/17:
- 4.8 Dyfed-Powys has seen a significant increase in the number of child sexual abuse allegations reported, an increase in the number of convicted sexual offenders being registered and also an increase in the recording of domestic abuse incidents. This has put pressure on the Protecting Vulnerable People department and as a result, the Force wishes to increase the number of detective constables by 7 and also employ 2 further staff to provide administrative support to the department. This should speed up investigations and allow officers to be more effective in protecting the most vulnerable in our society. The total cost of this investment will be £500k.
- 4.9 Two years ago the force embarked on an ambitious programme of back office reductions that saw a significant reduction in the number of staff providing all manner of support functions to the organisation. Over time, it has become clear that some of those reductions were not sustainable in the long term and therefore additional staff (amounting to £500k) are needed to assist in crime recording, firearms licensing and to provide corporate support and supervision.

- 4.10 Cybercrime continues to present major challenges for all police forces. The rapid changes in technology and the ever increasing use of digital and cyber related devices by the public and criminals put ever more people at risk of becoming victims of crime. In response, Dyfed-Powys has introduced a dedicated cybercrime unit and wishes to invest £300k in additional analytical, training and examining skills to further enhance its capability and to strengthen its approach to cybercrime.
- 4.11 In addition to the investments above, the outline budget for 2017/18 includes annual recurring cost reductions of £1.2m within the force as detailed below:

Table 4: Cost Reduction Summary for 2017/18

		Expected Savings 2017/18
		£'000
Police Officer Salaries	Winsor review and allowances reductions	-100
Capital Programme Savings	Hotel Accommodation for recruits	-100
Spending Wisely Programme	Supervisory ratio reduction and workforce mix	-600
Non Pay Savings	Forensics and mobile phone examination	-100
Other Procurement Savings	CLEP / NPS / Regional	-300
Total Savings Identified		-1,200

5. Reserves

- 5.1 The opening and closing position for reserves during 2016/17 is shown in the table below.

Table 5: Reserve Balances during 2016/17

	Balance as at 1 st April 2016	Net Movement in year	Balance as at 31 st March 2017
	Actual	Estimated	Estimated
	£M	£M	£M
Earmarked Revenue Reserves	9.174	-2.377	6.797
Capital Reserves	19.188	-4.551	14.637
General Reserve	4.500	0.000	4.500
Total	32.862	-6.928	25.934

- 5.2 The table below provides detail on how our plans anticipate spending of reserves over the coming years.

Table 6: Use of Reserves

	2017/18	2018/19	2019/20	2020/21	Total
Use of Reserves	£M	£M	£M	£M	£M
Contribution to revenue budget	1.502	0.631	0	0	2.133
Other	0.450	0.459	0.468	0	1.377
Revenue Reserves	1.952	1.090	0.468	0	3.510
Capital Reserves	7.036	5.058	2.000	0	14.094
Total use of Reserves	8.988	6.148	2.468	0	17.604
Balance at year end	16.946	10.798	8.330	8.330	

- 5.3 The contribution to revenue budget line in the table above appears as the result of the previous PCC's decision to reduce the council tax precept for 2015/16 by 5% and to use reserves to fund an element of the revenue budgets for 2015/16 to 2018/19.
- 5.4 At the end of 2020/21, the general reserve is expected to remain at £4.5m with total reserves amounting to £8.330m.

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 2017/18 is shown below:

Table 7: Draft Capital Programme for 2017/18 to 2020/21

Capital Programme	2017/18	2018/19	2019/20	2020/21	Total
	£M	£M	£M	£M	£M
Land and Buildings	5.791	5.193	2.875	0.575	14.434
Vehicles (Including Boat)	0.972	1.044	1.037	1.170	4.223
IT and Other Strategic Spending	2.459	3.462	2.781	2.448	11.150
Capital Expenditure	9.222	9.699	6.693	4.193	29.807
Grant Funding	0.318	0.318	0.318	0.318	1.272
Borrowing	0	3.499	3.875	3.575	10.950
Capital Receipts	1.500	0.500	0.200	0	2.200
NPAS Capital Credit	0.068	0.023	0	0	0.091
Contribution from Revenue Account	0.300	0.300	0.300	0.300	1.200
Capital Reserve	7.036	5.059	2.000	0	14.094
Capital Financing	9.222	9.699	6.693	4.193	29.807

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 4.7% of the 2017/18 net revenue 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.

- 2.9 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 reduction of the Bank of England base rate to 0.25%;
 - Operational major incidents –the likelihood and impact of a major incident which could occur within the Force area has been considered in determining an appropriate level of reserves.

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 4.7% of the proposed 2017/18 net revenue 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 2017/18 budget setting process.
- 2.14 At the beginning of 2016/17, earmarked revenue reserves amounted to £9.174m and the balance at the end of the financial year is expected to be about £6.797m. The year-end balance reflects the position after the PCC uses £2.288m of revenue reserves as a contribution towards the revenue budget as planned during the 2016/17 budget and precept setting process.
- 2.15 Capital reserves (including unapplied capital grants) at the beginning of 2016/17 stood at £19.188m.
- 2.16 Our current draft capital programme requires total funding of £29.807m over four years with £9.222m being spent in 2017/18. For the current capital programme to be fully financed over the next four year, the whole of the capital reserve will be depleted by the end of 2019/20. In addition, it is foreseen that external borrowing of £10.950m will be needed over the same period. The majority of this borrowing will fund the building of a new custody facility for Carmarthenshire. The cost of this capital project is currently expected to be in the region of £8m.

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 takes 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 2017/18 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 8: 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>Additional 0.5% to pay on NI for Apprentices Levy. We may not be able to utilise this in the same way as will be possible in England.</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>Additional 0.5% on NI to pay for Apprentices Levy.</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		12%	Medium	<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 have been set to reflect operationally critical requirements. Budgets are monitored on a monthly basis.
Premises Costs	4%	Medium	Further investment may be needed on premises in the future if we are to avoid a further large capital programme to bring buildings back to an acceptable and safe working environment for staff and officers. 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.

Budget area	% of net costs	Risk level	Identified Risk	Mitigating factor
Transport Costs	2%	Medium	<p>An increase in the fleet size could occur without an adequate increase in running costs.</p> <p>The vote to leave Europe may lead to increased fuel costs in the future.</p>	<p>The capital programme is considered as part of Medium Term Financial Strategy and annual budget setting process.</p> <p>The Strategic Vehicle Group meets to discuss the vehicle fleet – group is chaired by the Director of Finance.</p> <p>Fuel prices are monitored and their impact regularly assessed through the robust budget monitoring procedures that are in place.</p>
Supplies and Services and Commissioning	10%	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

Budget area	% of net costs	Risk level	Identified Risk	Mitigating factor
Capital Financing	0.5%	Low	Not material	Not material
Specific Grant	-8%	High	Grants should be utilised in accordance with the terms and conditions of grant. Grant providers may cease payments of grant with minimal notice.	A grant register records all grants due. Posts funded by grants should be recruited on a temporary basis for the duration of the grant. All terms of grant are authorised by the Chief Financial Officer. All Establishment Amendment forms are authorised by the Director of Finance and Head of Human Resources. PCC Commissioned services are authorised by the Director of Commissioning after consultation with the Chief Finance Officer.
Other Income	-6%	Low	Not material	
Use of Reserves	-2%	Medium	Reserves should not be utilised to fund recurring expenditure. Unexpected demand led pressures on budgets can be met without an adverse impact.	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).

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 Financial Plan

1. Future Funding

- 1.1 Considerable uncertainty has existed over future financial settlements for some time. The Home Secretary's letter written on the day of the 2015 Spending Review stated that 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 2015, however, did not explain how the overall police settlement would affect individual forces. This was initially provided by the provisional settlement that was announced on the 17th December 2015. Mike Penning's statement announced a flat rate reduction in grant funding of 0.6% in cash terms for all forces for 2016/17. As expected, this provisional settlement covered just one year.
- 1.3 On the 15th December 2016, Minister for Policing and the Fire Service, The Rt Hon Brandon Lewis MP announced a flat rate reduction in grant funding of 1.4% in cash terms for all forces for 2017/18. This provisional settlement is slightly worse than predicted as an average increase in the council tax bases had been estimated by the Home Office before calculating the resulting decrease in funding. The outcome of this provisional settlement has led to a change in the assumptions made in the medium term plan. Previously, year on year reductions of 0.6% had been modelled and used as the most likely scenario (this matched the cash decrease received in 2016/17 compared with 2015/16). However, given the provisional settlement for 2017/18, year on year cash reductions of 1.4% have now been forecast as the underlying change in police fund. In addition, developments on the long awaited review of the funding formula have also been taken into account.

- 1.4 Two rounds of consultation on the funding formula took place in 2015/16 but the process was halted in November 2015. The impact of the last (unimplemented) review was a £7.9m loss in income for Dyfed-Powys. In late September 2016 we became aware of the Home Office's intention to commence a new review of the funding formula. This work is currently in progress. Whilst the outcome of the current work is not yet known, there is a concern that Dyfed-Powys could stand to lose a significant amount of central funding. It is understood that the Minister for Policing and the Fire Service wishes the new formula to be implemented in 2018/19 with a minimal transition period.
- 1.5 With this in mind, the medium term financial plan also incorporates a loss of £5m as a result of a change in formula. This reduction has been phased in over two years, beginning in 2018/19.
- 1.6 Given the future uncertainty of funding and the significant impact of a £5m loss in funding, the Police and Crime Commissioner has recognised that a 5% increase in the precept might be necessary over the whole of the rest of the medium term plan and this has been built into the base model. Further discussions between the Police and Crime Commissioner and Chief Constable will occur once the outcome of the review of the funding formula is known and may well affect the precept assumptions made in future years.
- 1.7 The current medium term shows the following:

Table 9: Total Funding for 2017/18 to 2020/21

	2017/18	2018/19	2019/20	2020/21
	£M	£M	£M	£M
Central Grants	49.313	46.122	42.977	42.375
Council Tax Precept	47.303	50.015	52.884	55.917
Total Funding	96.616	96.137	95.861	98.292
Change against prior year (£million)	+3.274	-0.479	-0.276	+2.431
% Change	3.5%	-0.5%	-0.3%	2.5%

- 1.8 The scenario above results in an increase in total funding of £1.676m (1.7%) over four years.

1.9 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 10: Inflation Assumptions for 2017/18 to 2020/21

Budget Assumptions (%)	17/18	18/19	19/20	20/21
Police Officers	1.0%	1.0%	1.0%	1.58%
Police Staff	1.0%	1.0%	1.0%	1.58%
Inflation	1.0%	1.0%	1.0%	1.0%
Premises Fuel	1.0%	1.0%	1.0%	1.0%
Vehicle Fuel	1.0%	1.0%	1.0%	1.0%
Grants	0.0%	0.0%	0.0%	0.0%
Income	1.0%	1.0%	1.0%	1.0%
Capital Financing	0.0%	0.0%	0.0%	0.0%

2.2 In addition to these increases in base costs, a savings plan has been developed that is due to deliver savings amounting to £3.909m over the next four years. These savings are detailed in the table below:

Table 11: Cost Reduction Summary for 2017/18 to 2020/21

Force Cost Reductions	2017/18	2018/19	2019/20	2020/21	Total
	£'000	£'000	£'000	£'000	£'000
<u>Breakdown of Future Savings</u>					
NPAS Charge / Service	-250	-250	0	0	-500
Police Allowances	-102	-102	-102	-102	-408
Winsor - Increments - PDR	0	-50	-10	0	-60
Winsor - Limited Duties Reductio	0	-48	-48	0	-96
NI - Changes LGPS / Child Care	0	-40	-40	0	-80
Student Accommodation / Premises Cost	-75	-150	-100	-50	-375
Income Generation	0	-40	-40	0	-80
Traffic Campaigns funded NDORS / VRS	0	-50	-50	0	-100
<u>Collaboration</u>					
Custody Collaboration - North Wales	0	0	-50	0	-50
Other Collaboration (Inter Force / City Forum)	0	0	-150	0	-150
CLEP / Procurement / Sustainability	-150	-150	-150	-150	-600
Collaboration - Local / Other	0	-60	-100	-150	-310
<u>Demand / Spending Wisely</u>					
Spending Wisely - Workforce / Shift / CJ	-600	-100	-50	-50	-800
Temporary Staff in Baseline	0	-150	-150	0	-300
Total Savings Identified	-1,177	-1,190	-1,040	-502	-3,909

- 2.3 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 2018/19 onwards:

Table 12: Savings gap for 2017/18 to 2020/21

	17/18	18/19	19/20	20/21
	£M	£M	£M	£M
Net Costs of Policing	96.616	97.521	98.358	100.086
Central Funding and Local Precept	-96.616	-96.137	-95.861	-98.292
Total savings gap (cumulative)	0	1.383	2.497	1.794

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 As the result of the review of the funding formula is unknown, the financial impact of a zero, £3m and £8m loss arising directly from a change in formula have also been modelled. These losses are modelled in conjunction with an underlying year on year cash decrease of 1.4% in the police fund.
- 3.3 The base case shows that further savings of £5.674m above and beyond those already identified and built into the model are needed to achieve a break-even position in each year of a four year plan.
- 3.4 In the case of a £8m formula loss, these unidentified savings grow to £9.165m.
- 3.5 In the case of a zero funding formula impact, there will be a further £6.686m of funds to replenish reserves or to be used to reduce the precept or external borrowing requirement.
- 3.6 The table below summarises the impact of the various scenarios modelled:

Table 13: Impact of different funding scenarios on four year plan

	17/18	18/19	19/20	20/21	Total
	£M	£M	£M	£M	£M
1.4% reduction in funding year on year	0	-1.117	-2.468	-3.102	-6.686
1.4% reduction plus formula reduction of £3m in 2018/19	0	1.883	0.490	-0.185	2.188
1.4% reduction plus formula reduction of £5m over 2 years (medium term plan)	0	1.383	2.497	1.794	5.674
1.4% reduction plus formula reduction of £8m over 3 years	0	1.550	2.828	4.797	9.165

- 3.7 Whilst the result of the financial modelling is known, the Chief Constable is currently working out the detail of the operating models that will be implemented should these various scenarios occur. The impact of a £8m loss would result in a 16% reduction in central funding and would have a significant impact on police services with some very difficult decisions having to be made.
- 3.8 The PCC and CC are also engaged in discussions with other forces on collaboration and the new CC will begin to make some changes to the force's operating model during 2017/18.
- 3.9 Further discussions about the future will take place during 2017/18 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 2020/21

	Baseline	Assumptions				Projected Financing Available			
	2016/17	2017/18	2018/19	2019/20	2020/21	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Central Grants		DRAFT	EST	EST	EST				
Allocation of Police Core Settlement	-28,117	-1.4%	-1.4%	-1.4%	-1.4%	-27,724	-27,336	-26,953	-26,576
Floor Funding	-9,000	-1.4%	-29.6%	-41.4%	-1.4%	-8,874	-6,250	-3,663	-3,611
Revenue Support Grant	-4,618	-1.4%	-1.4%	-1.4%	-1.4%	-4,554	-4,490	-4,427	-4,365
National Non Domestic Rates	-8,277	-1.4%	-1.4%	-1.4%	-1.4%	-8,161	-8,047	-7,934	-7,823
	-50,012					-49,313	-46,123	-42,978	-42,375
	-0.6%					-1.4%	-6.5%	-6.8%	-1.4%
Council Tax Precept									
Base	216,574	2.13%	0.70%	0.70%	0.70%	221,176	222,724	224,283	225,853
Rate at Band D	200.07	6.90%	5.00%	5.00%	5.00%	213.87	224.56	235.79	247.58
Projected Precept	-43,330					-47,303	-50,015	-52,884	-55,917
Total Financing	-93,342					-96,616	-96,138	-95,861	-98,292
						3.5%	-0.5%	-0.3%	2.5%
<i>% Funded by Council Tax</i>	46%					49%	52%	55%	57%
		Taxbase at Band D				Collection			
Taxbase		2016/17	2017/18	Change		2016/17	2017/18	Change	
Carmarthenshire		70,929	71,599	0.94%		97.50%	97.50%	0.00%	
Ceredigion		30,661	31,894	4.02%		96.50%	98.50%	2.00%	
Pembrokeshire		53,798	55,920	3.94%		97.75%	98.00%	0.25%	
Powys		61,186	61,764	0.95%		98.50%	98.50%	0.00%	
		216,574	221,176	2.13%					

Table 15: Revenue Account for 2016/17 to 20/21

	Final Budget	Proposed Budget	Financial Outlook		
	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
Budget for OPCC and Commissioning					
Staff Costs	642	695	702	709	720
OPCC Running Expenses	336	336	339	342	346
Research and Community Projects	0	153	155	156	158
Commissioning Budget	979	793	807	821	836
Total OPCC Costs	1,957	1,977	2,003	2,028	2,060
Budget for Chief Constable and Staff under Direction and Control of Chief Constable					
Employees					
Police Officers	51,804	52,681	52,857	53,080	53,759
Police Staff	19,806	21,014	21,012	20,970	21,149
PCSO's	4,831	4,971	5,020	5,071	5,151
Police Pensions (net)	11,790	11,903	12,016	12,131	12,308
Indirect Staff Costs	747	754	762	769	777
Total Employee Costs	88,979	91,323	91,668	92,021	93,144
Running Expenses					
Premises Costs	3,417	3,451	3,334	3,266	3,249
Transport Costs	2,225	2,247	2,270	2,293	2,316
Supplies & Services	9,794	9,512	9,455	9,398	9,341
Agency & Contracted Services	2,413	2,235	2,005	1,873	1,892
Total Running Expenses	17,849	17,445	17,064	16,831	16,797
Capital Financing Costs	467	467	665	881	1,077
Total Expenditure	107,295	109,235	109,397	109,733	111,018
Financed By:					
Income					
Specific Grants	-7,265	-7,265	-7,265	-7,265	-7,266
Other Income	-5,593	-5,379	-5,524	-5,670	-5,726
Total Income	-12,858	-12,644	-12,789	-12,935	-12,992
Contribution From Reserves					
Use of / Contribution to Reserves	-3,052	-1,952	-1,090	-468	0
	-3,052	-1,952	-1,090	-468	0
Net Costs - Force	91,384	94,639	95,518	96,329	98,026
Total Costs for OPCC and Force	93,342	96,616	97,521	98,358	100,086
Net Cost of Policing To be Funded From Grants and Precepts					
	0	-0	0	0	-0
Grants and Precepts					
Police Grant (-1.4%)	-28,117	-27,724	-27,336	-26,953	-26,575
Floor Funding (-1.4% + formula -£5 m)	-9,000	-8,874	-6,250	-3,663	-3,611
NNDR (-1.4%)	-8,277	-8,161	-8,047	-7,934	-7,823
RSG (-1.4%)	-4,618	-4,554	-4,490	-4,427	-4,365
Total External Support	-50,012	-49,313	-46,122	-42,977	-42,375
Precepts on Billing Authorities	-43,330	-47,303	-50,015	-52,884	-55,917
TOTAL RESOURCES	-93,342	-96,616	-96,137	-95,861	-98,292
Difference (Deficit / Unidentified Savings)	-0	0	1,383	2,497	1,794
Taxbase	216,574	221,177	222,725	224,284	225,854
COUNCIL TAX LEVEL	£ 200.07	£ 213.87	£ 224.56	£ 235.79	£ 247.58
Council Tax Increase	0.00%	6.9%	5.0%	5.0%	5.0%