

Police and Crime Panel

10 March 2017



Revenue & Capital Budgets 2017/18

Revenue & Capital Budgets 2016/17

Report of PCVC Chief Finance Officer

Introduction

1. The purpose of this report is to set out the Police Crime and Victims' Commissioner's (PCVC) decisions in respect of:
 - Setting the revenue budget and issuing the policing precept for 2017/18;
 - Approving the capital budget for 2017/18;
 - Approving the revised revenue & capital budgets for 2016/17;
 - Approving the treasury management policy and strategy for 2017/18;
 - Considering the robustness of the estimates and adequacy of reserves.
2. The covering report is divided into the following sections
 - Background
 - Grant Settlement
 - 2017/18 Council Tax requirement
 - Reserves
 - Key risks
 - Cost control
 - Capital Budget
3. The budget is attached at Appendix 2.
4. Appendix 3 is a report into the robustness of the estimates.

Background

5. The provisional financial settlement for 2017/18 (received 15th December 2016) announced a reduction in core Government funding to Police Forces of 1.4% when compared to 2016/17.
6. The Medium Term Financial Plan is not included in this report. Whilst there is a balanced budget for 2017/18, work is still ongoing to balance the budget for the three remaining years of the medium term financial plan. A separate report will be produced once this is complete.

7. The Home Office are currently undertaking a review of the police funding formula allocation between Forces for 2018/19 onwards. Our understanding, based on previous exemplifications published in 2015, is that Durham could potentially lose up to £10m per annum from the changes. A separate report will be produced showing how such a reduction would be financed. This clearly has an impact on the Medium Term Financial Plan mentioned above. The PCVC and Chief Constable recently met the Minister for Policing and Fire to set out Durham's case and raise key issues of concern on the formula.
8. Whilst recognising the impact of any increase in Council Tax on the finances of households in County Durham and Darlington, in view of the future budgetary challenges referred to above, it is the view of officers and the PCVC that it is more important than ever, so far as is possible, to protect the base budget by increasing the Council Tax, by the maximum allowed without triggering a referendum.
9. The budget (Appendix 2) shows a balanced budget for 2017/18. Appendix 3 shows the main assumptions used, which are considered reasonable.
10. Officer numbers are expected to increase in 2017/18 up to 1175 at the end of the year. PCSO numbers are expected to be 158, down from 170 in 2016-17. The Force expects to have 880 police staff roles by 31 March 2018, which is an increase compared to 2016/17 and reflects growth in priority areas.
11. Savings have been made across a range of pay and non-pay budgets to reflect continuing efficiency.

Grant Settlement

12. Central funding for 2017/18 has been set at £84.668m, a decrease of £1.115m (1.3%) compared with the 2016/17 figures, with the main grants reducing by 1.4%. The table shows the Constabulary's central government funding next year compared to the current year:

	2016/17 £000	2017/18 £000
Police Grant	42,709	42,112
DCLG General Grant	36,964	36,446
Legacy Council Tax Freeze Grants	6,110	6,110
Central Gov't Funding	85,783	84,668
Reduction in Funding from previous year	457	1,115

13. As well as general grant, the PCVC will continue to receive other specific grants in 2017/18.
14. The government has announced the 2017/18 Council Tax capping criteria at 2%. As previously presented to the Panel, the PCVC has decided following public consultation to increase Council Tax by 1.98%.

15. Every 1% variation in the Band D Council Tax affects the Council Tax Requirement by £0.28m. A 1.98% increase in Council Tax, which is the maximum increase recommended to avoid a referendum, will result in an increase to the base budget of £0.55m for every year in the future. This will increase the Band D precept from £165.95 to £169.24 per annum, an increase of £3.29 per annum which is approximately 6p per week. The impact on the majority of households in County Durham and Darlington which are Band A properties, will be an increase of £2.20 from £110.63 to £112.83 per annum, which is equivalent to approximately 4p per week.

16. The Government has created a number of ‘top sliced’ funding streams as follows:

- Counter terrorism
- Firearms
- Efficiency

The Force is yet to receive details of its allocation.

17. Police capital grant has reduced by 15%. This will reduce capital grants by £0.09m which can be financed by revenue contributions to capital in order to maintain investment in new assets. The capital grant for 2017/18 is £0.496m.

18. The Force has budgeted for £1.3m next year for the annual increase in the contributions to the Local Government Pension Scheme.

2017/18 Council Tax Requirement

19. The ‘*council tax bases*’ of Durham County Council and Darlington Borough Council are used to calculate the proportion of the PCVC’s total precept levied on each Council. The tax base is the estimated full year equivalent number of chargeable Band D dwellings with two or more liable adults and in respect of which tax will be received. The ‘*council tax bases*’ for 2017/18, determined by the relevant authorities and notified to the Police Crime and Victims’ Commissioner, are as follows:

Council	Notified Council Tax Base
Durham County	135,620.90
Darlington	31,989.50
Aggregate Council Tax Base	167,610.40

20. The Basic Council Tax for the Office of the Police, Crime and Victims’ Commissioner (OPCVC) is calculated by dividing the precept by the aggregate of tax base.

$$\frac{\text{Council Tax Requirement}}{\text{Aggregate Council Tax Base}} = \text{Basic Council Tax (At Band D)}$$

21. An increase of 1.98% in Band D Council Tax would result in a budget of £113,293,512:

	£	£
PCVC's Budget Requirement (based on an increase in Basic Council Tax of 1.98%)		113,293,512
Less:		
Specific Grant	42,111,941	
Re-distributed Non-Domestic Rates	36,446,063	
Legacy Council Tax Grants	6,110,124	
		84,668,128
		28,625,384
Less:		
Estimated overall net surplus on Collection		
Funds at 31 st March 2017		259,000
Council Tax Requirement		28,366,384

This would mean a council tax of:

$$\frac{\mathbf{£28,366,384}}{\mathbf{167,610.40}} = \mathbf{£169.24}$$

22. Following public consultation, the PCVC has decided that the Council Tax Requirement will be set at a level that results in a 1.98% increase in Band D Council Tax for the year ending 31st March 2018 and

- That in determining the Council Tax Requirement, the PCVC notes the PCVC Chief Finance Officer's report on the robustness of the estimates and the adequacy of reserves and risks in the budget, is attached as Appendices 3 and 4.
- The 'council tax base' for the whole of the Force area of County Durham and Darlington will be **167,610.40**.
- The 'basic amount of council tax' be £169.24 and the amount of council tax for each category of dwelling be as follows:

Valuation Band	(Proportion of Basic Amount)	Council Tax 2017/18
		£
A	(6/9)	112.83
B	(7/9)	131.63

Valuation Band	(Proportion of Basic Amount)	Council Tax 2017/18
C	(8/9)	150.44
D	(<i>'basic amount'</i>)	169.24
E	(11/9)	206.85
F	(13/9)	244.46
G	(15/9)	282.07
H	(18/9)	338.48

- The Budget Requirement be £113,293,512 and that after taking account of Police Specific Grant of £42,111,941 Re-distributed Non-Domestic Rates of £36,446,063 and Legacy Council Tax Grants of £6,110,124, precepts totalling £28,366,384 be issued to Authorities as follows:

Council	Council Tax Base	Precept (£)
Durham County	135,620.90	22,952,481
Darlington	31,989.50	5,413,903
	167,610.40	28,366,384

23. Precept Instalments: Discussions with the Treasurers of the Collecting Authorities have taken place, and the dates for the payment of the precept in ten equal instalments are as follows:

(a) **Durham County Council**

- 3 April 2017
- 5 May 2017
- 5 June 2017
- 5 July 2017
- 4 August 2017
- 4 September 2017
- 4 October 2017
- 3 November 2017
- 4 December 2017
- 4 January 2018

(b) **Darlington Borough Council**

- 19 April 2017
- 25 May 2017
- 30 June 2017
- 4 August 2017
- 11 September 2017
- 16 October 2017
- 20 November 2017
- 27 December 2017
- 1 February 2018
- 8 March 2018

Reserves

Level of Financial Reserves

24. To ensure ongoing financial viability it is important that the Police, Crime and Victims' Commissioner continues to maintain a suitable level of reserves. Whilst there is no general guidance on what represents a suitable level of reserves in percentage terms, it is important to take into account the various risks to be faced when coming to a view on reserve levels. It is the view of Chief Finance Officer (for the PCVC and Chief Constable) that general reserves should not be used to support day to day expenditure given: the level of funding uncertainty in future years (where the grant allocation has not been confirmed by the Home Office); localisation of council tax benefit; rising costs and council tax capping limits. Reserves should only be used to invest in capital expenditure or invest in expenditure which will lead to clear efficiencies.
25. The current policy statement on the level of reserves includes the following:
- The PCVC will set aside sufficient sums in earmarked reserves as it considered prudent to do so. The PCVC Chief Finance Officer will be authorised to establish such reserves as are required, will review them for both adequacy and purpose, and report on a regular basis to the Police Crime and Victims' Commissioner.
 - The PCVC will aim to maintain, broadly, general reserves of between 4% and 5% of the revenue estimates which are currently about £4.532m and £5.666m respectively (based on 2017/18 revenue funding of £113.293m) subject to an annual review by the PCVC Chief Finance Officer as part of the budget process.
26. The following tables show the estimated movement in financial reserves over the period to 31st March 2018 assuming a 1.98% Council Tax increase for 2017/18..

Summary of Total Reserves

Financial Reserves	Balance at 31/3/16	Variation 2016/17	Estimated Balance 31/3/17	Variation 2017/18	Estimated Balance 31/3/18
	£'000	£'000	£'000	£'000	£'000
General	5,666	-	5,666	-	5,666
Capital Grants Unapplied	832	585	1,417	(1,417)	-
Capital Receipt	-	2,900	2,900	641	3,541
Earmarked	7,057	3,312	10,369	-	10,369
Total Reserves	13,555	6,797	20,352	(776)	19,576

Detailed Breakdown of Total Reserves

	31st March 2016 £'000	31st March 2017 £'000	31st March 2018 £'000
Capital Modernisation	2,241	5,553	5,553
Staff Pensions & Severance	1,760	1,760	1,760
Police Officer Pensions	676	676	676
PCVC	735	735	735
Community Safety Reserve	268	268	268
Tactical Training Centre	121	121	121
NERSOU	2	2	2
Other	1,254	1,254	1,254
Capital Grants Unapplied	832	1,417	0
Capital Receipt	-	2,900	3,541
General Reserve	5,666	5,666	5,666
Total	13,555	20,352	19,576

The expected use of reserves is as follows:

- £5,762m to fund capital expenditure in 2017/18
- This is made up of £1,913m capital grant and £3.849m capital receipt.

Key Risks

27. The following key risks with associated mitigating action and responsible persons are included within the budget (see appendix 3 for more details):

- Revised allocation of formula grant between Forces,
- An ageing estate portfolio putting increased pressure on facilities management budgets,
- Police officer capacity to respond to service demands,
- Flexibility to move police resources to areas of need,
- Demand continues to rise and change,
- Collaboration may require up-front costs of change,
- Uncertainty about partners' future budget plans.

Cost Control

28. Given the continual impact of austerity, cost control is more important than ever. External audit review Value for Money arrangements each year and give the PCVC and Chief Constable positive assurance in this regard. Internal audit also review financial controls and financial planning assumptions on a regular basis and their last report gave substantial assurance to the Chief Constable.

Specifically the following controls are in place:

- Monthly budget reviews are carried out in each Command
- The Chief Finance Officer reviews the overall Force and PCVC budgets each quarter.
- Overtime is reviewed by the Force Executive and each Command monthly.
- The Financial outturn is circulated at the Force Leadership Group
- Detailed outturn reports are produced quarterly.
- Experienced and qualified Finance staff work closely with the Commanders and Executive officers.
- The Assistant Chief Officer chairs the Strategic Resource Group which controls overall officer and staff numbers to ensure they remain in line with budget.
- Benchmarking is carried out regularly eg use of the VFM profiles and other external data.

Capital Budget 2017/18

Prudential Code (including Treasury Management)

29. Under the Prudential Code for Capital Expenditure, the PCVC is free to make borrowing decisions according to what is affordable. The proposed capital programme for new starts and carry forward in 2017/18 totals £6.157m of which part could be met with a contribution from Capital Grants Unapplied. In order to reduce the impact on the 2017/18 budget, the Council Tax Requirement has been compiled on the assumption that capital receipts and a revenue contribution to capital will be used to finance the capital budget after taking account of capital grant. Technical recommendations relating to the Code are set out in Appendix 2.
30. The Prudential Code for Capital Finance in Local Authorities was introduced with effect from 1 April 2004. The key objectives of the Prudential Code are to ensure that within a clear framework the capital investment plans of the PCVC are affordable, prudent and sustainable.
31. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. Details of the requirements of the Code are included in Appendix 2 and the recommended limits are detailed below for consideration.
32. The PCVC has approved prudential borrowing and treasury management arrangements and affirms them as the basis on which such business will be conducted in 2017/18 in order to facilitate the major capital programme outlined in the Medium Term Financial Plan. (A separate report on this can be provided to the Panel if required).
33. The 2016/17 capital programme is progressing. The revenue consequences of this programme have been taken into account in the 2017/18 budget. Certain projects are committed but not yet fully delivered and it is therefore necessary to allow a carry forward into 2017/18.
- 34. The PCVC has agreed the carry forward of underspends on the 2016/17 capital programme.**

Considerations under the Prudential Code

35. In considering the programme for capital investment, under the Prudential Code, the PCVC is required to have regard to the following matters:
- Affordability, e.g. implications for Council Tax. The prudential indicators have been set assuming a Council Tax increase of 1.98% in 2017/18.
 - Prudence and sustainability, e.g. implications for external borrowing. The implication for external borrowing of the PCVC's capital spending plans has been assessed as both prudent and sustainable in the long term.
 - Value for money.
 - Stewardship of assets.

- Service objectives, e.g. strategic planning for the PCVC and the Force. The PCVC has a medium term financial plan that is updated annually and that helps to ensure that both service and corporate objectives are taken account of as part of the budgetary process.
- Practicality, e.g. achievability of the forward plan. The current capital plan is deemed to be achievable.
- The 2017/18 capital programme is considered to be both realistic and achievable.
- The revised capital budget for the year 2016/17 and the proposed capital expenditure for 2017/18 are detailed in the table below.

	Outturn 2016/17 £'000	Estimate 2017/18 £'000
Expenditure		
Buildings: Major works	3,100	0
Buildings: Minor Works	690	150
Buildings carry forward from prior year		217
Vehicles	869	1,000
Vehicle carry forward from prior year		306
ICT	1,209	2,348
ICT carry forward from prior year		1,886
Equipment	213	250
Total	6,081	6,157
Funding		
Capital Grant	0	1,913
Special Grant	1,633	0
Capital Receipts	0	3,849
Revenue Contribution	2,948	258
Strategic Reserve	0	0
Self-Financed Borrowing	1,500	137
Total	6,081	6,157
Capital Financing Costs		
Minimum Revenue Provision	647	662
Revenue Contribution	0	0
Contribution from Reserves	0	0
Interest Charges	238	283
Total	885	946

Recommendation

The Panel is recommended to consider the report and ask any questions.

G Ridley

PCVC Chief Finance Officer

Appendix 1: Risks and Implications

Finance

These are contained in the main body of the report.

Staffing

The budgetary implications for staffing are dealt within the MTFP which will be produced separately. Officer, PCSO and staff numbers are budgeted to be broadly static during 2017/18.

Equality and Diversity

N/A

Accommodation

The capital budget has implications for the way in which accommodation will be delivered in the future.

Crime and Disorder

N/A

Human Rights

N/A

Children's Act 2004

N/A

Stakeholder/Community Engagement

A number of public consultation meetings were held to invite views on budget setting and the level of precept.

Environment

N/A

Collaboration

A full and developing programme of collaboration is in place to effectively manage austerity. The Constabulary Programme Boards will oversee VFM and productivity in relation to the delivery of the 2017/18 budget.

Value for Money and Productivity

N/A

Other risks

N/A

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Durham Police Crime and Victims' Commissioner Capital and Revenue Budget 2017/18

Introduction

The prevailing national financial climate has transformed the way in which we perceive the delivery of public services. The Policing Service now has an imperative to evidence value for money and deliver a consistently high level of services with shrinking financial resources. The austerity measures are expected to continue until after 2020.

This plan demonstrates in financial terms how the Police Crime and Victims' Commissioner (PCVC) will strive to achieve his vision for policing in County Durham and Darlington. The plan provides an outline of the demands and consequential revenue resource requirements of the PCVC and Constabulary for the financial year commencing 1st April 2017. The plan also details the proposed capital programme and the revenue consequences of that programme.

Durham Constabulary has embraced a corporate scorecard approach called "Plan on a Page". This strategic financial plan has been compiled in a way which reflects those strategic intentions and has been developed alongside the local Policing Plan.

The plan is owned by both the PCVC and Constabulary. Individual and collective responsibility is exercised over the management of performance and resources. Governance arrangements are in place to ensure that the PCVC holds the Constabulary to account through regular reporting of issues. Within the Constabulary, internal accountability meetings are regularly held to ensure objectives are met.

Purpose

The purpose of this financial planning document is to provide a basis for determining:

- The level of resources which are likely to be available in the future to deliver national and local priorities;
- The future demands upon the revenue budget;
- The impact of external factors;
- The financial implications of partnership working;
- The amount of capital investment which is required to achieve corporate objectives;
- The revenue consequences of such capital investment;
- The future reserve levels of the PCVC;
- The impact of additional demands on the level of council tax levied by the Police Crime and Victims' Commissioner;

- The main financial risks facing the PCVC and Constabulary.

Strategic Planning Principles

In constructing its financial plans the PCVC benefits from following the principles below:

- *Ensure that finance contributes to improved outcomes by ensuring finance follows priorities.*
- *To ensure overall financial stability.*
- *Set a comprehensive, timely, balanced and realistic budget;*
- *Take into account pay and price inflation, risk management, and achievability of savings targets;*
- *Follow its treasury management policy;*
- *Follow its reserves policy;*
- *Raise awareness of and communicate key financial messages both internally and externally;*

The budget has been compiled following the established principles that have been adopted by the PCVC and within the following further conditions:

- *Budgets set will be affordable and not jeopardise the financial stability of the PCVC in either the short or long term;*
- *Precept increases will be kept to a minimum consistent with the provision of effective and efficient services;*
- *All spending plans will need to demonstrate that they can achieve value for money and support best value principles;*
- *Spending will be agreed only when the necessary funding is identified and approved;*
- *External funding will be sought wherever it can be used in a sustainable manner that does not lead to unforeseen costs to the PCVC;*
- *The PCVC's finances will be publicised to stakeholders in an open and transparent manner;*
- *Customers and citizens will be involved in the budget process.*

Key Strategic Areas & Objectives

The Police, Crime and Victims' Plan includes the strategic objectives for the Constabulary. The vision within it is:

“County Durham and Darlington are areas where people have confidence in policing and the criminal justice system, victims and vulnerable people feel supported, and all communities are safe.”

The delivery of this vision is supported by three aims:

- **Inspire confidence in the police and criminal justice system**
- **Support victims and the vulnerable**
- **Tackle crime and keep our communities safe**

These are supported by ten objectives.

The approach to the Constabulary's strategic planning to deliver these aims is now also shaped by the prevailing drive to demonstrate value for money in a time of reducing resources. The Constabulary has created a strategy map (Plan on a Page) based on a balanced scorecard approach. This has enabled colleagues across the Constabulary to understand how their activities link with and support delivery of the key outcomes required that will help to achieve the Constabulary's Vision.

The Vision:

“Durham Constabulary will deliver excellent policing inspiring confidence in victims and our communities by protecting neighbourhoods, tackling criminals, and solving problems around the clock, proud to deliver value for money policing across County Durham and Darlington.”

The strategy map is structured into four key areas which enable the Constabulary to identify the following, in order to deliver the Police, Crime and Victims' Plan aims:

- What we need to be good at (Our Core Deliverables),
- What will help us to do it (Enabling Factors),
- How we will align our Resources,
- Use of Resources.

Each key area describes a number of strategic objectives that informs where the PCVC and Constabulary need to focus their attention and resources. The process collects each strategic objective and identifies key linkages ensuring alignment to the corporate vision. The strategic objectives supporting each key area are:

- What we need to be good at (Our Core Deliverables):
 - Protecting Neighbourhoods,
 - Tackling Criminals,

- Solving Problems,
- What will help us to do it (Enabling Factors):
 - Provide effective and efficient service,
 - Manage and use our knowledge,
 - Communication for confidence,
 - Working together with others,
 - Legitimacy & Leadership,
- How we will align our Resources:
 - Our Staff,
 - Our Staff,
 - Strategic Policing Requirement,
- Use of Resources:
 - Our Finance,
 - Continuous Improvement,
 - Performance Management Framework.

The Police, Crime and Victims' Commissioner is also increasingly looking to work with partners in both the Community Safety Partnerships and the Local Criminal Justice Board, in order to invest in services which support victims, prevent crime in the longer term and reduce demand. Key priorities for investment outside of the core budget for the police force are therefore:

- Supporting victims
- Reducing Reoffending
- Prevention and Community Safety.

Revenue Expenditure

Police Service Funding

36. Central funding for 2017/18 has been set at £84.668m, a decrease of £1.115m (1.3%) compared with the 2016/17 figures with the main grants reducing by 1.4%. The table shows the Constabulary's central government funding next year compared to the current year:

	2016/17 £000	2017/18 £000
Police Grant	42,709	42,112
DCLG General Grant	36,964	36,446
Legacy Council Tax Freeze Grants	6,110	6,110
Central Gov't Funding	85,783	84,668
Reduction in Funding	457	1,115

As well as general grant, the PCVC will continue to receive other specific grants.

Financial Planning Assumptions

The key income planning assumptions have been driven by funding announced in the provisional government figures and have been collated on a table and explained in detail in the previous section on police service funding.

The key expenditure related planning assumptions are reflected in the attached table

	Estimate 2017/18
Officer Pay Inflation (from September each year)	1%
Police Staff Pension Contribution Increase	7.4%
Staff Pay Inflation	1%
Police Officer Vacancy Factor	0%
Police Staff Vacancy Factor	2%
Energy & Fuel Inflation	4%
Other Non-Pay Inflation (except where contractually based)	0%
Council Tax Increase	1.98%
Other Income Inflation	0%

Work Force Planning

The following table shows expected workforce numbers.

	2016/17	2017/18
Officers	1,150	1,175
PCSOs	170	158
Staff	840	880
Total	2.160	2,213

These figures are kept under continuous review. Further information is contained within the detailed workforce plan.

This table considers the impact of all the income and revenue assumptions and identifies the Budget 2017/18 for approval, compared to 2016/17.

Budget Heading	Outturn 2016/17	Estimate 2017/18
	£'000	£'000
Employees		
Police Officer Pay	60,370	60,991
Police Overtime	2,160	1,987
Police Staff Pay	30,750	32,494
Police Pensions	1,919	2,181
Other Employee Expenses	1,011	761
Total Employees	96,210	98,414
Premises	3,990	4,208
Transport Expenses	2,406	1,983
Supplies & Services		
Equipment	693	914
Stationery	258	232
Uniform	243	252
Doctors/medical costs	1,467	1,413
Communications	1,906	1,659
Computing	2,405	2,771
Other Supplies	1,983	1,046
Total Supplies & Services	8,955	8,287
Air Support	529	529
Joint & Other Authorities	814	713
Forensic Science Services	1,126	920
Less		

Income		
Customer & Client Receipts	(5,114)	(2,156)
Collaboration income	(1,438)	(1,355)
Secondment Income	(979)	(590)
Interest	(12)	(25)
Special Grants	(1,102)	(919)
<i>Plus</i>		
Contribution To/ From (-) Reserve	3,312	0
Revenue contribution to capital	2,948	258
Capital Financing Costs	671	946
<i>Police Constabulary Costs</i>	112,316	111,213
Victims Commissioning Grant	(551)	(737)
Restorative Justice Grant	(140)	0
PCVC commissioning	751	1,173
Community Safety Grant	700	692
<i>PCVC Costs</i>	913	952
Net Expenditure	113,989	113,293
<i>Funded by</i>		
DCLG Grant	(36,964)	(36,446)
Police Grant	(42,709)	(42,112)
Council Tax Support Grant	(6,110)	(6,110)
Council Tax	(28,206)	(28,625)
	(113,989)	(113,293)
<i>(Surplus) / Deficit</i>	0	0

Comment:

- The latest HMIC Value for Money Profiles has been used to identify areas for potential efficiency savings.
- A detailed workforce plan has been produced which compliments this plan.

Scenario planning

The Medium Term Financial Plan is not included in this report. Whilst there is a balanced budget for 2017/18, work is still ongoing to balance the budget for the three remaining years of the medium term financial plan. A separate report will be produced once this is complete.

The Home Office have already announced that they are reviewing the police funding formula allocation between Forces for 2018/19 onwards. Our understanding, based on previous exemplifications published in 2015, is that Durham could potentially lose up to £10m per annum from the changes. A separate report will be produced showing how such a reduction would be financed.

Capital Expenditure

The enclosed capital summary sets out proposed expenditure for capital projects for 2016/17 and 2017/18 and the associated funding options. The PCVC received £0.581m in 2016/17 and expects to receive £0.496m in 2017/18.

Capital expenditure for subsequent years will be included in the Medium Term Financial Plan.

There are a number of options open to the PCVC to funding capital expenditure and these include capital receipts, use of reserves or revenue contributions to capital. The balance of funding would be generated from borrowing which would incur interest charges at prevailing market rates (unless the PCVC enters into specific term borrowing arrangements such as fixed interest rates over a fixed borrowing term).

The impact of any capital receipts generated from the sale of land owned by the PCVC for development of commercial or housing purposes has been included in the funding at this stage. The first capital receipts from the sale of the old HQ site were received in 2016/17 and will continue over a number of years.

Revenue Impact of the Capital Programme

The PCVC can determine to meet part of the capital requirement through applying capital receipts, making revenue contributions, applying reserves, and/or (under the provisions of the Prudential Code) borrowing.

The associated future capital financing charges as a result of this provisional programme have been determined based upon the expected lifespan of the asset, generally as follows: Motor Vehicles (4 years); IT Systems (5 years); ANPR Equipment (10 years); Minor Building Work (20 years); Major New Buildings (60 years).

Grant is applied to those assets with the shortest lifespan. The capital receipts arising from the sale of the police headquarters' site have been used to partly fund the capital programme from 2016/17 onwards.

The following table contains a summary of capital expenditure by asset category. The capital financing charge from 2015/16 onwards has been affected by the application of the strategic capital reserve in 2014/15 to shorter life assets over those years.

	Outturn 2016/17 £'000	Estimate 2017/18 £'000
Expenditure		
Buildings: Major works	3,100	0
Buildings: Minor Works	690	150
Buildings carry forward from prior year		217
Vehicles	869	1,000
Vehicle carry forward from prior year		306
ICT	1,209	2,348
ICT carry forward from prior year		1,886

Equipment	213	250
Total	6,081	6,157
Funding		
Capital Grant	0	1,913
Special Grant	1,633	0
Capital Receipts	0	3,849
Revenue Contribution	2,948	258
Strategic Reserve	0	0
Self-Financed Borrowing	1,500	137
Total	6,081	6,157
Capital Financing Costs		
Minimum Revenue Provision	647	662
Revenue Contribution	0	0
Contribution from Reserves	0	0
Interest Charges	238	283
Total	885	946

The most significant capital expenditure is explained over the next few paragraphs and a table showing detailed planned expenditure between for 2016/17 and 2017/18 is included at the bottom of this section.

Estates

The primary focus for the Estates programme will be the purchase of a new building for collaborative activities and the resiting of the radio mast.

There will still be a regular buildings improvement and maintenance programme undertaken for the rest of the Estate.

Fleet

The fleet replacement programme is kept under constant review and it is planned to spend a relatively consistent figure each year on vehicles.

ICT

The ICT Strategy outlines the capital schemes to be delivered over the period. Key schemes are as follows:

- National requirement: All Forces must upgrade their emergency services communications.
- Business Applications: The primary cost over the next year will be the improvement of collection and storage of digital evidence.

The following table includes details of new capital expenditure by asset category.

	Outturn 2016/17 £'000	Estimate 2017/18 £'000
Property capital carry forward from prior year		217
Major Works Projects		
New NERSOU building	2,700	
Mast relocation	400	
	3,100	0
Minor Works Projects		
Meadowfield Classroom Extension	130	
Collaboration capital costs	50	
Other works	45	
Accommodation Improvements	354	50
Legislative Compliance	111	100
Sub total	690	150
Motor Vehicles	869	1,000
Motor Vehicles carry forward from prior year	0	306
ICT Capital carry forward from prior year		1,886
National Requirements		
ESMCP		815
Infrastructure Technology Refresh		
Server & Storage Replacement	150	50
Custody DVR & CCTV upgrade	75	
ANPR infrastructure		58
WAN Hardware	9	
Projector Review/Replace	15	
Public service network	30	
ICT training facility	18	
Digital Evidence		
Digital Interview Recorders		250
Digital Witness Statements		75
Digital Evidence Storage/Archive		300
CCTV Security Camera replacement		75
Mobile Working		
Mobile Data	123	
Expand Video Conferencing	25	
Client devices		
Body camera replacement		325
Regional Collaboration		
RIU Move		200
Business Applications		
Red Sigma	60	50

Microsoft Licence Arrangements		100
Police Works	215	50
GIS Upgrade	155	
IT Service Management System	85	
Forensic case management	26	
Sundry	7	
Vetting application	13	
Pension system	97	
Protective Monitoring System	50	
Image Transfer project	23	
Cyber Crime	33	
Sub total	1,209	2,348
Equipment	213	250
Grand Total	6,081	6,157

Key Risks

The following are the key risks contained within the plan

Risk	Mitigating Action	Person Responsible
Loss of funding due to reallocation between Forces	<ul style="list-style-type: none"> • Workforce planning to reduce officer/staff numbers • Cost reduction plans to be developed and implemented • Maximise precept income 	<ul style="list-style-type: none"> • PCVC Chief Finance Officer
An ageing estate portfolio putting increased pressure on facilities management budgets	<ul style="list-style-type: none"> • Agree and deliver capital programme time • Effective project planning 	<ul style="list-style-type: none"> • PCVC Chief Finance Officer / PCVC
Police officer capacity to respond to service demands	<ul style="list-style-type: none"> • Allocating resource to priority activities • Deliver agreed training programme. • Productivity measurement and management • Strategic Assessment 	<ul style="list-style-type: none"> • Commanders/Exec

Risk	Mitigating Action	Person Responsible
	agreed and implemented	
Flexibility to move police resources to areas of need	<ul style="list-style-type: none"> • Plan on a page promulgated across the organisation • Regular Force threat and risk meetings • Update workforce plan • Targeted reviews to be carried out in CJU, CDSOU, Comms and Intelligence. 	<ul style="list-style-type: none"> • Force Executive / Tasking & Coordination
Demand continues to rise	<ul style="list-style-type: none"> • Introduction of new Demand Management Command • On-going crime prevention/detection and problem solving initiatives. • Productivity measurement and management • Deliver agreed training programme • New shift pattern introduced for officers and PCSOs 	<ul style="list-style-type: none"> • Heads of Commands
Collaboration may require up-front costs of change	<ul style="list-style-type: none"> • Identify 'invest to save' budget/reserve 	<ul style="list-style-type: none"> • PCVC Chief Finance Officer/Exec/PCVC
Uncertainty about partners' future budget plans	<ul style="list-style-type: none"> • Enter into early conversations prior to final budget setting so that implications of potential decisions can be considered 	<ul style="list-style-type: none"> • PCVC Chief Finance Officer / Chief of Staff

Monitoring and Review

This financial plan will be subject to continuous review and forms part of the overall planning processes within the OPCC and Constabulary. This will ensure that an accurate future financial forecast is maintained to give an indication as to the affordability of spending plans which in turn will be fed into the corporate planning process.

The content of this plan will be kept under review as part of normal financial planning procedures.

Purpose of Report

1. The purpose of this report is to provide the Police Crime and Victims' Commissioner (PCVC) with reassurance and confidence in the accuracy and quality of the financial estimates for the years 2016/17 and 2017/18, and more importantly the budget for the coming financial year 2017/18.
2. The robustness of the financial estimates considers important factors such as risks facing the PCVC and the adequacy of financial reserves to enable the PCVC to have flexibility in dealing with any unplanned events that may have a significant financial consequence during the course of the budget year 2017/18.

Background

3. The Police Crime and Victims' Commissioner and local authorities decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on each of their services.
4. The decision on the level of the council tax must be taken before the coming financial year begins and that level cannot be changed during the year, so allowances for risks and uncertainties that may create an increase in service costs or a loss of income must be made by:
 - a. Making realistic and prudent allowances in the financial estimates for the policing services provided, and also,
 - b. Ensuring that there are adequate reserves in place that can be drawn on to help manage the impact of any incident or eventuality that causes the PCVC to exceed the budget estimates in 2017/18 for the delivery of policing services to the community of County Durham and Darlington.
5. Section 25 of the Local Government Act 2003 requires that the PCVC's Chief Financial Officer reports to the PCVC when considering the budget and council tax on the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that the PCVC will have authoritative advice available to him prior to making the budget setting decisions.
6. Section 25 also requires the PCVC to consider this report when making decisions about the budget.

Critical Role of Risk Management

7. There is considerable (continuous) attention given to the risks facing the delivery of policing services in County Durham and Darlington. Each of the risks identified by the Force is allocated to and formally assessed by a strategic programme board.
8. When each board meets the risk registers are modified to reflect new risks, or to reflect the best available information and the impact of mitigating actions. The list of risks below have already been identified and considered by the appropriate board.

9. In setting the budget the risks facing the PCVC are influenced by the uncertainties of the economic environment and the level of expenditure reductions in the Policing Service and the wider public sector, all of which present difficulties in delivering a balanced budget. The key risks have been identified in the Budget report.
10. The Annual Governance Statement gives assurance in relation to the organisation's arrangements for the management of risk and ensuring proper arrangements are in place for governing its affairs and looking after the resources at its disposal.

Robustness of Estimates

11. The budget process has involved the senior leadership teams in each Command, who have considered and evaluated a variety of service delivery options that balance the twin needs of maintaining service delivery and balancing the budget.
12. These options, identifying areas where savings can be made to provide the resources to fund the unavoidable service pressures, have been reported to the PCVC and his Executive, which includes the Chief Constable and the PCVC's Chief Financial Officer.
13. The key income and expenditure related planning assumptions are reflected in the attached table

	Estimate 2017/18
Officer Pay Inflation (from September each year)	1%
Police Staff Pension Contribution Increase	7.4%
Staff Pay Inflation	1%
Police Officer Vacancy Factor	0%
Police Staff Vacancy Factor	2%
Energy & Fuel Inflation	4%
Other Non-Pay Inflation (except where contractually based)	0%
Council Tax Increase	1.98%
Other Income Inflation	0%

14. In relation to the robustness of the above table, the following should be noted:
 - Pay inflation. The government has previously indicated that public sector pay rises should be limited to 1% pa. Therefore the assumption within the budget is reasonable. All police officer posts are budgeted for, therefore the police office pay budget should not be overspent given that the force maintains a separate budget to fund medical retirements. In respect of police staff pay, a small vacancy factor is built in to the pay budget to reflect anticipated leavers during the year. In recent years neither the police officer pay budget nor police staff pay budget have been overspent.
 - Police Staff Pension Contribution Increase. The pension scheme actuaries have carried out the tri-annual valuation. This has led to significant increases

in both the annual contribution rate and the pension deficit repayment. If the Force had not made a significant payment to part clear the pension deficit in 2015/16 then the increase would have been even greater.

- Energy and Fuel. Work is ongoing to reduce the number of vehicles within the force which will help to reduce the overall fuel budget. The 4% increase is as advised by our energy supplier. In addition, the force maintains a £20,000 energy efficiency budget with which to reduce energy costs. Again, this budget is considered reasonable.
- Other non-pay Inflation. The 0% increase is a general provision. Whilst some budgets are reducing in price as a result of improved procurement and reduced demand it is equally valid to state that some budgets are under constant cost pressure. In recent years, supplies and services budgets have been underspent within the force.
- Council Tax. This will be subject to the maximum permitted limit by Central Government.
- Other Income Inflation. Where possible, the force is moving toward full cost recovery in terms of the supplies and services that it charges for. In recent years income budgets have been over-achieved therefore the budget estimates are considered reasonable.
- Officer numbers are based on actual salary levels and expected leavers. Police staff and PCSO numbers are also based on actual salary. This ensures that budgets are reasonable.

15. There have as yet been no indications of 2018/19 funding allocation by the Home Office.

Adequacy of Reserves

16. The CIPFA Local Authority Accounting Panel (LAAP) has issued a guidance note on Local Authority Reserves and balances (LAAP Bulletin 77) to assist local authorities in determining the adequacy of reserves. This guidance is not statutory, but compliance is seen as best practice.

17. The guidance however, states that no case has yet been made to set a statutory minimum level of reserves, either as an absolute amount or a percentage of the budget. Each Police and Crime Commissioner and local authority should take advice from its Chief Financial Officer and base its judgement on local circumstances.

18. The current policy statement on the level of reserves includes the following:

- a. The PCVC will set aside sufficient sums in earmarked reserves as considered prudent to do so. The PCVC Chief Finance Officer will be authorised to establish such reserves as are required, will review them for both adequacy and purpose, and report on a regular basis to the Police & Crime Commissioner.*
- b. The PCVC will aim to maintain, broadly, general reserves of between 4% and 5% of the revenue estimates currently £4.532m and £5.666m respectively (based on 2017/18 revenue funding of £113.293m) subject to an annual review by the PCVC Chief Finance Officer as part of the budget process.*

19. Earmarked reserves have been established as a means of building up funds to meet known or predicted requirements. The level of earmarked reserves will be in the region of £10.369m at the end of March 2017.
20. The General Reserve has been set at 5% of the revenue funding for 2017/18 and will be £5.666m at the end of March 2017.
21. The reserves are set at a level to accommodate any significant financial impact on capital or revenue expenditure in 2017/18.
22. The PCVC's approach to the management of risks alongside the PCVC's financial management arrangements suggest that the level of resources identified in the Annual Budget 2017/18 is sufficient to provide reassurance and confidence in the delivery of policing services to County Durham and Darlington.

Conclusion

23. **The PCVC acknowledges that the strength of the risk management processes, the adequacy of reserves and the robustness of the financial estimates give sufficient reassurance and confidence to enable him to approve the Annual Budget and the level of Council Tax for 2017/18.**