

Public Document Pack



Democratic Services
Head of Law and Governance

Delyth E Jones, Solicitor

Bodlondeb, CONWY, LL32 8DU

Please ask for:

Dawn Hughes

 **01492 57606**

 **01492 575969**

 committees@conwy.gov.uk

Our Ref:

DEJ/DCH

Your Ref:

Date:

20/01/16

Dear All

North Wales Police and Crime Panel - Monday, 25 January 2016

I refer to this agenda and enclose the following REVISED report(s):

6ii) Budget and Precept Setting Report 2016/17 (*Pages 1 - 14*)

6iii) Medium Term Financial Plan (*Pages 15 - 38*)

Yours sincerely

A handwritten signature in black ink, appearing to read 'Delyth E Jones', written in a cursive style.

Delyth E Jones
Head of Law and Governance

For

AGENDA ITEM 6b

Report from the Office of the Police and Crime Commissioner

Title:	Precept and Council Tax 2016/17
Meeting:	North Wales Police and Crime Panel, 25 January 2016
Author:	Kate Jackson, Chief Finance Officer

1. Introduction

- 1.1 The purpose of this report is to review the financial situation of the Police and Crime Commissioner for North Wales and to make recommendations for the 2016/17 precept and council tax.

2. Recommendations

- 2.1 To increase the precept to £68,322,021
- This will increase council tax by 2.00% - this is equivalent to £240.12 per annum, an increase of £4.68 per annum, or 9p per week for a band D property.
 - This is an increase of 2.47% from 2015/16
- 2.2 To note that £2.838m of cuts are required for 2016/17; these have been identified.
- 2.3 To note that the number of PCSO posts will not reduce in 2016/17.
- 2.4 To note that £1.398m of the cuts will be redeployed to front line posts.
- 2.5 To note the Medium Term Financial Plan, which includes the following assumptions:
- That Council Tax will increase by 2% in 2016/17, and 2.5% in 2017/18, 2018/19 and 2019/20.
 - That policing grants will reduce by 1% in each year
 - That changes to employer national insurance contributions will take effect in 2016/17 which are anticipated to have an effect equivalent to a further 3% grant reduction.

3. Summary Budget 2016/17

	£m	
Budget 2015/16	<u>139.836</u>	
Inflation and additional requirements	4.079	+2.92%
Budget requirement 2016/17	<u>143.915</u>	
Estimated total funding 2016/17		
Government Grants (funding proportion 52%)	72.745	-0.60%
Council Tax	£240.15	+2.00%
Multiplied by tax base	284533	+0.48%
Precept (funding proportion 48%)	68,322	+2.47%
Total funding available	<u>141.067</u> +0.89%	
Cuts required	2.838	

4. Statutory Items

4.1 Quality of Information

4.1.1 The Chief Finance Officer is required under the Local Government Act 2003 (s5) to comment of the suitability of the information to be used as the basis for budgetary decisions. The Chief Finance Officer confirms that the figures in the various reports are the products of procedures that continue to be operated to the highest professional standards. These systems are audited both internally and externally, and external audit has never issued a qualified audit report. Therefore, in the opinion of the Chief Finance Officer this information is fit for purpose.

4.1.2 The same Act also requires the Chief Finance Officer to comment on the adequacy of reserves to be provided in the budget. In the opinion of the Chief Finance Officer the general reserve will continue to be adequate for the day to day operational needs of the Force. The reserves have been reviewed, and further details are provided in paragraph 10.

5. Background

5.1 Cuts of £24.101m will have been achieved over the 4 years of the Comprehensive Spending Review 2010 (CSR2010) plus an additional year in 2015-16. Grant funding has reduced by 20.6% over the five year period, and total precept income has increased by 19.2% over the same period; this has resulted in a 16% real-terms reduction in the total budget. The table below details the cuts made to date:

Year	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Cuts Made	4.678m	6.016m	4.634m	4.325m	4.448m	24.101m

5.2 The Government conducted two major reviews over the summer of 2015 that would determine the level of Government grants for policing for future years. The Spending Review (SR2015) reviewed the budget allocation to for all Government Departments including the total available for policing. A review of the Police Funding Formula was conducted by the Home Office, the formula sets out how the Home Office distributes the total available to policing between the policing areas. The final outcome of these reviews was not known until the announcement of grant allocations on the 17 of December 2015. This timescale resulted in a great deal of uncertainty as to the potential resources available and the cuts required during the planning process for the 2016-17 budgets. Further details are given below.

6. The Planning Environment

6.1 The attached Medium Term Financial Plan (MTFP) sets out the planning environment. It includes previous years' figures, together with projections for revenue income and expenditure, and plans for capital and reserves.

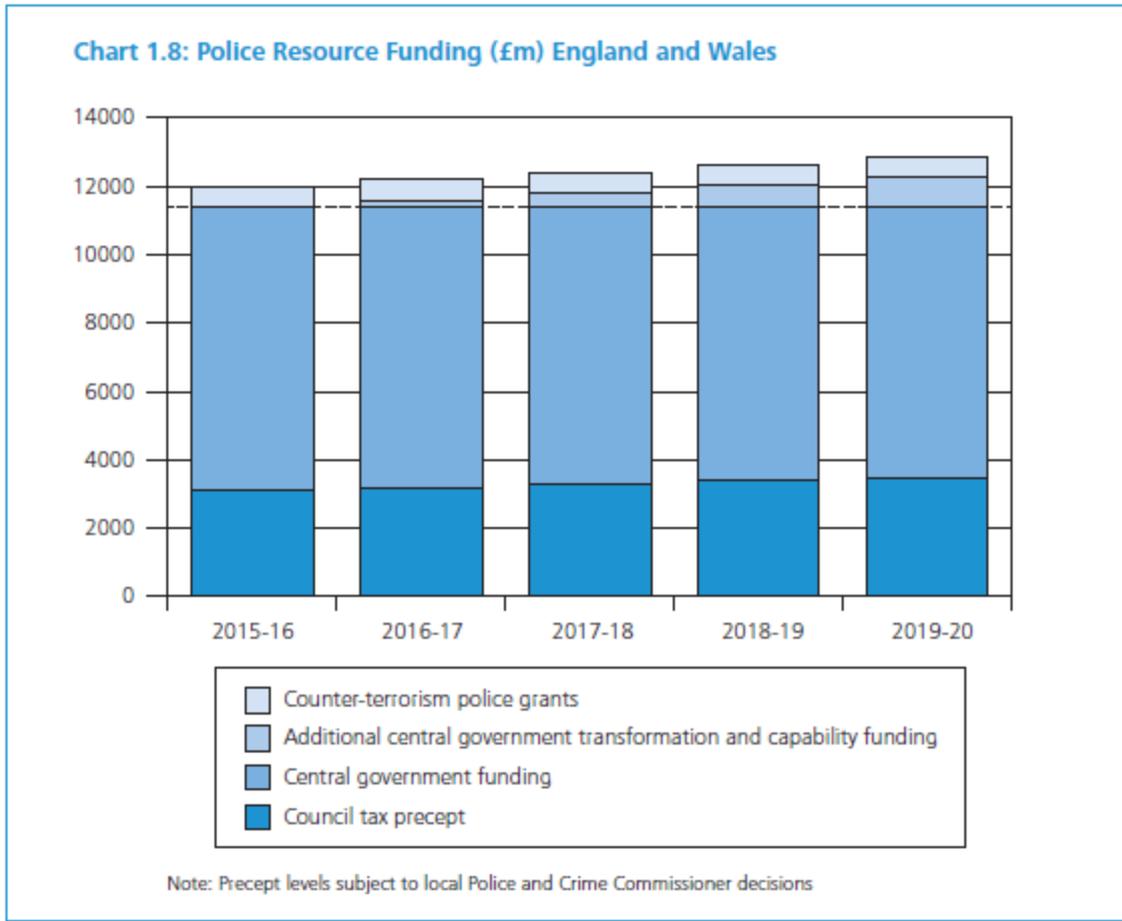
- 6.2 No provision Government Funding Allocations for 2016/17 had been given at the time of the 2015/16 settlement. However, it was apparent that cuts would continue over the period of the next parliament at least. A process for identifying and delivering savings for the period 2015/16 to 2017/18 was established during 2014/15 under the governance of the Strategic Planning Board, which is chaired by the Chief Constable.
- 6.3 Around 50 separate work streams have been considered to date. These were identified from a combination of existing work and the use of benchmarking, such as the HMIC's Value for Money profiles. Final recommendations were made on 28 September 2015; a brief overview is shown in section 8 of this report.
- 6.4 In addition to identifying the savings required, the normal process to determine future budget requirements was undertaken, which is explained in more detail in the MTFP. The following were taken into account in developing the MTFP:
- Local and national priorities as set out in the Police and Crime Plan, the Strategic Policing Requirement and the Action Plan 2016/17
 - New and developing pressures
 - The strategic planning process
 - Other force strategies
 - Current economic climate
 - The current financial position
 - Estimates of resources available
 - Budget forecasts for the period, including pay awards
 - The capital programme, the Prudential Code and the effect on the revenue budget
 - Reserves and balances
 - Income generation, trading activities and grants
 - Collaboration
- 6.5 A total of £4.448m was cut from the 2015/16 budget compared to the previous financial year, and the budget allowed for a small net transfer to reserves. In order to ensure that future savings can be achieved, the cost associated with reducing staff numbers will need to be drawn from the Management of Change Reserve, in line with our expectations.
- 6.6 The HMIC and the Wales Audit Office review annually the Force and its overall financial position, planning process and annual savings; further details are included in the MTFP. It has been noted that, to date, the Force has been able to protect front-line services and officers numbers as far as possible, and that a greater proportion of non-staff saving has been made compared to the national position, but that this is becoming increasingly difficult.

7. Funding Allocations

- 7.1 No Provisional Government Funding Allocations for 2016-17 were given as part of the 2015-16 settlement. There was a great deal of uncertainty as to future funding when the January 2015 Budget was presented, although it was clear that the country was only at the half way point in terms of balancing the annual budget at the end of 2014-15 and that all the political

parties stated they were committed to balance the annual budget prior to the May 2015 elections. An assumption of a 4% cut was built into the projections for each year 2016-17 to 2018-19. This resulted in a projected £15.5m deficit over the period 2015-16 to 2018-19 which was the savings target used for planning purposes during 2015-16.

- 7.2 Following the election in May the Government conducted a Spending Review (SR2015) over the summer months. The Treasury consulted upon cuts of 25% to 40% real terms; these translate to a cash reduction of 19% to 35% over a four year period. Indications were that the cut would be closer to the 19% figure over four years. This is in line with the January 2015 MTFP; however what had changed is that the four years now cover 2016-17 to 2019-20 rather than 2015-16 to 2018-19. This is an additional year of cuts compared to the Chancellor's previously stated aim of balancing the nation's books by 2018-19, which based on the 2015 MTFP assumptions, would mean an additional £3m cuts being required.
- 7.3 The result of the spending review was announced as part of the Chancellor's Autumn Statement on the 25 November 2015. In his speech, the Chancellor addressed police funding and said: "*now is not the time for further police cuts, now is the time to back our police and give them the tools to do the job.*" This signalled a change of direction and that the cuts would not be as large as had previously been indicated.
- 7.4 Some more detail was announced later that day which showed that overall police funding, including funding for Counter Terrorism, had been cut by 1.3% in real terms over four years. In a letter to PCCs and Chief Constables the Home Secretary and Policing Minister said that "taking into account the scope that you have to raise local council tax, this means a flat real settlement for policing as a whole." This is best illustrated by the following graph from the Treasury's Spending Review Document which shows the proportion of the police total funding allocated reduces over the next four years.



7.5 During the summer months the Home Office also consulted on the formula that allocates the total budget available to police to policing areas. The initial consultation in July 2015 did not include exemplifications of the new proposed formula. Further consultation was conducted in September 2015, the Policing Minister provided details of proposed refinements to the funding formula which the Home Office had consulted on over the summer. The Minister also provided some limited exemplification of the revised allocations based on the 2015-16 budgets. The new proposal removed one factor, the Band D equivalent, as it had been shown that this factor did not work as intended. The weighting on the other four factors were revised as follows.

Variable	Weighting original	Weighting Revised
Population volume	24%	30%
Households with no adults employed and dependent children	25%	31%
Hard Pressed	25%	31%
Band D equivalent	16%	0
Bar Density	10%	8%

7.6 The proportion of funding allocated to North Wales changed from 1.03% to 1.06%, this is a small percentage change but based on the 2015-16 funding would have given an additional £2m funding. However, it transpired that the Home Office had used the wrong statistics in their exemplifications, this led to an announcement by the Policing Minister that the process would be suspended and that the allocations for 2016-17 will be made in a similar way as recent years. This would mean the same percentage cut for all forces. Further work and consultation is expected on the funding formula proposals. This will mean continued uncertainty in terms of level of funding for North Wales Police until a final decision is made on a revised funding formula. The proposal will include transition proposals of how to move from the current allocation to a revised one. This is currently the biggest risk to the budget; if the current formula were imposed it would mean a reduction of £10.5m in grant which is currently paid as a 'floor grant'.

7.7 The outcome of the above consultations and others details were announced by the Home Office on the 18 December 2015. The main headlines were:

- A flat rate reduction of 0.6% for all policing areas. This means a grant reduction of £0.417m to North Wales. However, it is necessary to also take into account the additional £2.2m National Insurance costs in 2016-17 (as a result of the state pension changes previously announced by the Government) which is effectively a cut in budget.
- The announcement detailed that additional resources have been allocated to counter terrorism and that a Transformational Fund worth £76m has been set up to fund, amongst other things, firearms. Further details on these in the coming weeks.
- Overall 'top slicing' has increased from £160m to £218m, but now includes £80m towards the national upgrade of the police communication system.
- Details of Capital Grant were not given but the total has been reduced by 40%, if this is passed on as is likely it would mean a £0.360m reduction in capital grant for North Wales.
- English forces to continue to receive legacy council tax funding now increased to £514m from £503m.

- The information provided about future years' funding was very brief, and gave no information about central allocations or the effect of any change to the funding formula; therefore we can have very little certainty about the grant assumptions for future years.

7.8 Based on the totals provided and this year's announcement it has been estimated that there will be a further cut of 1% to grants in each on the following three years. This is less than expected but still a reduction in government funding, as an assumption has been made by the Government that council tax will be raised locally to deliver the promise of no overall reduction in police funding.

7.9 The result of the next stage of the funding formula will become clearer over the next year, this is the biggest risk to funding but is also the information required to have a clearer understanding of the resources available for policing in north wales over the medium term.

8. Budget 2016/17 to 2019/20

8.1 A summary of the Budget Forecast and changes for 2016/17 and future years are shown in Appendix A.

8.2 Some of the assumptions for future years have been updated as detailed above. The main assumptions are:

- Annual pay inflation 1% from September each year (no change)
- General inflation 1% for 2016/17 and 2% thereafter
- Specific inflation applied where known
- Council Tax increase 2% in 2016/17 (originally 3.5%); and 2.5% thereafter
- Grant reduction of 0.6% for 2016/17; 1% thereafter
- Changes in National Insurance charges in 2016/17 will add a further £2.2m to the pay bill, equivalent to a 3 % additional cut

8.3 The effect of these assumptions are:

	2016/17	2017/18	2018/19	2019/20
Inflationary increases	£4.078m (2.60%)	£2.232m (2.04%)	£2.580m (1.60%)	£2.375m (1.45%)
Reduction in Grant	£0.417m (-0.6%)	£0.728m (-1.0%)	£0.720m (-1.0%)	£0.713m (-1.0%)
Less: additional funding from Increase in Council Tax	(£1.657m) (2.0%)	(£1.883m) (2.5%)	(£1.935m) (2.5%)	(£1.989m) (2.5%)
Cuts required	£2.838m	£2.077m	£1.365m	£1.099m

8.4 The focus has been very much on cuts over the last 5 years with a total of £24.1m having been cut from the budget. However, addressing the local and national priorities necessitates additional resources in certain areas of work. The majority of this can be addressed by re-prioritising within Services; however there are some emerging requirements that need additional staff, which have been funded from the cuts identified. The inflation figure above

includes £1.072m additional investment in the Protecting Vulnerable People Unit. This is an investment of 19 Officers and 5 staff (final mix subject to change) in preventing, identifying and investigating the exploitation of vulnerable people which has been identified as a national as well as a local priority, this includes online exploitation. An investment of £0.068m is required within the crime recording process to meet national requirements as well as an investment of £0.233m to deliver the number of major projects in IT and Estates that are due to be delivered over the next few years.

- 8.5 The Strategic Planning Board has identified and agreed £2.838m of cuts for 2016/17 across all areas of the force; these are listed below:

Cuts to be taken in 2016/17	
Business Service Review	£0.237m
Corporate Service Review	£0.326m
Operational Futures LPS	£0.114m
Scientific Support	£0.270m
Communication Futures	£0.180m
Estates	£0.266m
Vehicles and transport	£0.075m
Analysts	£0.027m
Overtime	£0.150m
National Air Service	£0.099m
Catering	£0.050m
Support Service Management Review	£0.215m
Crime Services	£0.147m
Procurement	£0.015m
Income Generation	£0.200m
Firearms Licencing	£0.203m
Seized Property	£0.012m
Targeted Service Efficiencies	£0.345m
Total to be cut	£2.838m

- 8.6 This leaves £4.541m to be saved over the period 2017/18 to 2019/20. Plans are at different stages of development for these further savings; these plans will be further developed and reviewed over the next 12 months. The process to identify further efficiencies will continue:

	2017/18 to 2019/20
Business Service Review	£0.726m
Corporate Service Review	£0.026m
Operation Futures LPS	£0.081m
Operational Futures PCSO's	£1.037m
Communication Futures	£0.096m
Estates	£0.318m
Vehicles and Transport	£0.228m
IT Contracts	£0.762m
National Police Air Service	£0.196m
Collaboration	£0.200m
Procurement	£0.100m

Budget Review	£0.271m
PFI	£0.500m
Total	£4.541m

9.0 Risks

9.1 Details of future risks to the budget are included in the MTFP. A summary of the major risks is given below; some of these have already been highlighted within this report:

- Funding uncertainty, including top-slicing, and details being provided late in the planning cycle
- Future changes to the funding formula may be detrimental to North Wales; withdrawal of the floor grant – this is the biggest risk over the next 12 months
- Emerging national and local requirements
- Delivering existing savings plans
- Identifying future savings plans
- A worsening of the national economic position requiring additional cuts to be imposed
- Increase in pay costs (including pension contributions and national insurance) – pay accounts for approximately 80% of the net budget.

10. Resilience and Reserves

10.1 The Commissioner has a duty to ensure that he holds adequate financial reserves to manage risks. In addition to the funding and forecasting risks detailed above, the Commissioner needs to cater for expenditure risk (spending over budget), and costly major incidents, natural disasters or other unforeseen events. An element of this risk has been managed through the in-year budgets through the contingency budgets. These are being reduced and greater proportion of that risk being transferred to Reserves and Balances.

9.2 The General Reserve is currently £4.189m - 3% of the estimated 2016-17 net budget. The prudent range is considered to be 3% to 5% of net budget. A review of the reserves took place as part of the budget setting process last year, and as there is now a separate Major Incident Reserve, it was decided to reduce the General Reserve to £4.189m, being 3% of the net budget. The General Reserve previously included an amount for Major Incidents if needed.

9.4 The use of the reserves will depend on the final decisions on capital expenditure and the final revenue settlements, therefore the table below shows the current plan on how the earmarked reserves may be best used to support service provision and reduce the pressure on the revenue budget. Where the use of the Reserve is not known (such as the Major Incident Reserve) no changes are shown. The use of reserves will be reviewed on a regular basis.

Usable reserves as at:	31 March 2015 £m	31 March 2016 £m	31 March 2017 £m	31 March 2018 £m	31 March 2019 £m	
Capital Receipts Reserve	4.641	3.341	-	-	-	Can be used only for capital
General Fund	4.189	4.189	4.189	4.189	4.189	Set at 3% of net budget from 2015/16
Earmarked Reserves	32.235	28.715	18.449	14.775	13.512	Details below
Total Usable Reserves	41.065	36.245	22.638	18.964	17.701	

A breakdown of the estimated Earmarked Reserves at the end of each financial year is shown below. Further details are included in the MTFP.

Description	31 March 2015 £m	31 March 2016 £m	31 March 2017 £m	31 March 2018 £m	31 March 2019 £m
Capital Investment	14.845	12.557	3.373	0.885	0.885
Major Incident	2.235	2.235	2.235	2.235	2.235
Pension Ill Health Reserve	0.697	0.697	0.697	0.697	0.697
Insurance Reserve	1.259	1.259	1.259	1.259	1.259
PFI Reserve	3.397	3.692	3.914	4.032	4.073
Probationer Reserve	4.840	4.840	4.140	3.440	2.740
Estates Security and Maintenance	2.000	1.500	1.000	0.500	0.000
Cost of Change	1.659	0.759	0.759	0.759	0.759
Partnership Reserve	0.685	0.581	0.477	0.373	0.269
Commissioner's Community Safety Fund	0.265	0.265	0.265	0.265	0.265
OPCC including Legal and Participatory Budgets	0.353	0.330	0.330	0.330	0.330
Total	32.235	28.715	18.449	14.775	13.512

11. Capital

- 11.1 There are a number of projects within the Capital Programme which are coming to the end of the planning and planning consent stages. These are the custody and headquarters facility and the town centre police station in Wrexham, the new Police Station in Llandudno, the control room technology replacement and the mobile data developments. The expenditure for these projects has been re profiled, most of the expenditure is incurred once the work has started, but it does take time and resources to get projects of this magnitude up and running.

2.1 There are also other smaller estates projects to be completed as well as upgrades of the Business systems and the annual Vehicle replacement Programme.

2.2 Plans beyond 2017-18 are limited at the current time to Vehicle and IT replacement Programmes. There will be an Estates Review in 2016-17 and the Capital Programme will be reviewed in light of this and the conclusion of the major works that will be carried out over the next two years.

Summary Capital Programme 2015/16 to 2019/20

Expenditure	£m
Estates	21.445
Vehicles and Equipment	8.602
Information Technology and Computing	9.577
Total Expenditure	39.624
Funding	
Grants	3.065
Revenue Contribution	3.674
Reserves	13.960
Capital Receipts	7.549
Borrowing	4.570
Total Funding	39.624

12. Consideration of the Options

12.1 The following major changes have been made between the previous MTFP and the current one:

Change between 2015/16 and 2016/17	January 2015	January 2016
Cut in government grant	4%	0.6%
Increase in council tax	3.5%	2%
Cuts required in 2016/17	£4.563m	£2.838m
Reduction in PCSOs	19	0

Commissioner has considered all of the options available. The cuts of £4.563m previously assumed for 2016/17 did not cater for emerging demands, which would have meant these could only be delivered by the redeployment of front line officers. In December, the Force presented draft plans based on the grant cut of 0.6% and making savings of £2.8m, of which £1.4m will be redeployed to support front line activities. The cuts in 2016/17 do not include a reduction in PCSO's posts as was originally anticipated. In deciding on the proposed Council Tax increase, the balance must be found between affordability and ensuring the police service has sufficient funds, based on what has happened over the last five years and predictions for the next four. Additional cuts will invariably hit front line and officer numbers. The Home Office has assumed a Council Tax increase of 2% (higher for forces with lower council tax) in their calculations for 2016/17, this increase of 2% does give North Wales Police the balance between protecting the service and affordability.

12.2 The Commissioner has held discussions with the Chief Constable who has confirmed that the council tax increase of 2% provides sufficient budget to enable the operational delivery of the policing service in 2016/17. However, due to future uncertainty over the level of grant allocation and changes in operational pressures, it is not possible to comment at the stage as to whether the planning assumptions for future increases are sustainable in the medium term.

12.3 Increasing the Council Tax by 2% the valuations for each property band are:

Tax Band	A	B	C	D	E	F	G	H	I
Council Tax £	160.08	186.76	213.44	240.12	293.48	346.84	400.20	480.24	560.28

12.4 The precept for each billing area will be:

Billing Authority	Tax Base	Precept
Isle of Anglesey County Council	30,250.23	£7,263,685
Gwynedd Council	49,932.37	£11,989,761
Conwy County Borough Council	49,746.66	£11,945,168
Denbighshire County Council	38,887.56	£9,337,681
Flintshire County Council	62,759.00	£15,069,691
Wrexham County Borough Council	52,957.00	£12,716,035
Total	284,532.82	£68,322,021

13. Implications

Diversity	The report's recommendations will affect the Force's employee numbers in future years.
Financial	The purpose of this report is to recommend the Precept and Council Tax for 2016/17, and the factors taken into account in making this recommendation. Although the recommendation is for a single financial year, it is important to consider the medium to long term position in reaching a decision. Adequate financial resources are vital to the delivery of the Police and Crime Plan and to fulfil our legal requirements.
Legal	This report, in conjunction with the Medium Term Financial Plan, provides sufficient information for the Police and Crime Panel to make a decision that could stand future legal challenge.
Risk	The report identifies and evaluates the risks from the recommendations.
Police and Crime	No separate police and crime implications.

Appendix A Budget 2015-16 to 2019-20										
		Annual		Annual		Annual		Annual		Annual
		Budget		Budget		Budget		Budget		Budget
		2015-16		2016-17		2017-18		2018-19		2019-20
		£000	£000	£000	£000	£000	£000	£000	£000	£000
1	Police Officer Pay	71,269	1,648	72,917	1,338	74,255	1,227	75,482	1,235	76,717
2	Police Staff Pay	40,249	651	40,900	807	41,707	649	42,356	654	43,010
3	Police Officer Overtime	1,983	-150	1,833	0	1,833	0	1,833	0	1,833
4	Police Staff Overtime	406	0	406	0	406	0	406	0	406
5	Allowances	2,023	-155	1,868	-50	1,818	-50	1,768	-50	1,718
6	Training	669	-3	666	13	679	14	693	14	707
7	Other Employee	671	7	678	13	691	14	705	14	719
8	Direct Pension Payments	3,102	0	3,102	62	3,164	63	3,227	65	3,292
9	Energy Costs	1,409	22	1,431	44	1,475	44	1,519	47	1,566
10	Building Running Costs	6,645	-380	6,265	134	6,399	137	6,536	140	6,676
11	Repairs & Maintenance of Vehicles	857	5	862	17	879	18	897	18	915
12	Vehicle Running Costs	2,167	-111	2,056	86	2,142	89	2,231	94	2,325
13	Car & Travelling Allowances	721	8	729	14	743	15	758	15	773
14	Air Support Unit	1,394	-99	1,295	0	1,295	0	1,295	0	1,295
15	Equipment	688	-33	655	14	669	14	683	14	697
16	Clothing and Uniforms	466	5	471	9	480	10	490	9	499
17	Printing and Stationery	437	-3	434	9	443	9	452	10	462
18	IT and Communications	9,215	-12	9,203	0	9,203	0	9,203	0	9,203
19	Subsistence	297	-11	286	6	292	6	298	7	305
20	Other Supplies and Services	7,552	79	7,631	236	7,867	90	7,957	90	8,047
21	Forensics	1,078	-123	955	21	976	22	998	23	1,021
22	Debt Charges & Contribution to Capital	1,504	0	1,504	360	1,864	0	1,864	0	1,864
23	Special Situations Contingency	400	0	400	0	400	0	400	0	400
24	Inflation and General Contingency	400	0	400	0	400	0	400	0	400
25	Community Safety Fund	1,166	0	1,166	0	1,166	0	1,166	0	1,166
	Gross Expenditure	156,768	1,345	158,113	3,133	161,246	2,371	163,617	2,399	166,016
	Income									
26	Secondments	-1,300	199	-1,101	0	-1,101	0	-1,101	0	-1,101
27	Interest on Balances	-271	0	-271	0	-271	0	-271	0	-271
28	Income	-5,397	-270	-5,667	0	-5,667	0	-5,667	0	-5,667
29	Specific Grants	-10,051	-43	-10,094	52	-10,042	53	-9,989	52	-9,937
	Total Income	-17,019	-114	-17,133	52	-17,081	53	-17,028	52	-16,976
30	PFI Reserve	29	0	295	-73	222	-104	118	-77	41
31	Speed Awareness Reserve	-208	0	-208	0	-208	0	-208	0	-208
32	Additional from Reserves	0	0	0	0	0	0	0	0	0
	Net Expenditure	139,836	1,231	141,067	3,112	144,179	2,320	146,499	2,374	148,873
33	Total Grants	-73,162	417	-72,745	728	-72,017	720	-71,297	713	-70,584
34	Precept	-66,674	-1,648	-68,322	-1,883	-70,205	-1,935	-72,140	-1,989	-74,129
	Funding	-139,836	-1,231	-141,067	-1,155	-142,222	-1,215	-143,437	-1,276	-144,713
	Annual Balance	0	0	0	1,957	1,957	1,105	1,105	1,098	1,098
	Cumulative			0		1,957		3,062		4,160

**Police and Crime Commissioner and Chief Constable for
North Wales Police Force**

Medium Term Financial Plan

2016-17 to 2019-20

1. Introduction

1.1 The Medium Term Financial Plan (MTFP) links the Policing Plan 2015-2018 and the Policing Priorities agreed by the Police and Crime Commissioner and the Chief Constable with the Financial Strategy (Appendix A) and the Resources available.

1.2 Aim

The aim of this paper is to give details of how the budget has been balanced to date and the plans for balancing future years whilst maintaining performance and ensuring local and national priorities are achieved.

1.3 Background

This previous Government's Comprehensive Spending Review (CSR2010) covered the period 2011 to 2015; the Review included substantial cuts across the public sector. A further year of grant cuts was imposed in 2015-16 pending the new Government's Spending Review (SR2015). The original planned cash reduction in Police Budgets over the 4 years (2011-12 to 2014-15) of the CSR2010 was 12%, the actual reduction in grants to the end of 2015-16 were 20.6%. The Police Authority set a Council Tax at a 4% increase for 2011-12 and 2.5% for 2012-13. A Council Tax increase of 4% was set in 2013-14 which included the re investment of £1.8m savings in an additional 51 Police Officer posts. A Council Tax increase of 2% was set for 2014-15, and following a cut in grant of 5.1% in 2015-16 a Council Tax increase of 3.44% was set. The table below documents the cuts made to date to balance the Police budget.

Year	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Cuts Made	4.678m	6.016m	4.634m	4.325m	4.448m	24.101m

1.4 Cuts of £24.101m will have been achieved over 5 years by the end of 2015-16, with £1.8m being re invested in front line posts. Grant funding has been reduced by 20.6% over the five year period, total precept income has increased by 19.2% over the same period, this has resulted in a 16% real term reduction in the total budget.

1.5 The Government conducted two major reviews over the summer of 2015 that would determine the level of Government grants for policing for future years. The Spending Review (SR2015) reviewed the budget allocation to all Government Departments including the total available for policing. A review of the Police Funding Formula was conducted by the Home Office, the formula sets out how the Home Office distributes the total funding available to policing between the policing areas. The final outcome of these reviews was not known until the announcement of grant allocations on the 17 of December 2015. This timescale resulted in a great deal of uncertainty as to the potential resources available and the cuts required during the planning process for the 2016-17 budgets. Further details are given below.

2. Planning Process

- 2.1 Saving plans for the period 2011-12 to 2014-15 were originally set out during 2010-11 when the first austerity Comprehensive Spending Review (CSR2010) was announced. It was apparent during the budget setting process for 2014-15 that the cuts would continue over the period of the new parliament. The savings taken in 2014-15 were in the main the final savings from the work undertaken and implemented following the CSR2010. A process for identifying and delivering savings for the period 2015-16 to 2017-18 was introduced during 2014-15 under the governance of the Strategic Planning Board.
- 2.2 The saving work streams are initially governed by the Financial Savings Planning Board (FSPB) with the final proposals being submitted to the Strategic Planning Board (SPB) chaired by the Chief Constable. The SPB is attended by all Service leads and representatives from the Office of the Police and Crime Commissioner, Staff Associations, Finance and Human Resources and others as required.
- 2.3 Around 50 separate work streams have been considered by the FSPB. These were identified from a combination of internal reviews already under taken and the HMIC Value for Money Profiles (HMIC VFM). A Service Lead or Functional Lead was allocated to each work stream. Final recommendations were made on 28 September 2015 and, once agreed, a final due diligence process was carried out on the proposed savings. Further details of these savings are included in Section 6 of this report.
- 2.4 In addition to identifying the savings required, the normal budget process to develop future budget requirements was undertaken, details of which are set out in the in this Medium Term Financial Plan (MTFP). In developing this MTFP the following were taken into account:
- Local and National priorities as set out in the Police and Crime Plan and the Action Plan 2016-2017
 - New and developing pressures
 - The strategic planning process
 - Other Force strategies
 - Current economic climate
 - Estimates of resources available to fund the Medium Term Financial Plan
 - Budget forecasts for the period including pay awards
 - The current financial position.
 - The Capital Programme, Prudential Code and their effect on the Revenue Budget
 - Reserves and Balances
 - Income generation, trading activities and grants
 - Collaboration
- 2.5 Draft budgets were discussed in detail by the Chief Officer Team and Service leads on 16 November 2015. The proposals were discussed by the Commissioner's and Chief

Constables Chief Finance Officers on 17 November 2015. A meeting was held between the Commissioner, the Chief Constable and their representatives on 26 December to discuss the budget proposals. The Government's Grant figures were announced on 17 December 2015. The final proposals were agreed on 18 December at a meeting between the Commissioner and his staff and the Chief Officer Team.

- 2.6 The following sections detail all developments since the previous MTFP, giving the updated position for Revenue, Capital and Reserves.

3. 2015-16 Budget

- 3.1 Government Funding was cut by 5.1% in 2015-16, making the total grant cash cut for the period 2011-12 to 2015-16 20.6%. This is 8.6% higher than the 12% originally announced by the Home Office in 2010. The increase was due to the economic climate being worse than originally anticipated and also that the Home Office made additional cuts in order to fund specific initiatives centrally. To balance the 2015-16 budget £4.448m cuts were made. These are on target to be delivered and the current projection is for a small under spend against the original budget for 2015-16, however the cost of funding voluntary redundancies will result in an overall position of using some earmarked reserves. . The cuts made are detailed below:

Cuts made in 2015-16

	2015-16
Business Service Review	-£0.642m
Corporate Service Review	-£0.084m
Operational Futures LPS	-£0.269m
Operational Futures PCSO's	-£0.507m
Forensics Review	-£0.300m
Scientific Support	-£0.033m
Public Protection Unit	-£0.096m
Communication Futures	-£0.499m
Operational Planning	-£0.075m
Road Policing	-£0.104m
Estates	-£0.126m
Vehicle and Transport	-£0.075m
Analysts	-£0.056m
Overtime	-£0.150m
Firearms Alliance	-£0.300m
Employment Conditions (CRTP)	-£0.203m
Capital and Borrowing	-£0.400m
Budget Review	-£0.529m
Total to be cut	-£4.448m

- 3.2 Her Majesty's Inspectorate of Constabularies (HMIC) and Wales Audit Office (WAO) review annually: the Force's financial position; planning process; savings already made; and savings yet to be made. A summary of the reviews and audits undertaken is given below.
- 3.3 HMIC's *Valuing the Police* reviews have been incorporated into their new review programme *PEEL Reviews* (Police Efficiency, Effectiveness and Legitimacy). The overall efficiency question set by the HMIC is 'How efficient is the force at keeping people safe and reducing crime?' with the three questions underpinning the assessment being:
1. How well does the force use its resource to meet demand?
 2. How sustainable and affordable is the workforce model?
 3. How sustainable is the force's financial position for the short and long term?
- 3.4 Forces are graded as being 'outstanding', 'good', 'requires improvement', or 'inadequate'. The overall grading was 'good'. At the time of the inspection the expected cut to police budgets was higher than that it is now, however North Wales Police continued with the strategy of recruiting officers with the potential of going over establishment, this risk is managed by an earmarked reserve. Based on this the HMIC judged the second question above as 'requiring improvement' (the other two being judged 'good'). The final settlement has reduced the likelihood of having to reduce front line officers making the workforce model more sustainable. The summarised comments from the HMIC are given below:

'HMIC judges North Wales Police to be good. The force has managed its finances well and has been able to minimise the impact of budget cuts on frontline policing. There has been only a small overall reduction in the size of the workforce. The force is working constructively in collaboration with other forces and with local partners. It has set itself a clear vision to improve policing and staff are working well to achieve improved services.'

North Wales Police has recognised the importance of having a better understanding of demand in order to ensure that resources can be most efficiently used to prioritise and respond to the needs of the public. It needs to do more to ensure that police officers can work as efficiently as possible, through using new technology.

The current workforce model is aligned to the financial plans and the savings from workforce reductions to date are sustainable. However, the force has adopted a policy of employing more police officers than its budget allows and is using its reserves to balance the budget. This approach is not sustainable. North Wales Police is at the early stage of determining how the policing model may need to change to enable further cuts in staff numbers and provide sustainable and efficient levels of policing across North Wales.

The force has planned a balanced budget throughout the spending review and has ended each year until 2014/15 with an underspend. This has meant that it has been

able to build up a high level of reserves, some of which it plans to invest in the cost of future change.'

The full assessment can be found at

<http://www.justiceinspectors.gov.uk/hmic/north-wales/>

- 3.5 The WAO made the following comments on their value for money assessment in their annual audit letter published in November 2015;

'I am satisfied that the Commissioner and Chief Constable had appropriate arrangements in place in the year to secure economy, efficiency and effectiveness in their use of resources'

'The Commissioner and Chief Constable effectively managed their revenue budgets for 2014-15, and continue to respond positively to significant financial challenges'

'North Wales Police has made progress on developing plans to manage the financial pressures over the medium and longer term'

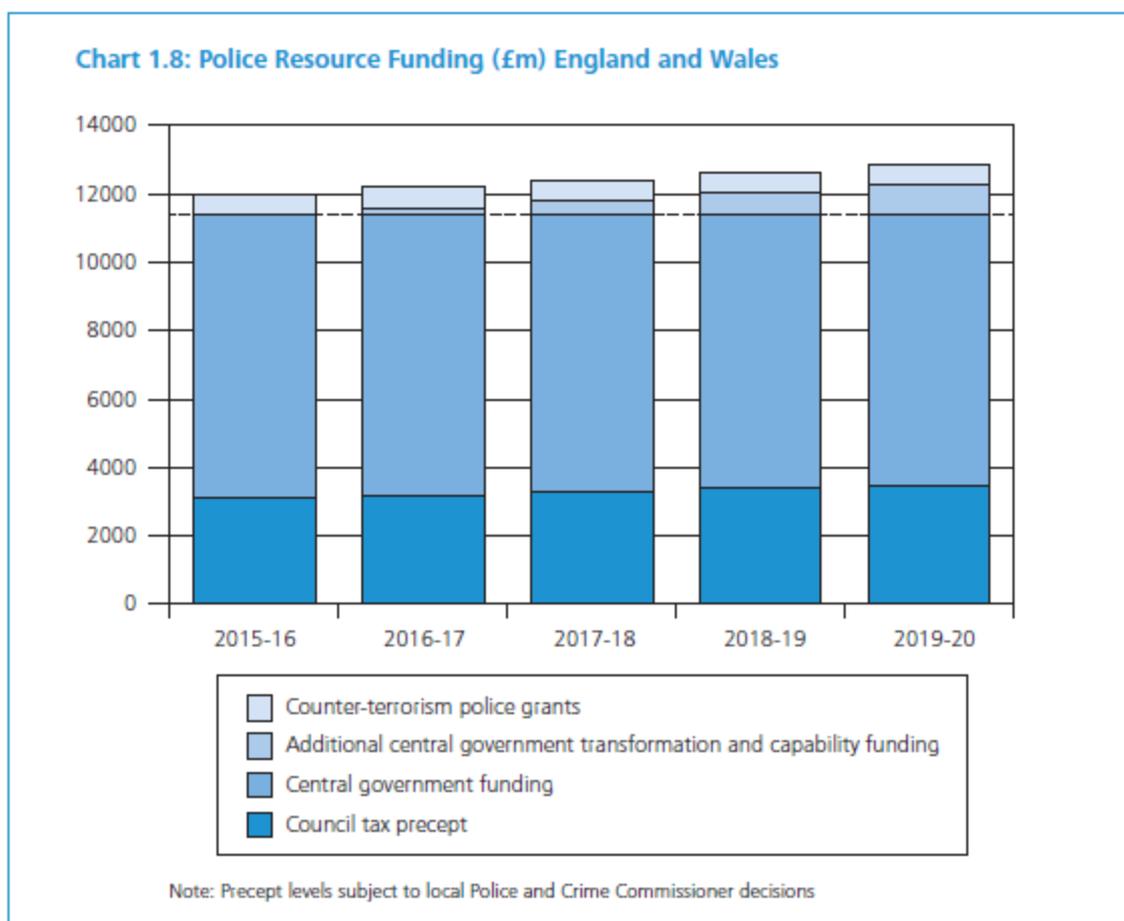
- 3.6 Both assessments show that the cuts are being managed and that the strategy of protecting the front line and number of Police Officers is being achieved as far as possible, but that this is going to be increasingly difficult to deliver further cuts in future years.

4. Funding Allocations

- 4.1 No Provisional Government Funding Allocations for 2016-17 were given as part of the 2015-16 settlement. There was a great deal of uncertainty as to future funding when the January 2015 MTFP was presented, although it was clear that the country was only at the half way point in terms of balancing the annual budget at the end of 2014-15 and that all the political parties were committed to balance the annual budget prior to the May 2015 elections. An assumption of -4% cut was built into the projections for 2016-17 to 2018-19. This resulted in a projected £15.5m deficit over the period 2015-16 to 2018-19 which was the saving target used by the FSPB.
- 4.2 Following the election in May the Government conducted a Spending Review (SR2015) over the summer months. The Treasury consulted upon cuts of 25% to 40% real terms; these translate to a cash reduction of 19% to 35% over a four year period. Indications were that the cut would be closer to the 19% figure over four years. This is in line with the January 2015 MTFP; however what had changed is that the four years now cover 2016-17 to 2019-20 rather than 2015-16 to 2018-19. This is an additional year of cuts compared to the Chancellor's previously stated aim of balancing the nation's books by 2018-19, which based on the 2015 MTFP assumptions, would mean an additional £3m cuts being required.
- 4.3 The result of the spending review was announced as part of the Chancellor's Autumn Statement on the 25 November 2015. In his speech, the Chancellor addressed police

funding and said: "now is not the time for further police cuts, now is the time to back our police and give them the tools to do the job." This signalled a change of direction and that the cuts would not be as large as had previously been indicated.

4.4 Some more detail was announced later that day which showed that overall police funding, including funding for Counter Terrorism, has been cut by 1.3% in real terms over four years. In a letter to PCCs and Chief Constables the Home Secretary and Policing Minister say that "taking into account the scope that you have to raise local council tax, this means a flat real settlement for policing as a whole." This is best illustrated by the following graph from the Treasury's Spending Review Document which shows the proportion of the police total funding allocated to policing areas reduces over the next four years.



4.5 During the summer months the Home Office also consulted on the formula that allocates the total budget available to police to policing areas. The initial consultation in July 2015 did not include exemplifications of the new proposed formula. Further consultation was conducted in September 2015, the Policing Minister provided details of proposed refinements to the funding formula which the Home Office had consulted on over the summer. The Minister also provided some limited exemplification of the revised allocations based on the 2015-16 budgets. The new proposal removed one factor, the Band D equivalent, as it had been shown that this

factor did not work as intended. The weighting on the other four factors have been revised as follows.

Variable	Weighting original	Weighting Revised
Population volume	24%	30%
Households with no adults employed and dependent children	25%	31%
Hard Pressed	25%	31%
Band D equivalent	16%	0
Bar Density	10%	8%

4.6 The proportion of funding allocated to North Wales changed from 1.03% to 1.06%, this is a small % change but based on the 2015-16 funding would have given an additional £2m funding. However, it transpired that the Home Office had used the wrong statistics in their exemplifications, this led to an announcement by the Policing Minister that the process would be suspended and that the allocations for 2016-17 will be made in a similar way as recent years. This would mean the same % cut for all forces. Further work and consultation is expected on the funding formula proposals. This will mean continued uncertainty in terms of level of funding for North Wales Police until a final decision is made on a revised funding formula. The proposal will include transition proposals of how to move from the current allocation to a revised one. This is currently the biggest risk to the budget; if the current formula were imposed it would mean a reduction of £10.5m in grant which is currently paid as a 'floor grant'.

4.6 The outcome of the above consultations and others details were announced by the Home Office on the 18 December 2015. The main headlines were:

- A flat rate reduction of 0.6% for all policing areas. This means a grant reduction of £0.417m to North Wales. This is in addition to the additional £2.2m National Insurance costs in 2016-17 as a result of the state pension changes previously announced by the Government which is effectively a cut in budget of 3%.
- The announcement detailed that additional resources have been allocated to counter terrorism and that a Transformational Fund worth £76m has been set up to fund, amongst other things, firearms. Further details on these in the coming weeks.
- Overall 'top slicing' has increased from £160m to £218m, but now includes £80m towards the national upgrade of the police communication system.
- Details of Capital Grant were not given but the total has been reduced by 40%, if this is passed on as is likely it would mean a £0.360m reduction in capital grant for North Wales.
- English forces to continue to receive legacy council tax funding now increased to £514m from £503m.
- There were no announcements on future funding or on the funding formula.

- 4.7 Based on the totals provided and this year’s announcement it has been estimated that there will be a further cut of 1% to grants in each on the following three years. This is less than expected but still a reduction in government funding, as an assumption has been made by the government that council tax will be raised locally by 2% so that there is there is no overall reduction in police funding.
- 4.8 The result of the next stage of the funding formula will become clearer over the next year, this is the biggest risk to funding but is also the information required to have a clearer understanding of the resources available for policing in north wales over the medium term.

5. Council Tax and Precept

- 5.1 There are two elements to the total net Police Budget, the total of the Police Grants and the Precept. The proportion of these two funding streams for North Wales Police is as follows:

	2016-17	
	£m	%
Total Government Grants	72.745	51.6%
Total Precepts	68.322	48.4%
Total Budget Requirement	141.067	

- 5.2 Council Tax is calculated by dividing the total precept requirement by the tax base, the tax base being the number equivalent Band D properties in each Force area. The Tax Base is provided by the six Local Authorities in North Wales. The tax base for 2016-17 has increased slightly by 0.48%. This means that a percentage increase in the Council Tax will give a slightly higher percentage increase in Precept (the Precept being the total income from Council Tax).
- 5.3 The rules for limiting the increase in the Council Tax, called the capping rules, are different for England and Wales. English Police Areas have had access to separate grants if they agreed to limit the Council Tax increases. These were previously paid by the Department of Communities and Local Government (DCLG) but have now been consolidated into the Home Office Grant and total £514m in 2016-17. North Wales has the highest Council Tax in England and Wales, but if these legacy Council Tax Grants were taken into consideration, North Wales would be the 6th highest.
- 5.5 The capping rules in England have been announced, if Council Tax were to be increased by more than 2% a referendum will have to be held, although the 10

policing areas with the lowest council tax will be allowed to increase council tax by £5 which, if taken up, could mean an increase of between 3.2% and 5.7% for those policing areas.

- 5.6 No capping rules have been announced in Wales, although a number of local authorities have indicated that they may set council tax increases of up to 5% following their grant cuts of between -0.1% and 4.1%. No Council Tax Reduction Grant is available in Wales.
- 5.7 The Home Office have assumed that policing areas would raise their council tax by 2% and that the tax base would increase by 0.5% in order to give the 'flat real term increase' announced as part of the Autumn Statement.

6. Budget Forecast and Planned Reductions and redeployment 2016-17 to 2019-20

6.1 A summary of the Budget Forecast and changes for 2016-17 and future years are shown in Appendix B.

6.2 The main assumptions as set out in the previous MTFP are as follows:

- Annual pay inflation 1% applied from September
- General Inflation 2%, specific inflation applied where known
- Council Tax increase of 3.5% in 2016-17 and 2.5% 2017-18 and 2018-19
- Grant reductions of 5.1% 2014-15, 4% for the following 3 years
- Changes in National Insurance charges in 2016-17 will add a further £2.7m to the pay bill equivalent to a 3.7% additional grant cut

6.3 All of these assumptions have been reviewed and amended to reflect up to date information. A detailed review of inflation included has been conducted. Pay inflation remains at 1%, inflation for 2016-17 has been reduced to 1% and each budget line reviewed. The National Insurance estimate has been re calculated based on review NI banding and reduction in posts over. This resulted in £1.469m being reduced from the budget prior to the specific savings applied.

6.4 The grant reduction for 2016-17 is -0.6% and it is now estimated that there will be a further -1% in each of the following 3 years. This has allowed the council tax increase to be reduced from the 3.5% planned to the 2% assumed increase by the Home Office, which will give an overall increase in budget of 0.89%, this is below the Office of Budget Responsibility projection for inflation of 1% for 2016 and 1.8% for 2017.

6.5 Throughout the year plans have been drawn up for possible cuts of £4.563m, this would have included operational posts including 19 PCSOs' posts. The reduction in PCSO's is not necessary in 2016-17 and has been put back to be reviewed pending future funding announcements. However cuts of £2.838m have been identified and will be made in 2016-17. There are also number new demands on policing that have been highlighted nationally and locally, in Protecting Vulnerable People (specifically Child Sexual Exploitation (CSE)), Cyber Crime (CSE related and other). This has resulted in £1.4m of the £2.8m saving being re deployed into front line posts. Details

are given in the following paragraphs with the overall changes summarised below. A summary of the changes in assumptions are given below:

Change between 2015/16 and 2016/17	January 2015	January 2016
Cut in government grant	4%	0.6%
Increase in council tax	3.5%	2%
Cuts required in 2016/17	£4.563m	£2.838m
Reduction in PCSOs	19	0

6.4 The effect of inflation and Grant cuts are broken down as follows

	2016/17	2017/18	2018/19	2019/20
Inflationary increases	£4.078m (2.60%)	£2.232m (2.04%)	£2.580m (1.60%)	£2.375m (1.45%)
Reduction in Grant	£0.417m (-0.6%)	£0.728m (-1.0%)	£0.720m (-1.0%)	£0.713m (-1.0%)
Less: additional funding from Increase in Council Tax	(£1.657m) (2.0%)	(£1.883m) (2.5%)	(£1.935m) (2.5%)	(£1.989m) (2.5%)
Cuts required	£2.838m	£2.077m	£1.365m	£1.099m

6.5 The focus has been very much on cuts over the last 5 years with a total of £24.1m having been cut from the budget. However, addressing the local and national priorities necessitates additional resources in certain areas of work. The majority of this can be addressed by re-prioritising within Services; however there are some emerging requirements that need additional staff, which have been funded from the cuts identified. The inflation figure above includes £1.072m additional investment in the Protecting Vulnerable People Unit. This is an investment of 19 Officers and 5 staff (final mix subject to change) in preventing, identifying and investigating the exploitation of vulnerable people which has been identified as a national as well as a local priority, this includes online exploitation. An investment of £0.068m is required within the crime recording process to meet national requirements as well as an investment of £0.233m to deliver the number of major projects in IT and Estates that are due to be delivered over the next few years.

6.6 The final set of cuts, in addition to the £1.469m inflationary reductions made, is listed below.

Cuts to be taken in 2016/17	
Business Service Review	£0.237m
Corporate Service Review	£0.326m
Operational Futures LPS	£0.114m
Scientific Support	£0.270m

Communication Futures	£0.180m
Estates	£0.266m
Vehicles and transport	£0.075m
Analysts	£0.027m
Overtime	£0.150m
National Air Service	£0.099m
Catering	£0.050m
Support Service Management Review	£0.215m
Crime Services	£0.147m
Procurement	£0.015m
Income Generation	£0.200m
Firearms Licencing	£0.203m
Seized Property	£0.012m
Targeted Service Efficiencies	£0.345m
Total to be cut	£2.838m

- 6.6 This leaves a gap savings required of £4.541m over the period 2017-18 to 2019-20. Plans are at different stages of development for these further savings; these plans will be further developed and reviewed over the next 12 months. The process to identify further efficiencies will continue.

	2017/18 to 2019/20
Business Service Review	£0.726m
Corporate Service Review	£0.026m
Operation Futures LPS	£0.081m
Operational Futures PCSO's	£1.037m
Communication Futures	£0.096m
Estates	£0.318m
Vehicles and Transport	£0.228m
IT Contracts	£0.762m
National Police Air Service	£0.196m
Collaboration	£0.200m
Procurement	£0.100m
Budget Review	£0.271m
PFI	£0.500m
Total	£4.541m

7. Recruitment

- 7.1 The Police Officer Establishment (the number of funded Police Officer Posts in the Budget) was 1,406 in 2015-16, this reduced to 1,402 due to a reduction in the number of officers seconded outside the of the force area. The Recruitment Plan aims to have fully trained Officers deployed in the Established Police Officer Posts. The number of posts will vary due to grant-funded and Seconded Officer post numbers, as well as the effect of any civilianisation or other changes in Police Officer Posts. The actual number of Officers will vary depending on the number of

retirements and other leavers and the recruitment profile. The actual number of Officers including Probationers will be higher than the Establishment Posts during 2016-17.

- 7.2 The maximum number of recruits that can be taken is 4 intakes of 18 probationers, it was anticipated that this would have had to be reduced to 2 intakes based on the financial outlook prior to the Autumn Statement announcement. Based on the revised forecast the plan for 2016-17 is now for four intakes of 18 during the year. The Probationer Reserve and turnover savings will be used to fund the over-establishment numbers during the year and manage the risk that further cuts will have to be made in future if funding reduces. This smooths the peaks and troughs in terms of matching actual numbers to the budgeted number of posts.

Police Officer Establishment 1.4.2015	1402
Net change	7
Police Officer Establishment 1.4.2016	1409

- 7.3 There is a steady flow of PCSO's being recruited as Police Officers. The initial outlook was that there would be a reduction of 19 in the PCSO's establishment; it is now possible to at least delay this reduction. PCSO's are recruited in intakes of 12, it had been expected that one or possibly two intakes would have been required in 2016-17 but now it will be necessary to have three or if possible four intakes.
- 7.4 The improvement in the funding outlook is to be welcomed but does pose a challenge for the recruitment section, especially as the change of direction has come very late in the planning cycle. Plans for the additional recruitments as well as assessment of additional resources that may be required over the short term are being finalised.

8. Risks

- 8.1 The level on uncertainty in setting 2016-17 budgets has been very high due to the spending review and the review of the formula, funding was not confirmed until 17 December 2015. No policing area grant figures have been announced beyond 2016-17. There is still a risk that there will be cuts to the total allocated to policing areas in future years, the government have assumed an increase in council tax in order for policing areas not to have a real terms cut in budget.
- 8.2 The biggest risk over the next year is the funding formula. The figures provided by the Home Office during the 2015-16 review showed North Wales's allocation increasing from 1.03% to 1.06% of the total, this equated to £2m additional funding which demonstrates the sensitivity of any changes. Estimates then provided by Devon and Cornwall showed North Wales's allocation reducing by £12m. Details of the new review have not been announced and it is not clear if the next proposal will be based on the 2015-16 proposal or a completely different approach.

- 8.3 There are new and emerging national and local risks that must be resourced such as Child Sexual Exploitation and Cyber Crime, additional allocations have been made in 2016-17 but these are resource intensive areas and will need to be further assessed in future. Locally the development of the Prison in Wrexham and the Wylfa B Nuclear Power Station will have a call on resources. Other public sector agencies are seeing a reduction in their budgets which could also increase the demand on the Police service.
- 8.4 The plans for the savings in 2015-16 are in place and are being implemented; however the potential savings in 2016-17 have to be delivered. These are considered to be deliverable within the year. Cuts beyond 2016-17 have to be confirmed and delivered. Not all the savings are under the Force's control, the Collaboration savings will depend on other Forces and organisations.
- 8.5 The estimated cuts required are based on the planning assumptions for increases in Council Tax being agreed. If this were to be reduced each reduction of 1% would mean an additional £0.670m cut in the 2017-18 budgets.
- 8.6 The Home Office have top-sliced the amounts allocated to Police areas in recent years to fund national units and initiatives. Any new initiatives may result in further top slicing.
- 8.7 Further cuts could be applied if the economic climate worsens. Each additional 1% cut to the General Grant Funding is a cash reduction of £0.727m.
- 8.8 As 80% of the net budget is spent on pay any small changes in pay increase, pension contribution or National Insurance contributions can have a disproportionate effect on the budget.
- 8.9 Inflation has been low in recent years and the budget assumptions have been changed to reflect this, however this could change especially in areas such as fuel and energy where prices can be very volatile.
- 8.8 The table below highlights the sensitivity of the main assumptions

Sensitivity main variables	£m
1% change in Council Tax	0.670
1% change in grant	0.727
A 1% change in pay	0.900
1% change in general inflation	0.378

9. Reserves

- 9.1 The Commissioner has a duty to ensure that he holds adequate financial reserves to manage risks. In addition to the funding and forecasting risks detailed above, the Commissioner needs to cater for expenditure risk (spending over budget), and costly major incidents, natural disasters or other unforeseen events. An element of this risk has been managed through the in-year budgets through the contingency budgets. These are being reduced and greater proportion of that risk being transferred to Reserves and Balances.
- 9.2 The General Reserve is currently £4.189m which is 3% of the estimated 2016-17 net budget. The prudent range is considered to be 3% to 5% of net budget. A review of the reserves was carried out as part of the budget setting process last year, and as there is now a specific Major Incident Reserve it was been decided to reduce the General Reserve to £4.189m which is 3% of the net budget. The General Reserve previously had an element to cover requirements for Major Incidents if needed.
- 9.4 The use of the reserves will depend on the final decisions on capital expenditure and the final revenue settlements, therefore the table below shows the current plan on how the earmarked reserves may be best used to support service provision and reduce the pressure on the revenue budget. Where the use of the Reserve is not known (such as the Major Incident Reserve) no changes are shown. The use of reserves will be reviewed on a regular basis.

Details of the projected Reserve position at the end of each year are given below the table.

Reserve Position							
<i>Usable Reserves at</i>	31.3.15		31.3.16	31.3.17	31.3.18	31.3.19	
	£m		£m	£m	£m	£m	
Capital Receipts Reserve	4.641	-1.300	3.341	0.000	0.000	0.000	Can only be used for capital
General Fund Balance	4.189	0.000	4.189	4.189	4.189	4.189	Set at 3% of net budget from 15-16
Earmarked General Fund Reserves	32.235	-3.520	28.715	18.449	14.775	13.512	Detailed below
Total Usable Reserves	41.065	-4.820	36.245	22.638	18.964	17.701	

A breakdown of estimated Earmarked Reserves at the end of each financial year is given below and a description on each is shown in section 9.5.

Description	31.3.15		31.3.16	31.3.17	31.3.18	31.3.19
	£m		£m	£m	£m	£m
Capital Investment	14.845	-2.288	12.557	3.373	0.885	0.885
Major Incident	2.235	0.000	2.235	2.235	2.235	2.235
Pension Ill Health Reserve	0.697	0.000	0.697	0.697	0.697	0.697
Insurance Reserve	1.259	0.000	1.259	1.259	1.259	1.259
PFI Reserve	3.397	0.295	3.692	3.914	4.032	4.073
Probationer Reserve	4.840	0.000	4.840	4.140	3.440	2.740
Estates Security and Maintenance	2.000	-0.500	1.500	1.000	0.500	0.000
Cost of Change	1.659	-0.900	0.759	0.759	0.759	0.759
Partnerships Reserve	0.685	-0.104	0.581	0.477	0.373	0.269
Commissioners Community Safety Fund	0.265	0.000	0.265	0.265	0.265	0.265
PCC Transition/Legal/Participatory Budgets	0.353	-0.023	0.330	0.330	0.330	0.330
Total	32.235	-3.520	28.715	18.449	14.775	13.512

The amount of reserves allocated to Capital, Risk Management, Earmarked Revenue and General is shown below.

	31.3.15		31.3.16	31.3.17	31.3.18	31.3.19
	£m		£m	£m	£m	£m
Capital	19.486	-3.588	15.898	3.373	0.885	0.885
Risk	4.191	0.000	4.191	4.191	4.191	4.191
Revenue	13.199	-1.232	11.967	10.885	9.699	8.436
General	4.189	0.000	4.189	4.189	4.189	4.189
Total	41.065	-4.820	36.245	22.638	18.964	17.701

9.5 Capital Investment Fund (Capital) – To be used to invest in the assets and infrastructure of the Force to improve service provision and reduce revenue expenditure.

Major Incident Reserve (Risk)– To be used in the event of a Major Incident requiring additional resources beyond those available within the annual budget. This reserve has enabled the Major Incident Contingency budget to be reduced.

Pension Ill Health Reserve (Risk) – The Force has to pay a one off sum equivalent to twice an Officers pay for each Ill Health Retirement. Holding the Reserve has reduced the need for the budget in revenue.

Insurance (Risk)- This relates to the Municipal Mutual Insurance Limited scheme of Arrangement, which could result in a final payment of an estimated £0.432m; for unknown emerging claims, and unknown future claims highlighted by the Insurance Broker.

PFI Reserve (Earmarked Revenue) – This is required as the funding for PFI from the Government reduces annually, the fund will eventually reduce over the life of the PFI contract.

Probationer Reserve (Earmarked Revenue) – To be used to fund Probationers over establishment to enable posts to be filled with trained Officers.

Estates Security and Maintenance (Earmarked Revenue) - To fund backlog maintenance and additional security not covered in the revenue or capital budgets.

Cost of Change (Earmarked Revenue) - Investment required in order to facilitate change and reduce cost in the longer term.

Partnerships Reserve (Earmarked Revenue) – Balances held for specific Partnerships which will either be used or are held in the event of funding being withdrawn resulting in additional costs.

Community Safety Fund (Earmarked Revenue) - To provide additional resources to the Community Safety Fund

Office of the PCC and PCC Transition (Earmarked Revenue) – OPCC reserve and amount earmarked for any transition costs associated with the PCC election cycle.

10. Capital

- 10.1 There are a number of projects within the Capital Programme which are coming to the end of the planning and planning consent stages. These are the custody and headquarters facility and the town centre police station in Wrexham, the new Police Station in Llandudno, the control room technology replacement and the mobile data developments. The expenditure for these projects has been re profiled, most of the expenditure is incurred once the work has started, but it does take time and resources to get projects of this magnitude up and running.
- 10.2 There are also other smaller estates projects to be completed as well as upgrade of the Business systems and the annual Vehicle replacement Programme.
- 10.3 The Capital figures in the Appendix C show the original and revised Capital Programme for 2015-20.
- 10.4 Plans beyond 2017-18 are limited at the current time to Vehicle and IT replacement Programmes. There will be an Estates Review in 2016-17 and the Capital Programme will be reviewed in light of this and the conclusion of the major works that will be carried out over the next two years.

10.5 Capital Programme 2015-16 to 2019-20
Expenditure

	£m
Estates	21.445
Vehicles and Equipment	8.602
Information Technology and Communication	9.577
Total	<u>39.624</u>
 Funding	
Grants	3.065
Revenue Contribution	3.674
Reserves	13.960
Capital Receipts	7.549
Borrowing	<u>4.570</u>
Total	39.624

11 Summary

11.1 The Medium Term Financial Plan sets out the Commissioners and the Chief Constables plans for the Revenue and Capital Budgets and the use of Reserves over the next 3 to 5 years. It is expected that there will be at least a further three years of cuts in grants, but that the cuts are less than previously expected. These follow from on from a period of four years where £24.1m has already been cut from the Grants. The emerging demands in cybercrime and sexual exploitation of the vulnerable are resource intensive in terms of prevention and investigation but have to be addressed. The next four years will be very challenging financially and will require a balance between cutting budgets, investments in some areas and reasonable increases in Council Tax.

Appendix A

The Financial Strategy

Financial Strategic Objectives:

- Prioritise resources to align spending plans with the Police and Crime Commissioner's vision and the Chief Constable's strategic objectives as set out in the Police and Crime Plan
- Maintain a balanced budget position and to set a medium term financial plan that supports the service through the period of reduced funding
- Deliver value for money for local taxpayers
- Exercise probity, prudence and strong financial control
- Provide a robust framework to assist the decision making process
- Manage risk, including maintaining reserves at a suitable level whilst only incurring a sustainable level of debt
- Continually review budgets to ensure that resources are targeted on key objectives

To achieve the strategic objectives planning is undertaken in the following areas:

Corporate and Business Planning

- To integrate operational and financial planning to ensure that resources are directed to support the priorities set out in the Strategic Plan and to match resources with corporate objectives
- To produce a financial plan for the next 3 to 5 years which will incorporate the Force's major capital and revenue projects and the IT and Estates strategies and provide sustainable funding over the short and medium term
- To produce a detailed annual revenue and capital budget which supports the most effective deployment of resources

Risk Management - Reserves and Provisions

- To maintain adequate reserves and provisions to ensure that the medium term policy programme is sustainable and can be delivered
- To aim to balance the revenue budget over the medium term without reliance on the use of the General Reserve
- To maintain the 3 levels of resilience by use of reserves and provisions:
 1. Annual Budget Management
 2. Earmarked Reserves including the Major Incident Reserve
 3. A General Reserve at between 3% and 5% of net revenue expenditure

Risk Management - Financial Control Framework

- To maintain a financial control framework which is key to maintaining effective standards of financial administration and stewardship. This will be achieved through the following:
 - Adherence to Statutory Rules and Regulations
 - Home Office Financial Management Code of Practice
 - Code of Corporate Governance
 - Policies and Procedure notes
 - Financial Regulations and Standing Orders
 - Treasury Management Policy and adherence to the Prudential Code
 - Implementation of Internal and External Audit recommendations
 - Management of Risk
 - Codes of Professional Conduct
- To maintain and develop adequate financial systems to record and control resources and move towards full electronic processing
- To align financial responsibility at the operational level with the appropriate management control or influence
- To ensure that accurate, up to date financial information is available to enable users to apply it effectively in decision making.

Appendix B Budget 2015-16 to 2019-20										
		Annual		Annual		Annual		Annual		Annual
		Budget		Budget		Budget		Budget		Budget
		2015-16		2016-17		2017-18		2018-19		2019-20
	Expenditure	£000	£000	£000	£000	£000	£000	£000	£000	£000
1	Police Officer Pay	71,269	1,648	72,917	1,338	74,255	1,227	75,482	1,235	76,717
2	Police Staff Pay	40,249	651	40,900	807	41,707	649	42,356	654	43,010
3	Police Officer Overtime	1,983	-150	1,833	0	1,833	0	1,833	0	1,833
4	Police Staff Overtime	406	0	406	0	406	0	406	0	406
5	Allowances	2,023	-155	1,868	-50	1,818	-50	1,768	-50	1,718
6	Training	669	-3	666	13	679	14	693	14	707
7	Other Employee	671	7	678	13	691	14	705	14	719
8	Direct Pension Payments	3,102	0	3,102	62	3,164	63	3,227	65	3,292
9	Energy Costs	1,409	22	1,431	44	1,475	44	1,519	47	1,566
10	Building Running Costs	6,645	-380	6,265	134	6,399	137	6,536	140	6,676
11	Repairs & Maintenance of Vehicles	857	5	862	17	879	18	897	18	915
12	Vehicle Running Costs	2,167	-111	2,056	86	2,142	89	2,231	94	2,325
13	Car & Travelling Allowances	721	8	729	14	743	15	758	15	773
14	Air Support Unit	1,394	-99	1,295	0	1,295	0	1,295	0	1,295
15	Equipment	688	-33	655	14	669	14	683	14	697
16	Clothing and Uniforms	466	5	471	9	480	10	490	9	499
17	Printing and Stationery	437	-3	434	9	443	9	452	10	462
18	IT and Communications	9,215	-12	9,203	0	9,203	0	9,203	0	9,203
19	Subsistence	297	-11	286	6	292	6	298	7	305
20	Other Supplies and Services	7,552	79	7,631	236	7,867	90	7,957	90	8,047
21	Forensics	1,078	-123	955	21	976	22	998	23	1,021
22	Debt Charges & Contribution to Capital	1,504	0	1,504	360	1,864	0	1,864	0	1,864
23	Special Situations Contingency	400	0	400	0	400	0	400	0	400
24	Inflation and General Contingency	400	0	400	0	400	0	400	0	400
25	Community Safety Fund	1,166	0	1,166	0	1,166	0	1,166	0	1,166
	Gross Expenditure	156,768	1,345	158,113	3,133	161,246	2,371	163,617	2,399	166,016
	Income									
26	Secondments	-1,300	199	-1,101	0	-1,101	0	-1,101	0	-1,101
27	Interest on Balances	-271	0	-271	0	-271	0	-271	0	-271
28	Income	-5,397	-270	-5,667	0	-5,667	0	-5,667	0	-5,667
29	Specific Grants	-10,051	-43	-10,094	52	-10,042	53	-9,989	52	-9,937
	Total Income	-17,019	-114	-17,133	52	-17,081	53	-17,028	52	-16,976
30	PFI Reserve	29	0	295	-73	222	-104	118	-77	41
31	Speed Awareness Reserve	-208	0	-208	0	-208	0	-208	0	-208
32	Additional from Reserves	0	0	0	0	0	0	0	0	0
	Net Expenditure	139,836	1,231	141,067	3,112	144,179	2,320	146,499	2,374	148,873
33	Total Grants	-73,162	417	-72,745	728	-72,017	720	-71,297	713	-70,584
34	Precept	-66,674	-1,648	-68,322	-1,883	-70,205	-1,935	-72,140	-1,989	-74,129
	Funding	-139,836	-1,231	-141,067	-1,155	-142,222	-1,215	-143,437	-1,276	-144,713
	Annual Balance	0	0	0	1,957	1,957	1,105	1,105	1,098	1,098
	Cumulative			0		1,957		3,062		4,160

Capital Programme 2015-16 to 2019-20

<u>Draft Capital Programme 2015-2020</u>									
		2015-16	2015-16	2016-17	2016-17	2017-18	2017-18	2018-19	2019-20
Ref	Description	Original	Revised	Original	Revised	Original	Revised	Revised	Revised
		Jan-15	Jan-16	Jan-15	Jan-16	Jan-15	Jan-16	Jan-16	Jan-16
		£000	£000	£000	£000	£000	£000	£000	£000
<u>Estate Programme</u>									
1	Retentions	5	5	5	5	5	5	5	5
2	Sustainability Improvements	100	69	100	100	100	100	100	100
3	Menai Bridge Offices	0	0	100	100	0	0	0	0
4	Custody Suites upgrades	0	26	0	0	0	0	0	0
5	Llangefni New Police Station	60	0	0	0	0	0	0	0
6	Chirk Station Relocation	20	0	0	0	0	0	0	0
7	Cefnawr Station Relocation	50	0	0	0	0	0	0	0
8	Wrexham new Facility	9,083	2,300	5,000	8,622	0	5,000	0	0
9	Saltney Relocation	50	0	0	50	0	0	0	0
10	Buckley Relocation	0	0	55	55	0	0	0	0
11	Deeside Relocation	0	0	250	250	0	0	0	0
12	Flint Relocation	7	43	0	0	0	0	0	0
13	Llangollen Relocation	7	36	0	0	0	0	0	0
14	Llandudno Relocation/New Build	1,000	600	1,000	1,937	0	0	0	0
15	Conwy Relocation	175	0	0	175	0	0	0	0
16	Pwllheli Relocation	902	52	0	0	0	1,000	0	0
17	Tywyn Relocation	140	140	0	0	0	0	0	0
18	Holyhead Port	0	79	0	0	0	0	0	0
19	Firearms Range Training Facilities	0	213	0	0	0	0	0	0
20	Canteen (subj to Business Case)	94	0	0	94	0	0	0	0
21	SARC Building	0	115	0	0	0	0	0	0
22	Prestatyn Station demolition	0	64	0	0	0	0	0	0
	Total Building Works	11,693	3,742	6,510	11,388	105	6,105	105	105

		2015-16	2015-16	2016-17	2016-17	2017-18	2017-18	2018-19	2019-20
Ref	Description	Original	Revised	Original	Revised	Original	Revised	Revised	Revised
		Jan-15	Nov-15	Jan-15	Nov-15	Jan-15	Nov-15	Nov-15	Nov-15
		£000	£000	£000	£000	£000	£000	£000	£000
	<u>Vehicles and Other Equipment</u>								
23	Vehicle Purchase Replacement Programme	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
24	PSU Vehicles (Revenue Stream replacement programme)	0	624	0	0	0	0	0	0
25	PIV	0	400	0	0	0	0	0	0
26	ANPR	0	78	0	0	0	0	0	0
	Total Vehicles and Other Equipment	1,500	2,602	1,500	1,500	1,500	1,500	1,500	1,500
	<u>Information Technology and Communication Equipment</u>								
27	Desk Top Replacement (Replacement Programme)	300	300	300	300	300	300	300	300
28	Network Installation (Replacement Programme)	1,400	400	0	1,000	500	0	0	800
29	Control Room Technology Replacement	0	0		2,115	0	0	0	0
30	CAD Upgrade and Hardware (Replacement Programme)	500	0	0	0	0	0	0	0
31	RMS Upgrade	0	0	0	0	0	450	0	0
32	Business Systems	345	0	0	345	420	0	0	420
33	Criminal Justice Digital Project	0	377	0	0	0	0	0	0
34	Interview Rooms Security and DDA	0	300	0	0	0	0	0	0
35	Call centre management system	650	0	0	0	0	0	0	0
36	ICCS replacement (part of Control Room Futures)	550	0	0	0	0	0	0	0
37	Mobile data	800	400	0	400	0	0	0	0
38	Secure System Replacement	0	70	0	0	0	0	0	0
39	Airwave Replacement	0	0	0	0	0	0	0	1,000
	Total Information Technology and Communication	4,545	1,847	300	4,160	1,220	750	300	2,520
	Total Capital Expenditure	17,738	8,191	8,310	17,048	2,825	8,355	1,905	4,125
	<u>Funding of Capital Programme</u>								
40	Home Office General Capital Grants	1,100	901	1,100	541	1,100	541	541	541
41	Revenue Contribution	410	994	310	670	310	670	670	670
42	Earmarked Reserves	9,326	2,288	1,356	9,184	0	2,488	0	0
43	Capital Receipts	3,218	1,300	2,244	5,353	195	153	0	0
44	Borrowing for Estates and other capital	1,139	2,008	3,000	0	0	3,753	394	1,394
45	Borrowing for Replacement Programmes	2,545	700	300	1,300	1,220	750	300	1,520
	Total Funding	17,738	8,191	8,310	17,048	2,825	8,355	1,905	4,125

