REVENUE BUDGET AND CAPITAL PROGRAMME 2018/19

POLICE & CRIME COMMISSIONER
THAMES VALLEY

POLICE AND CRIME COMMISSIONER FOR THAMES VALLEY

BUDGET BOOK 2018/19

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Key Figures

2016/17		2017/18	2018/19
£166.96	Council tax for police purposes (at band D)	£170.28	£182.28
859,514	Council tax base (band D equivalents)	876,968	890,503
	Planned year end staffing establishments		
3,896	Police officers	3,828	3,878
2,504	Police staff	2,624	2,702
424	Police Community Support Officers (PCSOs)	422	418
6,824	**Total**	**6,874**	**6,998**
2,371,400	Population estimate as at June	2,390,600	2,420,900
572,680	Area – Hectares	572,680	572,680
1 April 2016		1 April 2017	1 April 2018
4,151	Number of police pensioners	4,282	4,392
£20.755m	External debt	£20.503m	£27.956m
£39.655m	Capital financing requirement	£46.178m	£44.137m

Financial Summary

2016/17 Estimate £m		2017/18 Estimate £m	2018/19 Estimate £m
1.351	PCC controlled expenditure	1.427	1.441
5.652	PCC commissioning budget	5.815	5.918
379.009	TVP operational budget	387.469	396.536
2.097	Net capital financing costs	1.984	4.504
- 1.468	Transfer to/from reserves	- 4.064	- 2.405
386.641	**Cost of services**	**392.631**	**405.994**
	Financed by		
141.221	Police grant	139.249	139.249
73.891	Formula grant	88.133	88.133
26.007	Specific grants	13.374	14.523
143.505	Council tax	149.500	162.321
2.018	Surplus on collection funds	2.375	1.768
386.641		**392.631**	**405.994**

PREPARATION OF THE REVENUE BUDGET

1. This report provides information on the police and Crime Commissioners (PCC's) revenue budget for 2018/19

PROVISIONAL POLICE FINANCE SETTLEMENT

2. The Provisional 2018/19 Police Finance Settlement was announced in an oral statement by the Minister for Policing and the Fire service, Nick Hurd, on Tuesday 19 December 2017. This was followed by a written statement shortly thereafter.

HEADLINES

3. The key headlines are set out below:
   - Precept flexibility of up to £12 for all PCCs (or equivalents) in 2018/19
   - Flat cash grant funding i.e. the same allocations as in 2017/18 for Home Office Core Police Settlement, Ex-DCLG, and Legacy Council Tax
   - Updated assumptions around tax base growth – now using OBR figures of 1.34% in England
   - Including these assumptions on council tax and based on the 1.5% GDP deflator, the resulting settlement, including council tax, represents a "real terms" increase for all between 2017/18 and 2018/19
   - £450m additional funding for the service – includes £130m additional reallocation and approximately £147m as a result of additional council tax flexibilities.
   - £50m additional counter Terrorism funding and the remaining £123m can be considered as "new money".
   - The minister's letter to PCCs refers to this additional funding in addition to identified efficiency savings of up to £100m (procurement) to enable "appropriate provision for likely cost increases next year".
   - Police capital grants have reduced from £77.2m in 2017/18 to £75.2m in 2018/19

CORE FUNDING

4. The Government Core Funding (made up of Police Grant, ex-DCLG grant, the Welsh government funding and Welsh top-up) has been maintained at the same cash levels as in 2017/18.

5. Should each PCC raise their precept by up to £12, and the new tax base and inflation figures are used, then there will be at least 'real terms' funding increases for each force.

6. An assumption of an increased tax base of 1.34% for England and 0.8% for Wales is higher than the previous assumption of 0.5%. The Government has decided to use this OBR measurement as they feel it better reflects actual council tax base growth across England and Wales.

COUNCIL TAX REFERENDUM PRINCIPLES

7. The Department for Communities and Local Government (DCLG) has published the draft council tax referendum principles. In 2018-19 all PCCs will be allowed to increase band D bills by as much as £12. This represents increases of between 5.34% (Surrey) and 12.2% (Northumbria).

POLICE OFFICER PAY

8. Nick Hurd's letter to PCCs and Chief Constables includes a reference to the police officer pay settlement. The additional funding announced together with procurement efficiencies as well as those identified in the HMICFRS Efficiency report are highlighted

as “enabling PCCs to make appropriate provision for likely cost increases next year within your financial plans”. This includes both the remaining costs of the additional 1% non-consolidated element of the 2017 pay award as well as the likely costs of the 2018 pay award. Mr Hurd goes on to say that it is for police leaders to make proposals in relation to the 2018 pay award, reflecting what is affordable and fair to officers and taxpayers.

FUTURE SETTLEMENTS

9. Nick Hurd’s letter and statement both state the Home Office’s intention to offer greater certainty on plans for 2019/20. Their intention is to maintain a broadly flat settlement with the same precept flexibility but this is dependent on progress against a number of efficiency milestones to be agreed in the New Year.

REALLOCATIONS

10. In 2018/19 the reallocations total £945m, £133m higher than in 2017/18 (£812m).

Table 1: National Reallocations

Police Funding	2017/18 (£m)	2018/19 (£m)
PFI	73	73
Police technology programmes	417	495
Arm’s length bodies	54	63
Strengthening the response to Organised Crime	28	42
Police transformation fund	175	175
Special Grant	50	93
Pre-charge bail	15	4
Total Reallocations and Adjustments	**812**	**945**

11. The Police Technology Programmes reallocation has increased by £78m; primarily to meet additional costs associated with ESN.

12. Special grant has increased from £50m to £93m. The Home Office are forecasting an overspend in 2017/18; there is an additional £35m for the Commonwealth Heads of Government Summit as well as additional funding for counter terrorism and special investigations.

POLICE TRANSFORMATION FUND

13. The Transformation Fund was first set up in 2016/17 and was worth £76.4m. In 2017/18 that amount rose to £175m but included the innovation fund. In 2018/19 it had been expected that value would rise again to nearer £300m. However, it will stay at the same cash value as in 2017/18.

COUNTER TERRORISM

14. Counter Terrorism funding is negotiated separately to the police settlement. So any increases here should not impact on the rest of the police settlement.

15. The national Counter Terrorism Funding has been announced and is set to increase by £50m which is a 7% increase on last year. It is not yet known whether this additional funding is revenue or capital, however it is expected to be primarily distributed to forces with CT units.

16. According to the Government, this means that there will be a budget of £757m for counter terrorism in 2018/19, including £29m for armed policing.

EMERGENCY SERVICES NETWORK (ESN)

17. Emergency Services Mobile Communications Project (ESMCP) is the work programme delivering the Emergency Service Network (ESN); the replacement for Airwave. Said to be included within the 2016/17 settlement (although not separately identifiable) was the Police share of £1bn funding for ESN.

18. In 2016/17 ESN “core costs” worth £80m were top-sliced from the settlement and were also intended to fund the costs of control room upgrades. At the time of the 2016/17 settlement the indication was that these “core costs” were likely to increase significantly in 2017/18. The 2017/18 Settlement included approximately £100m of funding for ESN under the heading ‘Police Technology Programmes’.

19. However, since then the ESN project has fallen an estimated 15 months behind schedule. This delay means that forces may need to extend their Airwave contracts, which is likely to have associated costs in addition to the delayed savings from ESN. A paper circulated earlier in the year estimated the cost of a 12 month delay at £400m. It is not yet clear how these additional costs will be met and by whom.

20. It is understood that approximately £75m of the additional Police Technology Programmes reallocation is for ESN.

CAPITAL FUNDING

21. Total Police Capital Grants have reduced slightly from £77.2m in 2017/18 to £75.2m in 2018/19. However, individual force allocations are unchanged from 2017/18

Table 2: Capital Funding

2018/19	**£m**
Police Capital Grant	45.9
Special Grant Capital	1.0
Police Live Services	13.1
National Police Air Service	15.2
Total	**75.2**

NATIONAL AND INTERNATIONAL CAPITAL CITY (NICC) GRANT

22. In 2018/19 the NICC grant for the City of London will remain at £4.5m. The NICC grant for MOPAC is also unchanged at £173.6m.

PRECEPT GRANT

23. The City of London will receive an additional £0.9m due not having a police precept and therefore being unable to benefit from the increased precept flexibility. This will be funded through a reallocation from within the overall police settlement.

MINISTRY OF JUSTICE (MoJ) FUNDING

24. On 31st October 2017 MoJ announced that funding to PCCs for victims’ support services will be maintained at £63.15m.

FORMULA REVIEW

25. The Police Formula review is unlikely to be revisited until the next spending review.

THAMES VALLEY ALLOCATIONS

26. The PCC will receive the following grants in 2018/19.

Table 3: TVP grant allocations 2018/19

	2017/18 £m	2018/19 £m	Variation £m
Home Office Police Grant	139.248	139.248	0
Ex DCLG Formula Funding	72.855	72.855	0
Sub-total	**212.103**	**212.103**	**0**
Legacy council tax grants			
- Council tax support funding	11.906	11.906	0
- 2011/12 council tax freeze grant	3.372	3.372	0
Total General Grants	**227.381**	**227.381**	**0**

27. In addition to these general grants the PCC will also receive £2.765m from the Ministry of Justice to fund victim and witness services in 2018/19.

THAMES VALLEY POLICE RESPONSE TO THE POLICE SETTLEMENT

28. The budget presented today maximises the limited financial flexibility, offered by the two year window of opportunity in relaxing the council tax precept rules, to fund essential investments which will help deliver future savings without having to make unpalatable cuts in the short term to fund those investments. It will also ensure, as in the past, that all future savings and efficiencies are fully risk assessed and any necessary mitigating action are put in place before the changes are made.

29. In November 2017 Thames Valley Police (TVP) was judged by the Her Majesty's Inspectorate of Constabulary, Fire and Rescue Services (HMICFRS) to be 'outstanding' in the efficiency with which it keeps people safe and reduces crime. This includes an 'outstanding' for its understanding of demand and its use of resources to manage demand, and its planning for future demand was judged to be 'good'. TVP was one of only two forces nationally to have been awarded an overall rating of outstanding. This evaluation reflects the determination of TVP to continue to deliver an effective and efficient service responding to the changes of the complexity and scope of crime as well as the changing needs of victims within the constraints of the Government's severe austerity drive.

30. The changing face of crime means we will continue to see an unprecedented increase in demand in some of the most complex and challenging areas of policing. Rising reports and cases of hidden crimes such as domestic abuse, child abuse, modern slavery, sexual offences, serious violence and exploitation have all increased the pressure on police resources. Our current Hidden Harm campaign reflects the priority we are giving to the area of vulnerability. In addition to the rise in crimes against the vulnerable we are seeing the unwelcomed increase in the more traditional crimes of burglaries and violence as well as the increased threat from terrorism, fraud and cyber-crime. The rise in crime and expectations from our communities have led to an unprecedented increase in call volumes with 999 calls increasing over 21% over the last 2 years.

31. In order to respond to the increasing and changing demands with our constrained financial position we must invest in the new technologies that will develop the digital police service of the future as envisaged in the Policing Vision for 2025. Unfortunately these technologies come at a significant cost, not only in the upfront purchase but also the underlying technological infrastructure they require and the ongoing maintenance and replacement. These technologies will improve our response to Threat, Harm and Risk, giving our staff quick and simple access to the information they need, when and

where they need it. The medium term capital programme presented today details our investment plans and includes investment of £39m in technology over the 4 years to 2021. Unfortunately the efficiencies these technologies will deliver can only be realised after the technology has been embedded in the organisation and the appropriate processes and service delivery models have changed.

32. We are committed to continuing our drive to make the service more efficient and appropriate for the current and future demands. Over the last seven years we have successfully implemented budget reductions of £99m, which equates to 26% of the net revenue budget in 2017/18. Whilst the drive is always to focus on maintaining staff numbers, with 78% of our budget currently spent on employee costs, these budget reductions have resulted in an unavoidable manpower reduction of 1,017 full time equivalent (FTE) posts, including 453 police officers.

33. To ensure we continue to drive out efficiencies and implement the necessary changes to embed new ways of working and efficiencies, we have streamlined our change process under the Governance and Service Improvement Chief Superintendent and developed the Priority Based Budgeting principles within our Efficiency and Effectiveness Programme. We are also undertaking a major review of the Joint Operations Unit with a view to making the service more efficient and responsive to current priorities. The additional financial flexibility offered in today's budget provides us the opportunity to ensure we understand the implications of any proposed changes, fully risk assess those changes and take any appropriate mitigating action.

<u>OVERVIEW OF THE MEDIUM TERM FINANCIAL PLAN (MTFP)</u>

34. The review and development of the revenue budget is an annual exercise with each year's budget and associated council tax precept considered and approved in isolation. However, decisions taken in the course of approving the revenue budget will often have longer term consequences, as will those in approving the capital programme. The three year MTFP brings together these medium term consequences and allows a more comprehensive view to be taken of the PCC's overall financial position. It is imperative that the PCC knows the full extent of the financial consequences he will be committing to in future years when he considers and determines the annual budget.

35. As explained on pages 42 to 48 the revenue budget is balanced in all three years 2018/19, 2019/20 and 2020/21.

36. The Home Office has stated that grant will be maintained at current cash levels in 2019/20 and PCCs will be allowed to raise their Band D precept by £12 for two years subject to national targets on efficiency and productivity being met. No information is provided for grant in 2020/21 and later years; the working assumption is that grant will remain flat, and council tax precept will revert to a 2% increase in year three. The national review of the police funding formula has been 'parked' for the time being and is not likely to be introduced until after the next Comprehensive Spending Review.

37. We are also anticipating a significant increase in demand on our service over the next three years, for example: from the continuing increases in reporting of complex crimes such as Child Sexual Exploitation (CSE) and Domestic Violence (DV), new and emerging crimes such as Honour Based Violence, Modern Slavery and Cyber related crime as well as the forecast population increase, the expectations of our communities, and legislative changes. Quantifying the resourcing impact of this increasing and changing demand, is constantly reviewed by the Chief Constable's Management Team (CCMT) but is difficult to predict over the medium term.

Budget preparation

38. Work on preparing the draft budget began shortly after the 2017/18 revenue budget was approved by the PCC in January 2017. This early start was necessary in order to identify issues and potential funding shortfalls in time to develop and enhance the productivity strategy to meet the challenges ahead.

39. Throughout the budget preparation process the following key principles have been adopted:

- To protect priority services;
- To protect our ability to manage threat, harm & risk;
- To maintain our capability in protective services and back office functions through collaboration;
- To maintain and improve performance in key areas, including the strategic policing requirement;
- To reduce "discretionary spending" and streamline business processes and to eliminate unnecessary bureaucracy and waste
- To invest in technology to protect service delivery against future cuts
- To invest in areas where future savings can be attained;
- All change to be risk assessed.

40. There is a close relationship between preparation of the annual budget, medium term financial plan and the annual service objective setting process. All three support and complement the Force Commitment and the Police and Crime Plan.

41. The proposals developed for the draft budget ensure that resources are targeted towards priority service areas, the delivery of the strategic objectives and meeting our strategic policing requirement.

Planning assumptions

42. In developing and refining the budget and the MTFP the following underlying assumptions have been made:

- General inflation is applied at 2.4% for 2018/19, 1.9% in 2019/20 and 2.0% in 2020/21, this aligns to the estimates for CPI as published by the Office for Budget responsibility (OBR);
- Specific inflation rates are based on sector led rates, e.g. Premises at 2.8% and Utilities at 5% per annum;
- Specific inflation has been applied to the custody contract to allow for wage uplifts in relation to the National Minimum Wage and recruitment issues;
- Pay inflation has been allowed for at 2.0% per annum in each of the three years to reflect the increase in inflation and removal of the central government capping on pay increases;
- Council tax precept to increase by £12 per annum in each of the next two years, with an increase of 2.0% in the final year;
- Council tax billing base to increase by 1.3% in 2018/19, 1.7% in 2019/20 and 2.0% in 2020/21;
- Police grants (Main Grant & Formula Grant) have been assumed to remain at the cash levels as notified in the provisional settlement for 2018/19 throughout the three year period;
- No provision has been made at this stage for the introduction of the new National Police Funding Formula due to the unknown impact this will have on Thames Valley's share of the national policing funds;

- The use of reserves will predominantly support the MTCP but will be significantly committed by the end of the three year period;
- The future investment in technology, whether direct capital purchase or revenue service contracts, will need to be funded by revenue given the diminishing reserves and the minimal level of annual capital grant.

Base Budget

43. The starting point for the preparation of the 2018/19 estimates is the 2017/18 budget approved by the PCC in January 2017. The full MTFP is contained at Appendix 3.

Inflation

44. This additional cost does not relate to any increase in service but is required just to maintain the existing base level of service and pay commitments.

45. Overall inflation for 2018/19 adds £7.90m (average rate of 2.01%) to the annual budget, a further £8.75m in 2019/20 (average rate of 2.15%) and £8.41m in 2020/21 (average rate of 2.01%). These increases are based on a realistic assessment of the impact of inflationary pressures over the next three years.

Committed Growth

46. This section deals with those items within the budget which the PCC is committed to by means of previous decisions taken, national agreements or statutory payments.

47. The main significant changes that have occurred in this section for 2018/19 include:

- An increase in the potential income that can be achieved through the Apprenticeship Scheme, by providing and reclaiming the costs of accredited training places for new Apprentices – (£0.250m)
- Provision for the full year effect of the one-off non-consolidated Police Officer pay increase that was implemented in September 2017. This will require £0.650m for the 5 months in 2018/19 that is applicable for.
- The implementation of a phased vacancy factor against the police pay budgets to take account of the current issues being experienced in maintaining and reaching the target establishment figures for Police Officers – (£3.5m)

48. Further details are provided on pages 49 to 51.

Police Officer Strength & Case Investigators

49. There is currently a significant issue in relation to the recruitment and retention of police officers. For the purpose of the budget planning process, the following profile of recruitment and wastage has been applied against the planned establishment requirements. It should also be noted that the current year's productivity savings estimated that an additional 50FTE Officers could be released through the new operating model, however the reality of this against demand has meant that the officers could not be released and as such the anticipated reduction in establishment has been reinstated to the target establishment.

Table 4

	2018/19	2019/20	2020/21	2021/22
Opening Strength	**3,776.97**	**3,768.97**	**3,778.97**	**3,788.97**
Wasteage - 21 per month	-252.00	-252.00	-252.00	-252.00
Transfers Out (CTPSE/ROCU)	-18.00	0.00	0.00	0.00
Recruitment	222.00	222.00	222.00	222.00
Transfers in	40.00	40.00	40.00	40.00
Year End Strength	**3,768.97**	**3,778.97**	**3,788.97**	**3,798.97**
Net Growth /(Reduction)	-8.00	10.00	10.00	10.00
Target Establishment	3,878.50	3,878.50	3,874.50	3,874.50
Variance to Target Establishment	-109.53	-99.53	-85.53	-75.53
Recruitment of Case Investigators	*95.00*	*-10.00*	*-10.00*	*-10.00*
Total Additional case Investigators	*95.00*	*85.00*	*75.00*	*65.00*

50. This profile assumes that the current high wastage rates reduce to more normal levels and that recruitment is maintain at a realistically achievable level. It should however be noted that should these assumptions vary then they could have a significant impact on the budget; if wastage does not return to normal (average 21 per month) and remains at a level of approximately 26 per month, then an underspend of up to £4.0m could occur in 2018/19. Conversely if wastage does return to normal and the recruitment achievement rate is maxed at 100%, then an overspend of up to £2.0m could occur in 2018/19.

51. Given the expected shortfall in police officer numbers, short-term staff Case Investigators are being recruited to support the operational delivery of the force. The MTFP therefore includes funding for an additional 95 FTE staff case investigators. These have been profiled against the assumed net increase in officers and reduces year on year to support the overall shortfall in officer numbers.

Current Service

52. This element of the budget contains growth for those items which are deemed to be necessary to maintain the current levels of service within Thames Valley. The main significant changes that have occurred in this section for 2018/19 include:

- A review of debt charges based on the current levels of borrowing and financing.
- Growth has been included for the PCC to utilise current earmarked reserves for community safety initiatives, this will be an additional £0.10m in each of the next two years.
- A review of the negotiations to the Abingdon PFI contract suggest that anticipated savings of £0.25m will not be realisable in 2018/19 and have been moved back to 2019/20.
- The inclusion of phased growth for Case Investigators to support the operational delivery due to problems in attaining the required police officer numbers as highlighted above - £3.04m

- An increase in the staff overtime provision for Force Intelligence and Specialist Operation (FISO) to account for the civilianisation programme that has been undertaken and the increase in demand and work in these specialist areas - £0.25m.

53. Further details are provided on page 51.

Improved Service

54. These items of growth are required to improve performance and meet the growing demands on the service by means of legislative changes and adherence to codes of practice or to comply with regulations. The main significant changes that have occurred in this section for 2018/19 include:

- Investment in Technology and Infrastructure – Due to the lack of capital grant it is necessary to fund Technology Investment, by Direct Revenue Funding. Provision has been made for £2.2m in 2018/19, increasing to £13.5m by 2021. In future years it is anticipated that some of these costs will be revenue expenditure such as cloud storage.
- Additional posts to support the level of demand in the CSE/PVP and MASH teams - £0.636m
- Growth has been included for the development and management of the South East Regional Integrated Policing (SERIP) team at £0.32m
- Over the next 2 years, there are a number of known large operations and events taking place for which police planning and intelligence gathering will be imperative, therefore a two year increase in the Major Operations team has been included at £0.146m
- One off funding of £0.25m has been included to support works in Windsor to improve security
- An extension for the temporary staff working on the Public Enquiries for a further 12 months, costing £0.197m
- The ICT Business Partnering costs have not reduced as much as expected in previous estimates and this has meant an increase in the budget of £0.27m
- The new ICT Road Map has been developed and scrutinised jointly between Thames Valley and Hampshire, with all the initiatives being prioritised in accordance to the necessity and requirement to implement changes or upgrades. This review has added an additional £1.64m of revenue consequences to the base budget.

55. The remainder of growth within this section is made up of specific initiatives which are short term one-off initiatives affecting, in the main, property maintenance and enhancements. These initiatives are set out individually in more detail on pages 52 to 55.

Appropriation from Reserves

56. The financial strategy includes the utilisation of general reserves and/or the Improvement and Performance Reserve to fund one-off expenditure items to improve performance, achieve future efficiency savings, or to address timing issues where expenditure falls in a different year to the budget provision. Table 5 shows how reserves are being applied in the revenue budget in 2018/19 and the change to those applied in 2017/18

Table 5

	2017/18 £m	2018/19 £m	Change £m
Appropriations from general balances			
- Additional Bank Holidays	0.215	- 0.215	- 0.430
- Police Officer Non-Consolidated Pay Award 2017	0	0.650	0.650
‘ – Late adjustment for council tax	0	- 0.147	- 0.147
	0.215	**0.288**	**0.073**
Appropriations from the Improvement & Performance Reserve			
- Data Centre – resilience and move	0.520	0.000	- 0.520
- TSU - Air Conditioning Replacement	0.250	0.000	- 0.250
- Kingfisher Court Electricals	0.025	0.200	0.175
- Lodden Valley – Custody ventilation	0.190	0.000	- 0.190
- Fountain Court maintenance	0.180	0.000	- 0.180
- Maidenhead – Lighting/Asbestos	0.000	0.164	0.164
- Lodden Valley – Lighting/Asbestos	0.000	0.415	0.415
- Temporary CRED staffing	0.770	0.000	-0.770
- Force Change Board initiative	0.150	0.000	- 0.150
- UCI Public Enquiry	0.197	0.197	0.000
- ICT Rationalisation funding	0.986	0.986	0.000
- ICT 2020 Programme Resources	0.309	0.000	- 0.309
	3.577	**1.963**	**- 1.614**
Appropriations from the Community Safety Reserve	0.000	0.100	0.100
Total	**3.792**	**2.351**	**-1.441**

Force Productivity Strategy Savings

57. The PCC and Force have a long history of delivering productivity savings and using these to balance annual budgets or reinvesting them in frontline policing; a strategy that has been widely scrutinised and praised by HMIC during various inspections and reports.

58. In the four year Comprehensive Spending Review (CSR) period 2011/12 to 2014/15 £59m of cash savings were delivered, with a further £40m in the last three years. Overall, in the last seven years some £99m has been removed from the base budget.

59. Although cuts in Home Office grant have been reduced over the last two years, with a flat cash settlement in 2018/19, we are still facing a real terms reduction year on year in Home Office grant funding which is mitigated by the increase in precept flexibility afforded to PCCs. It is therefore very clear that to address the demands of today and tomorrow, we must continue to reform our police service by driving through the changes and ensuring our resources are directed to priority areas.

60. It is more important than ever that we continue to strive for continuous improvement by challenging the service we deliver and how we deliver it, to ensure we focus our resources on our priority areas. Following the Priority Based Budgeting (PBB) review and the formation of the Governance and Service Improvement department the future delivery of the productivity strategy has been revisited and re-energised into the Efficiency and Effectiveness Programme led by the Chief Superintendent, Governance and Service Improvement. The programme will consider demand levels, functional processes rather than departmental structures, and building for the future. Reviews will continue to utilise the PBB methodology and focus on method changes, volume changes and service level changes. In addition to this work a major review of the Joint Operations Unit (JOU) is in progress which is identifying where savings and efficiencies could be achieved through changing the service delivery method. The implications to

service delivery and the wider force will need to be fully assessed before firm recommendations can be made. This work will continue and identified efficiencies will be incorporated in the appropriate year's productivity strategy.

61. The overall productivity plan has been reviewed against the requirements of the MTFP and the strategy has been updated with new and changed initiatives.

62. Initiatives that have changed significantly or have been added include:

- The ongoing implementation of a tri-force ERP system to replace the existing HR, Finance and Duties platforms has now slipped and it is not expected that the savings identified will materialise in 2018/19 and, as such, they have been moved back to the final year of the period – the impact of this is a cost of £0.77m in 2018/19.
- The implementation of the CMP programme has also had a number of delays in the final implementation and again, to be prudent, the savings have been moved back to the final year of the plan, resulting in a cost of £1.66m in 2018/19.
- The introduction and agreement to regionalise the Special Branch functions is due to be implemented in 2018/19 and, as such, this will realise a new saving of circa £0.25m.
- A review of the assisted travel policy and the overall costs of this have allowed a new saving of £0.10m to be added to 2018/19.
- Previous reviews and expectations of additional savings from rationalising CCTV across the force and with partner agencies has not delivered the expected savings, and as such will add a cost of £0.10m to 2018/19.
- The national programme to implement the new Emergency Services Network (ESN) to replace the existing Airwave contract has again been pushed back and as such the anticipated savings for 2018/19 have also been delayed, adding a cost of £0.37m.
- The force has recently undertaken a review of all the vacant positions that are currently being held in light of whether these positions need to be filled or could be given up permanently as savings. The result of this exercise has identified a number of positions to be removed with a saving of £0.40m in 2018/19.
- The anticipated saving on police officer posts as part of the new operating model has been reviewed and removed, maintaining the establishment target, at a cost of £1.84m in 2018/19

63. The savings relating to the first year of the productivity strategy are all related to specific initiatives that have been scrutinised by the Force to ensure that the risks of implementation are acceptable and that appropriate equality impact assessments are being completed prior to implementation. These savings should all be attained subject to the current demands and profile of policing.

64. Savings linked to the later years of the strategy are also linked to specific initiatives; however, a number of these still require further scoping work and assessment of the impacts and risks, which will be carried out over the next financial year.

65. A copy of the full Productivity Strategy is provided on pages 59 to 60.

66. **2018/19 Establishment Changes**

67. A lot of emphasis is given to establishment numbers and what they mean for the police service. In reality the important question is, "*are we delivering on our priorities and providing the appropriate level of service?*" Being more innovative in how we look to reduce the organisational cost and developing service delivery mechanisms, for example with the use of technology and workforce modernisation, will allow us to direct more resources at those priority areas as well as new and emerging crimes. These

new innovative approaches may lead to an overall reduction in establishment but, providing this sits alongside reduced demand and a change in delivery model, including investment in technology, there does not have to be a reduction in our priority services.

68. The estimated summary position for the Force establishment over the MTFP is shown in the following table.

Table 6: Forecast Establishment Levels

	Police	Police Staff	PCSOs	Total
Original Estimated Establishment at March 2018	**3,827.50**	**2,624.14**	**422.00**	**6,873.64**
2017/18 In Year Adjustments:				
Reinstate Phase 2 operating Model	50.00			**50.00**
TUPE Staff		(4.00)		**(4.00)**
Major Crime Restructure		9.00		**9.00**
Other Adjustments	3.00	1.00		**4.00**
Revised Estimated Establishment at March 2018	**3,880.50**	**2,630.14**	**422.00**	**6,932.64**
2018/19 Adjustments:				
Civilianisation of Contact Management Sgts	(8.00)	8.00		**-**
Productivity Plan Savings				
Review of Vacant Staff Posts	(5.00)	(3.00)		**(8.00)**
PCSO Partner Reviews			(11.00)	**(11.00)**
Criminal Justice Restructure	(1.00)	(10.08)		**(11.08)**
Review of Operating model		(1.46)	5.00	**3.54**
Windsor Guard productivity reinstated			2.00	**2.00**
	(6.00)	(14.54)	(4.00)	**(24.54)**
Growth				
Temporary CRED Staff Reduction		(22.00)		**(22.00)**
MASH & CSE Growth		13.00		**13.00**
Major Operations Team - Temporary Uplift	4.00			**4.00**
Case Investigators - Temporary Growth		95.00		**95.00**
	4.00	86.00	-	90.00
Estimated Establishment at March 2019	**3,878.50**	**2,701.60**	**418.00**	**6,998.10**
2019/20 Adjustments				
Productivity Plan Savings		(27.00)	(10.00)	**(37.00)**
Reduce Case Investigators - Temporary Growth		(10.00)		**(10.00)**
Estimated Establishment at March 2020	**3,878.50**	**2,664.60**	**408.00**	**6,951.10**
2020/21 Adjustments				
Productivity Plan Savings		(76.60)		**(76.60)**
Remove Temporary Major Ops Uplift	(4.00)			**(4.00)**
Reduce Case Investigators - Temporary Growth		(10.00)		**(10.00)**
Estimated Establishment at March 2021	**3,874.50**	**2,578.00**	**408.00**	**6,860.50**

2018/19 Budget Summary

69. Table 7 provides a summary of the 2018/19 revenue budget. Further information is provided on page 24. This shows a high level split of the overall budget between those elements that the PCC is directly responsible for and those under the direction and control of the Chief Constable to manage and operate. All government funding, including all special grants, are shown as external funding, illustrating the full cost and funding of the TVP PCC and Chief Constable.

Table 7 - Revenue estimates for 2018/19

	£m
Base budget 2017/18	**392.631**
In-year virements	1.590
Adjusted base budget 2017/18	**394.221**
Inflation	7.898
Committed expenditure	-3.429
Current service	3.542
Improved service	4.882
Productivity Strategy savings	- 2.561
Appropriation from reserves	1.441
Proposed budget 2018/19	**405.994**

LOCAL GOVERNMENT ACT 2003

Robustness of estimates and adequacy of reserves

70. The Local Government Act 2003 places a duty on the Chief Finance Officer (CFO) to make a report to the PCC on the robustness of the estimates and the adequacy of the reserves.

Reserves and balances

71. Full information is provided on pages 77 to 91.

72. Based on current planning assumptions general revenue balances will stay slightly above the approved 3% target level throughout the next 3 years.

73. Earmarked reserves are forecast to reduce from £34.7m on 1st April 2017 to around £14.3m by 31st March 2021, including £2.1m in the Conditional Funding and SEROCU reserves which are not available to support general operational policing.

74. Accumulated capital grants and reserves will be fully utilised by the end of 2020/21

Reliability / accuracy of budget estimates

75. The estimates have been put together by qualified finance staff in the Force's Finance Department and reviewed by qualified staff within the Office of the PCC.

76. There are a significant number of risks regarding these budget proposals and these are clearly set out on pages 38 to 40.

77. By themselves none of these risks are particularly significant, however, collectively they represent a gradual and escalating build-up of financial pressure on the Force that will need to be closely monitored during the year and the next iteration of the MTFP will be updated accordingly.

Scrutiny

78. The draft budget proposals were presented to and scrutinised by the PCC at the Level 1 public meeting on 16th November. The Police and Crime Panel has established a 'Budget Task and Finish Group' to review the draft budget proposals. This Group met to consider the draft budget proposals on 20th November and 29th January.

Achievability and risks

79. The budget risk and sensitivity analysis for 2018/19 in provided on page 38. In producing this analysis the CFO has followed the Force Risk Assessment Model. The first main column explains the risk to the PCC's budget. The level of risk is then assessed in terms of both likelihood and impact (each factor scored out of 5, with 1 being low likelihood / impact) on the PCC's budget. The final column provides a sensitivity analysis, where appropriate.

80. These identified risks are mitigated, to a certain extent, because the PCC:

- maintains an appropriate level of reserves and balances;
- takes a prudent approach to achievability of income and the recovery of debts due, making appropriate provisions for bad debts; and
- will proactively manage and monitor all aspects of budget performance during the year.

81. In addition, the Force continues to identify future budget savings through its ongoing Productivity Strategy, as referred to in paragraphs 57 to 65 above.

82. Accordingly, the assessment of budget risks on page 38 takes into account the mitigating factors identified above.

83. Risks to the medium term financial plan (2019/20 to 2020/21) are shown on pages 39 to 40.

84. The PCC's cash flow requirements are forecast and monitored on a regular basis to ensure stable and predictable treasury management, avoiding unexpected financing requirements.

85. The PCC needs to be satisfied that the revenue commitments in future years are affordable, sustainable and deliverable. Furthermore, the PCC has a responsibility to local people to ensure that the approved budget and detailed spending plans will deliver the aims, priorities and performance targets as set out in his Police and Crime Plan 2017-2021.

86. In response to the inherent risk in the timely delivery of large capital schemes within time and budget a new earmarked Optimisation Bias reserve has been created, based on HM Treasury Guidance on capital projects. This reserve is currently valued at £12m.

87. The Force uses recognised project management techniques including programme and project boards to manage all major schemes. In addition, the Force Strategic Governance Unit ensures the co-ordination of all major projects as part of the Force Transformation Programme and reports progress to the Force Transformation Board.

88. All capital schemes are managed by:

- rigorous monitoring of projects.
- close liaison with project partners
- closely monitoring staff vacancies and using contractors where appropriate.

Council Tax Capping

89. The Localism Act 2011 abolished the capping regime in England. However, Schedule 5 of the Act made provision for council tax referendums to be held if an authority increases its council tax by an amount exceeding principles determined by the Secretary of State [for CLG] and agreed by the House of Commons.

90. On 19 December the Secretary of State for CLG published the draft referendum principles for 2018/19. All PCCs are allowed to increase their basic amount of council tax by £12; only increases above £12 will be deemed excessive and require a formal referendum.

Prudential Code for Capital Finance

91. The Prudential Code for Capital Finance has introduced a rigorous system of prudential indicators which explicitly require regard to longer-term affordability, prudence, value for money, stewardship, service objectives and practicality of investment decisions. This is backed up by a specific requirement to monitor performance against forward-looking indicators and report and act on significant deviations.

Conclusion

92. The 2018/19 budget has been prepared in a properly controlled and professionally supported process. It has been subject to due consideration within the Force and by the PCC. The identifiable risks should be capable of management.

93. As shown on pages 39 to 40 there are a number of risks to the MTFP, most notably the level of future year grant allocations, however based on the assumptions set out in paragraph 42 above, the MTFP is currently balanced in all three years. This is an excellent achievement and due credit must be given to the Chief Constable, the Director of Finance and their staff for their comprehensive and detailed work in this area.

94. The provisional settlement enabled each PCC to increase the police element of council tax by £12 a year for a band D property in 2018/19. The results of the short public consultation exercise prove that local residents are happy to pay that amount to protect local operational policing in the Thames Valley

95. The PCC is reminded that his responsibility for setting the annual budget and council tax precept for 2018/19 should also take into account whether the budget and service plans are relevant, affordable and sustainable in the longer-term. In doing so, he will need to satisfy himself that services and resource allocation have been appropriately prioritised and that financial risks have been adequately addressed and covered by, for example, reserves, contingencies and risk mitigation plans.

IMPLICATIONS FOR COUNCIL TAX

Public Consultation

96. On 19th December 2017 the Home Secretary announced additional investment in policing by up to £450m year on year in 2018/19. However, this level of income is dependent on all PCCs increasing their Band D precept by up to £12 which, nationally, will raise around £270m.

97. In TVP, a £12 increase in council tax equates to a just over 7%. Before implementing this level of increase the PCC decided to consult local council taxpayers to gather their thoughts and opinions. A short on-line survey was launched on 22nd December with a closing date of Thursday 11th January. In order to reach as many people as possible, it was sent to:

- All users of TVP Alert – at least 80,000 residents
- All town and parish councils
- All councillors from county, unitary and district councils
- All media in the TVP area via a press release
- Regular social media updates via Twitter

98. In total, 5,600 people voted, of which 4723 or 84.3% voted yes.

99. Two additional questions were asked of those that did not support the increase. The first of which was ‘Why do you feel this money would not be spent well?’ A summary of the responses received, sorted into broad categories, is set out below:

- Thames Valley Police should manage on existing budget and/or make further savings or review their spending priorities – 244
- Additional funding should be provided by government through income tax or savings made elsewhere at national level - 144
- Not satisfied with current service provided by police and/or don’t want to provide additional funding and still get the same service – 111
- Council tax is already too high and/ or cannot afford to pay more – 102
- Not clear on the benefits / wouldn’t benefit their area and/ or is not clear it would benefit local or operational policing – 94
- Do not agree that council tax is a fair way to charge residents of the Thames Valley and/or should be a flat rate - 24
- The amount requested isn’t enough and should be more – 15
- Police and Crime Commissioner role should be abolished – 14

100. The second question asked ‘What would you propose as an alternative annual increase that you believe is justified and will enable Thames Valley Police to do their job effectively?’ There were a range of individual answers from no increase to double the proposed increase (of £12) or even higher. Should we go down the public consultation route in future years then a change of approach would be required e.g. by providing a range of pre-determined options for people to support rather than providing a free text narrative response.

101. In addition to casting their vote over 1000 local residents submitted comments as well. All comments have been read and at least 130 respondents have received a reply.

Funding the 2018/19 Revenue Budget

102. Table 8 shows how the 2018/19 revenue budget will be financed.

Table 8

	£m	%
Police grant	139.249	34%
Ex-DCLG formula grant	72.855	18%
Total formula grant	***212.104***	***52%***
Council tax precept (estimate)	162.164	
Council Tax surplus on collection funds (estimate)	1.666	
Total council tax	***163.830***	***40%***
Legacy council tax grants	15.278	4%
Other specific grants	14.523	4%
Total specific grants	***29.801***	***8%***
Total Financing	**405.735**	**100%**

Council Taxbase

103. The taxbase is calculated by the billing authorities by converting all properties to band D equivalents and making assumptions about the levels of discounts to be offered and the amount of tax to be collected. The total taxbase for the PCC for 2018/19 is 890,503, as illustrated below.

Band D Council Tax

104. The band D council tax proposed for 2018/19 is £182.28, an increase of £12.00 or 7.05% on the comparable figure for 2017/18.

Table 9 - Precepts on each billing authority in the Force area for 2018/19

	Taxbase Band D equivalents	Surplus / Deficit (-) on collection funds £	Annual Precept £
Aylesbury Vale	72,507.00	45,000.00	13,216,575.96
Bracknell Forest	45,298.00	15,428.00	8,256,919.44
Cherwell	52,681.60	46,059.00	9,602,802.05
Chiltern	44,368.70	42,679.39	8,087,526.64
Milton Keynes	82,950.17	435,000.00	15,120,156.99
Oxford City	44,623.40	0.00	8,133,953.35
Reading	54,850.00	0.00	9,998,058.00
Slough	41,723.40	0.00	7,605,341.35
South Bucks	32,703.40	19,663.94	5,961,175.75
South Oxfordshire	56,163.30	239,838.00	10,237,446.32
Vale of White Horse	50,451.80	325,348.00	9,196,354.10
West Berkshire	64,890.66	-85,811.00	11,828,269.50
West Oxfordshire	42,920.71	61,497.00	7,823,587.02
Windsor & Maidenhead	67,617.93	281,529.00	12,325,396.28
Wokingham	68,669.10	90,227.00	12,517,003.55
Wycombe	68,083.50	252,000.00	12,410,260.38
Totals	**890,502.67**	**1,768,458.33**	**162,320,826.69**

CONCLUSIONS

105. The revenue budget is fully balanced in all 3 years 2018/19 to 2020/21, with a £12 increase in precept in 2018/19 and 2019/20.

106. The MTFP provides for inflationary increases, limited growth to mitigate increasing demand and complexity in priority areas, as well as essential investment in technology to support transforming service delivery to meet future expectations. This supports the delivery of the Police and Crime Plan and the Force Commitment.

107. The Force continues to prioritise its work on the Productivity Strategy to ensure resources are directed to priority areas and that services are delivered in the most effective and efficient manner. This work focuses the drive for continuous improvement, improved efficiency and alignment of resources with demand. It will continue to release savings in future years in order to address future unquantified demands and provide additional resource to reinvest in priority policing areas.

108. As shown above the current MTFP requires revenue savings of at least £14.3m over the next three years. This is over and above the £99m of cash savings already removed from the base budget in the last seven years (i.e. 2011/12 to 2017/18) meaning that, over the ten year period 2011/12 to 2020/21, in excess of £113m will have been taken out of the base revenue budget.

Revenue Budget Summary 2018/19

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
PCC Controlled Expenditure						
Office of the PCC	£1,012,920	£17,873	-30,000	21,166	17,708	£1,039,667
Democratic Representation	£201,461	£3,470	-9,171	11,910	0	£207,670
Other Costs	£213,039	£3,818	-12,779	0	-9,977	£194,101
Commissioned Services	£5,814,579	£62	0	3,537	100,000	£5,918,178
	£7,241,999	***£25,223***	***-51,950***	***36,613***	***107,731***	***£7,359,616***
TVP Operational Budget - Direction and Control of Chief Constable:						
Employees	£329,586,338	£5,329,066	-1,149,293	-524,617	396,990	£333,638,484
Premises	£17,491,085	£615,626	-623,904	-3,835	-385,000	£17,093,972
Transport	£8,637,669	£270,791	-260,000	-250,218	0	£8,398,242
Supplies & Services	£51,183,821	£1,457,328	-1,156,965	746,897	3,222,301	£55,453,382
Third Party Payments	£11,821,129	£199,589	0	-2,877,611	279,462	£9,422,569
Force Income	-£31,250,974	£0	681,077	3,990,503	-891,465	-£27,470,859
	£387,469,068	***£7,872,400***	***-2,509,085***	***1,081,119***	***2,622,288***	***£396,535,790***
Net Capital Financing Costs:						
Capital Financing	£2,483,962	£0	0	254,485	2,265,499	£5,003,946
Interest on Balance	-£500,000	£0	0	0	0	-£500,000
	£1,983,962	***£0***	***0***	***254,485***	***2,265,499***	***£4,503,946***
Appropriations to/from Balances:						
Appropriations	-£4,064,280	£0	0	217,916	1,441,146	-£2,405,218
	-£4,064,280	***£0***	***0***	***217,916***	***1,441,146***	***-£2,405,218***
Cost of Services	**£392,630,749**	**£7,897,623**	**-2,561,035**	**1,590,133**	**6,436,664**	**£405,994,134**
Funded By:						
Council Tax - Surplus on Collection	-£2,374,977	£0	0	0	606,519	-£1,768,458
Council Tax Precept Income	-£149,500,377	£0	0	0	-12,820,450	-£162,320,827
Formula Grant	-£72,854,799	£0	0	0	0	-£72,854,799
Legacy Council Tax Grants	-£15,278,329	£0	0	0	0	-£15,278,329
Police Current Grant	-£139,248,551	£0	0	0	0	-£139,248,551
Specific Grant	-£13,373,716	£0	0	-1,590,133	440,679	-£14,523,170
	-£392,630,749	***£0***	***0***	***-1,590,133***	***-11,773,252***	***-£405,994,134***
Total Funding	**-£392,630,749**	**£0**	**0**	**-1,590,133**	**-11,773,252**	**-£405,994,134**

PCC Controlled Expenditure

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
PCC Controlled Expenditure						
Office of the PCC						
Police Staff Pay	737,492	13,357	0	25,747	17,708	794,304
Police Staff NI	64,836	1,197	0	3,553	0	69,586
Police Staff Pension	111,007	2,009	0	3,776	0	116,792
Training & Conference expenses	10,495	252	0	0	0	10,747
Car Allowances & Travel Expenses	7,758	112	0	0	0	7,870
Office Equipment, Furniture & Materials	12,048	289	0	0	0	12,337
Other Supplies & Services	69,284	657	-30,000	-11,910	0	28,031
Joint working Initiatives	0	0	0	0	0	0
	1,012,920	***17,873***	***-30,000***	***21,166***	***17,708***	***1,039,667***
Democratic Representation						
Police Staff Pay	120,000	2,275	0	10,000	0	132,275
Police Staff NI	13,500	270	0	1,910	0	15,680
Police Staff Pension	18,600	326	0	0	0	18,926
Training & Conference expenses	2,349	56	0	0	0	2,405
Vehicle Fuel	509	19	0	0	0	528
Vehicle Contract Hire & Operating Leases	2,993	72	0	0	0	3,065
Car Allowances & Travel Expenses	4,527	36	0	0	0	4,563
Allowances	15,276	367	0	0	0	15,643
Other Supplies & Services	14,536	49	0	0	0	14,585
Commissioning Services	9,171	0	-9,171	0	0	0
	201,461	***3,470***	***-9,171***	***11,910***	***0***	***207,670***
Other Costs						
Office Equipment, Furniture & Materials	2,291	31	0	-1,000	0	1,322
Custody Costs	10,677	256	0	0	0	10,933
Allowances	17,085	770	0	15,000	0	32,855
Other Supplies & Services	182,986	2,761	-12,779	-14,000	-9,977	148,991
	213,039	***3,818***	***-12,779***	***0***	***-9,977***	***194,101***
Commissioned Services						
Police Staff Pay	0	48	0	2,740	0	2,788
Police Staff NI	0	7	0	378	0	385
Police Staff Pension	0	7	0	419	0	426
Custody Costs	0	0	0	0	0	0
Commissioning Services	5,814,579	0	0	0	100,000	5,914,579
	5,814,579	***62***	***0***	***3,537***	***100,000***	***5,918,178***
PCC Controlled Expenditure	**7,241,999**	**25,223**	**-51,950**	**36,613**	**107,731**	**7,359,616**

TVP Operational Budget - Direction and Control of Chief Constable:

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Employees						
Police Officer Pay						
Police Officer Pay	142,115,266	2,242,284	-607,245	406,633	-3,025,795	141,131,143
Police Officer NI	17,277,535	273,072	0	5,526	-154,506	17,401,627
Police Officer Pension	33,248,605	512,493	0	-782,162	-523,388	32,455,548
Police Officer Allowances	12,033,433	51,747	0	4,418	-198,343	11,891,255
	204,674,839	***3,079,596***	***-607,245***	***-365,585***	***-3,902,032***	***202,879,573***
Police Officer Overtime						
Police Officer Overtime	7,498,445	117,843	0	-40,067	-370,000	7,206,221
	7,498,445	***117,843***	***0***	***-40,067***	***-370,000***	***7,206,221***
PCSO Pay						
PCSO Pay	10,641,978	202,148	49,500	350,000	336,458	11,580,084
PCSO NI	1,067,620	18,683	0	0	0	1,086,303
PCSO Pension	1,491,617	28,942	0	162,132	0	1,682,691
	13,201,215	***249,773***	***49,500***	***512,132***	***336,458***	***14,349,078***
PCSO Overtime						
PCSO Overtime	36,243	544	0	0	0	36,787
	36,243	***544***	***0***	***0***	***0***	***36,787***
Other Staff Costs						
Police Staff Pay	75,282,081	1,344,058	-491,548	-1,605,674	3,721,014	78,249,931
Police Staff NI	6,514,808	112,431	0	91,229	275,500	6,993,968
Police Staff Pension	11,804,246	201,296	0	-469,883	332,500	11,868,159
Police Staff Allowances	482,872	5,303	0	-23,849	0	464,326
	94,084,007	***1,663,088***	***-491,548***	***-2,008,177***	***4,329,014***	***97,576,384***
Other Staff Overtime						
Police Staff Overtime	1,225,592	20,305	0	63,155	190,000	1,499,052
	1,225,592	***20,305***	***0***	***63,155***	***190,000***	***1,499,052***
Temporary or Agency Staff						
Temporary or Agency Staff	790,643	36,055	0	1,269,616	0	2,096,314
	790,643	***36,055***	***0***	***1,269,616***	***0***	***2,096,314***
Police Officer Injury/Ill health/Death Pensions						
Police Officer Injury/Ill health/Death Pensions	3,962,423	95,098	0	0	0	4,057,521
	3,962,423	***95,098***	***0***	***0***	***0***	***4,057,521***
Other Employee Expenses						
Staff & Officer Recruitment Costs	745,700	10,348	-100,000	2,572	0	658,620
Staff Welfare	466,632	9,897	0	-4,005	0	472,524
Employee Insurance	1,305,267	9,201	0	46,000	0	1,360,468
	2,517,599	***29,446***	***-100,000***	***44,567***	***0***	***2,491,612***
Restructure, Training & Conference Costs						
Restructure Costs	66,165	1,588	0	0	0	67,753
Pension Strain	160,461	3,851	0	0	0	164,312
Training & Conference expenses	1,368,706	31,879	0	-258	-186,450	1,213,877
	1,595,332	***37,318***	***0***	***-258***	***-186,450***	***1,445,942***
Employees	**329,586,338**	**5,329,066**	**-1,149,293**	**-524,617**	**396,990**	**333,638,484**

TVP Operational Budget - Direction and Control of Chief Constable:

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Premises						
Premises Related Expenditure						
Repairs & Maintenance	6,906,408	204,655	-250,000	201,867	-385,000	6,677,930
Utilities	2,880,285	127,556	-50,000	-220,099	0	2,737,742
Rent & Rates	5,214,838	143,370	-323,904	246,281	0	5,280,585
Cleaning & Domestic Supplies	1,607,651	115,530	0	8,214	0	1,731,395
Other Premises Costs	642,074	19,863	0	-194,098	0	467,839
Property Insurance	239,829	4,652	0	-46,000	0	198,481
	17,491,085	***615,626***	***-623,904***	***-3,835***	***-385,000***	***17,093,972***
Premises	**17,491,085**	**615,626**	**-623,904**	**-3,835**	**-385,000**	**17,093,972**

TVP Operational Budget - Direction and Control of Chief Constable:

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Transport						
Transport Related Expenditure						
Vehicle Fuel	2,058,411	76,619	-260,000	255,795	0	2,130,825
Vehicle Contract Hire & Operating Leases	7,944,910	177,502	0	-507,986	0	7,614,426
Car Allowances & Travel Expenses	1,380,824	5,752	0	1,973	0	1,388,549
Transport Insurance	0	0	0	0	0	0
Transport - Other	-2,746,476	10,918	0	0	0	-2,735,558
	8,637,669	***270,791***	***-260,000***	***-250,218***	***0***	***8,398,242***
Transport	**8,637,669**	**270,791**	**-260,000**	**-250,218**	**0**	**8,398,242**

TVP Operational Budget - Direction and Control of Chief Constable:

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Supplies & Services						
Supplies & Services						
Office Equipment, Furniture & Materials	1,449,904	34,268	0	-22,108	0	1,462,064
Catering Contracts	509,289	12,221	0	17	0	521,527
Clothing, Uniforms & Laundry	1,079,311	20,218	-200,000	-36,991	0	862,538
Custody Costs	6,168,459	562,093	0	0	0	6,730,552
Forensic Costs	3,791,099	76,113	0	-282,095	0	3,585,117
Investigative Expenses	915,525	31,334	-200,000	90,000	250,000	1,086,859
Police Doctors & Surgeons	554,512	13,310	0	0	0	567,822
Interpreters & Translators	859,049	20,617	0	0	0	879,666
Communications & Computing	25,591,648	494,593	-756,965	331,553	3,542,632	29,203,461
Other Supplies & Services	10,265,025	192,561	0	666,521	-570,331	10,553,776
	51,183,821	***1,457,328***	***-1,156,965***	***746,897***	***3,222,301***	***55,453,382***
Supplies & Services	**51,183,821**	**1,457,328**	**-1,156,965**	**746,897**	**3,222,301**	**55,453,382**

TVP Operational Budget - Direction and Control of Chief Constable:

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Third Party Payments						
Third Party Payments						
Commissioning Services	924,939	11,495	0	374,937	320,000	1,631,371
Joint working Initiatives	352,942	8,471	0	0	0	361,413
	1,277,881	***19,966***	***0***	***374,937***	***320,000***	***1,992,784***
Third Party Payments						
Collaboration Payments	8,382,926	179,623	0	-3,338,812	-40,538	5,183,199
Police National Computer / Database	1,336,560	0	0	40,025	0	1,376,585
Other Third Party Payments	823,762	0	0	46,239	0	870,001
	10,543,248	***179,623***	***0***	***-3,252,548***	***-40,538***	***7,429,785***
Third Party Payments	**11,821,129**	**199,589**	**0**	**-2,877,611**	**279,462**	**9,422,569**

TVP Operational Budget - Direction and Control of Chief Constable:

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Force Income						
Local Government Specific / Partnership Funding						
Local Govenrment Funding - Specific/Partnership	-1,329,550	0	0	0	0	-1,329,550
	-1,329,550	***0***	***0***	***0***	***0***	***-1,329,550***
Sales, Fees, Charges & Rents						
Sale of Assets & Goods	-298,380	0	0	0	0	-298,380
Fees & Charges - Public Fees	-923,246	0	0	0	86,658	-836,588
Fees & Charges - Rental & Hire Charges	-750,495	0	0	-66,754	0	-817,249
Fees & Charges - General	-7,675,512	0	0	60,000	-500,000	-8,115,512
	-9,647,633	***0***	***0***	***-6,754***	***-413,342***	***-10,067,729***
Special Police Services						
Fees & Charges - Private Hire - Single Events	-1,013,556	0	0	0	0	-1,013,556
	-1,013,556	***0***	***0***	***0***	***0***	***-1,013,556***
Reimbursed Services - Other Police Forces						
Inter Force Reimbursements - Collaboration	-17,308,975	0	681,077	4,177,257	-478,123	-12,928,764
	-17,308,975	***0***	***681,077***	***4,177,257***	***-478,123***	***-12,928,764***
Reimbursed Services - Other Public Bodies						
Non Inter Force/Local Gov, but Public Body Contributions	-910,000	0	0	-180,000	0	-1,090,000
	-910,000	***0***	***0***	***-180,000***	***0***	***-1,090,000***
Reimbursed Services - Other						
Proceeds of Crime	-528,667	0	0	0	0	-528,667
Refunds	-10,000	0	0	0	0	-10,000
	-538,667	***0***	***0***	***0***	***0***	***-538,667***
Reimbursed Services - Sources of Income from Other Forces						
Sources of Income from Other Forces	-502,593	0	0	0	0	-502,593
	-502,593	***0***	***0***	***0***	***0***	***-502,593***
Force Income	**-31,250,974**	**0**	**681,077**	**3,990,503**	**-891,465**	**-27,470,859**

Net Capital Financing Costs:

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Net Capital Financing Costs:						
Capital financing and contributions						
Debt Charges	2,210,998	0	0	-20,006	75,502	2,266,494
Capital Expenditure Funded from Revenue	0	0	0	254,485	2,200,000	2,454,485
Finance Leases	272,964	0	0	20,006	-10,003	282,967
	2,483,962	***0***	***0***	***254,485***	***2,265,499***	***5,003,946***
Interest / Investment Income						
Interest / Investment Income	-500,000	0	0	0	0	-500,000
	-500,000	***0***	***0***	***0***	***0***	***-500,000***
Net Capital Financing Costs:	**1,983,962**	**0**	**0**	**254,485**	**2,265,499**	**4,503,946**

Appropriations to/from Balances:

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Appropriations to/from Balances:						
Transfers to Revenue and Capital Reserves						
Transfer to earmarked revenue reserves	-3,849,280	0	0	217,916	1,514,253	-2,117,111
Transfer to earmarked capital reserves	0	0	0	0	0	0
Transfer to General Reserve	-215,000	0	0	0	-73,107	-288,107
	-4,064,280	***0***	***0***	***217,916***	***1,441,146***	***-2,405,218***
Appropriations to/from Balances:	**-4,064,280**	**0**	**0**	**217,916**	**1,441,146**	**-2,405,218**

Funded By:

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Funded By:						
Government Grants						
Legacy Council Tax Grants	-15,278,329	0	0	0	0	-15,278,329
Police Current Grant	-139,248,551	0	0	0	0	-139,248,551
Formula Grant	-72,854,799	0	0	0	0	-72,854,799
	-227,381,679	***0***	***0***	***0***	***0***	***-227,381,679***
Local Government Precept						
Council Tax - Surplus on Collection	-2,374,977	0	0	0	606,519	-1,768,458
Council Tax Precept Income	-149,500,377	0	0	0	-12,820,450	-162,320,827
	-151,875,354	***0***	***0***	***0***	***-12,213,931***	***-164,089,285***
Government & Overseas Funding						
Specialist Firearms Grant	-2,710,608	0	0	-491,835	339,000	-2,863,443
Community Safety Fund	0	0	0	0	0	0
Council Tax Freeze Grant	0	0	0	0	0	0
CRB Grant	-868,612	0	0	-51,510	0	-920,122
Loan Charges Specfic Grant	-170,609	0	0	0	101,679	-68,930
MoJ - Commisioning of Victims Services	-2,764,995	0	0	0	0	-2,764,995
PFI Grant	-1,031,892	0	0	0	0	-1,031,892
Security Grant	-5,827,000	0	0	-1,046,788	0	-6,873,788
	-13,373,716	***0***	***0***	***-1,590,133***	***440,679***	***-14,523,170***
Funded By:	**-392,630,749**	**0**	**0**	**-1,590,133**	**-11,773,252**	**-405,994,134**

Holding Account

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Chiltern Transport Consortium						
Pay & Employment Costs						
Police Staff Pay	1,129,477	0	0	4,037	0	1,133,514
Police Staff NI	162,591	0	0	558	0	163,149
Police Staff Pension	212,304	0	0	601	0	212,905
Police Staff Overtime	253,426	0	0	0	0	253,426
Temporary or Agency Staff	1,009,949	0	0	370,882	0	1,380,831
Staff Welfare	298	0	0	0	0	298
Training & Conference expenses	16,062	0	0	0	0	16,062
	2,784,107	***0***	***0***	***376,078***	***0***	***3,160,185***
Overheads						
Repairs & Maintenance	5,327	0	0	0	0	5,327
Rent & Rates	310,902	0	0	85,440	0	396,342
Cleaning & Domestic Supplies	6,298	0	0	0	0	6,298
Other Premises Costs	764	0	0	0	0	764
Vehicle Fuel	53,688	0	0	0	0	53,688
Vehicle Contract Hire & Operating Leases	141,979	0	0	36,300	0	178,279
Car Allowances & Travel Expenses	4,911	0	0	0	0	4,911
Transport Insurance	2,813,575	0	0	595,000	0	3,408,575
Transport - Other	8,622,411	0	0	1,758,605	0	10,381,016
Office Equipment, Furniture & Materials	36,680	0	0	0	0	36,680
Clothing, Uniforms & Laundry	14,247	0	0	5,000	0	19,247
Communications & Computing	332,457	0	0	76,440	0	408,897
Other Supplies & Services	23,018	0	0	7,260	0	30,278
	12,366,257	***0***	***0***	***2,564,045***	***0***	***14,930,302***
Financiing Adjustments						
Depreciation and Impairment Losses	26,237	0	0	9,288	0	35,525
Asset Disposal	-456,219	0	0	-100,000	0	-556,219
	-429,982	***0***	***0***	***-90,712***	***0***	***-520,694***
Grant, Trading & Reimbursements						
Fees & Charges - General	-274,182	0	0	-209,162	0	-483,344
Inter Force Reimbursements - Collaboration	-14,446,200	0	0	-2,640,249	0	-17,086,449
	-14,720,382	***0***	***0***	***-2,849,411***	***0***	***-17,569,793***
Chiltern Transport Consortium	**0**	**0**	**0**	**0**	**0**	**0**

Holding Account

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
SEROCU						
Pay & Employment Costs						
Police Officer Pay	4,441,933	0	0	80,160	0	4,522,093
Police Officer NI	545,348	0	0	9,675	0	555,023
Police Officer Pension	1,102,614	0	0	18,626	0	1,121,240
Police Officer Allowances	285,117	0	0	3,833	0	288,950
Police Officer Overtime	265,583	0	0	0	0	265,583
Police Staff Pay	2,968,406	0	0	14,148	0	2,982,554
Police Staff NI	345,440	0	0	1,347	0	346,787
Police Staff Pension	449,643	0	0	2,530	0	452,173
Police Staff Allowances	77,346	0	0	0	0	77,346
Police Staff Overtime	117,812	0	0	0	0	117,812
Training & Conference expenses	181,786	0	0	32,500	0	214,286
	10,781,028	***0***	***0***	***162,819***	***0***	***10,943,847***
Overheads						
Repairs & Maintenance	14,873	0	0	0	0	14,873
Utilities	59,716	0	0	0	0	59,716
Rent & Rates	304,483	0	0	14,000	0	318,483
Cleaning & Domestic Supplies	17,175	0	0	0	0	17,175
Property Insurance	2,036	0	0	0	0	2,036
Vehicle Fuel	168,938	0	0	0	0	168,938
Vehicle Contract Hire & Operating Leases	533,245	0	0	7,374	0	540,619
Car Allowances & Travel Expenses	76,272	0	0	0	0	76,272
Transport Insurance	0	0	0	0	0	0
Office Equipment, Furniture & Materials	22,393	0	0	0	0	22,393
Catering Contracts	3,309	0	0	0	0	3,309
Clothing, Uniforms & Laundry	18,630	0	0	0	0	18,630
Forensic Costs	30,540	0	0	0	0	30,540
Investigative Expenses	614,824	0	0	30,000	0	644,824
Police Doctors & Surgeons	0	0	0	0	0	0
Communications & Computing	243,424	0	0	0	0	243,424
Other Supplies & Services	538,220	0	0	55,807	0	594,027
Collaboration Payments	0	0	0	0	0	0
	2,648,078	***0***	***0***	***107,181***	***0***	***2,755,259***
Grant, Trading & Reimbursements						
Central Government Funding - Specific	-3,105,317	0	0	-270,000	0	-3,375,317
Inter Force Reimbursements - Collaboration	-10,323,789	0	0	0	0	-10,323,789
	-13,429,106	***0***	***0***	***-270,000***	***0***	***-13,699,106***
SEROCU	**0**	**0**	**0**	**0**	**0**	**0**

Holding Account

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
CTPSE						
Pay & Employment Costs						
Police Officer Pay	5,704,228	0	0	704,250	0	6,408,478
Police Officer NI	601,070	0	0	0	0	601,070
Police Officer Pension	1,263,167	0	0	0	0	1,263,167
Police Officer Allowances	508,445	0	0	0	0	508,445
Police Officer Overtime	613,432	0	0	0	0	613,432
Police Staff Pay	4,050,195	0	0	19,870	0	4,070,065
Police Staff NI	260,000	0	0	0	0	260,000
Police Staff Pension	610,000	0	0	0	0	610,000
Police Staff Allowances	103,409	0	0	0	0	103,409
Police Staff Overtime	82,820	0	0	0	0	82,820
Temporary or Agency Staff	200,000	0	0	0	0	200,000
Staff & Officer Recruitment Costs	65,000	0	0	30,230	0	95,230
Staff Welfare	500	0	0	0	0	500
Training & Conference expenses	188,401	0	0	0	0	188,401
	14,250,667	***0***	***0***	***754,350***	***0***	***15,005,017***
Overheads						
Repairs & Maintenance	196,000	0	0	0	0	196,000
Utilities	251,600	0	0	0	0	251,600
Rent & Rates	355,900	0	0	0	0	355,900
Cleaning & Domestic Supplies	47,800	0	0	0	0	47,800
Other Premises Costs	335,000	0	0	0	0	335,000
Vehicle Fuel	152,000	0	0	0	0	152,000
Vehicle Contract Hire & Operating Leases	146,552	0	0	0	0	146,552
Car Allowances & Travel Expenses	169,442	0	0	0	0	169,442
Transport - Other	371,000	0	0	0	0	371,000
Office Equipment, Furniture & Materials	98,000	0	0	0	0	98,000
Catering Contracts	25,000	0	0	0	0	25,000
Clothing, Uniforms & Laundry	50,500	0	0	0	0	50,500
Custody Costs	6,000	0	0	0	0	6,000
Forensic Costs	90,000	0	0	0	0	90,000
Investigative Expenses	169,690	0	0	0	0	169,690
Police Doctors & Surgeons	1,000	0	0	0	0	1,000
Interpreters & Translators	30,000	0	0	0	0	30,000
Communications & Computing	788,784	0	0	195,069	0	983,853
Other Supplies & Services	445,295	0	0	0	0	445,295
Collaboration Payments	244,000	0	0	0	0	244,000
	3,973,563	***0***	***0***	***195,069***	***0***	***4,168,632***
Grant, Trading & Reimbursements						
Central Government Funding - Specific	-17,800,974	0	0	-949,419	0	-18,750,393
Fees & Charges - Rental & Hire Charges	-298,256	0	0	0	0	-298,256
Sources of Income from Other Forces	-125,000	0	0	0	0	-125,000
	-18,224,230	***0***	***0***	***-949,419***	***0***	***-19,173,649***
CTPSE	**0**	**0**	**0**	**0**	**0**	**0**

Risk Analysis - 2018/19 Annual Revenue Budget

	RISK DESCRIPTION	RISK ASSESSMENT			SENSITIVITY
		Likelihood	Impact	Total	
1	That specific grant income, when confirmed, is lower than currently assumed in the draft budget	2	4	8	We are still waiting for confirmation of specific grants estimated £11.9m in 2018/19
3	That the 2018 police officer pay award is higher than the 2% allowed for within the budget	2	4	8	This is a part year award, so is only payable for 7 months. Each additional 1% increase in pay award will cost £2.0m
3	The Force is unable to deliver, in full, the £2.6m of cash savings removed from the base budget by the year-end.	2	3	6	The residual risk is that we won't deliver the full £2.6m, e.g. a couple of £m shortfall or slippage. Although the Force has an excellent track record of managing expenditure within reduced budgets, this process is obviously becoming more challenging and complex, particularly as demands (e.g. child abuse, threat of terrorism etc.) are increasing.
4	That inflation exceeds the levels currently provided for in the draft budget	2	2	4	In total inflation is estimated to add £7.9m to the base budget in 2018/19, which equates to an average increase of 2.01%. A 1% increase in general inflation (up from the 2.4% currently provided for) will add £0.58m
5	That the Police & Crime Panel vetoes the PCC's proposed £12 (or 7%) increase in the council tax precept	1	4	4	The PCC has consulted the public who have overwhelmingly (85% of respondents) supported the £12 increase. Each 1% increase in council tax in 2018/19 generates £1.52m. In the event that the Panel vetoes the proposed precept increase the PCC will resubmit a revised budget and council tax proposal for the Panel to consider.

Risk Analysis - Medium Term Financial Forecast 2019/20 to 2020/21

	RISK DESCRIPTION	RISK ASSESSMENT			SENSITIVITY
		Likelihood	**Impact**	**Total**	
1	That the Force is unable to deliver the full £10.1m of identified budget cuts over the two year period 2019/20 to 2020/21 without having a serious and detrimental impact on service delivery .	2	4	8	The Chief Constable has produced a number of mitigating factors which could be implemented should savings prove difficult to achieve, including taking 'amber' efficiency savings or reducing the number of redeployed officers. Although the Force has an excellent track record of managing expenditure within reduced budgets, this process is obviously becoming more challenging and complex, particularly as demands (e.g. child abuse, threat of terrorism etc.) are increasing.
2	That the PCC and/or Police and Crime Panel is unable to support an increase of £12 in Band D council tax in 2019/20	2	4	8	Each 1% increase in council tax generates approximately £1.62m
3	Inadequate money in revenue reserves and balances to fund one-off expenditure items required by the Force	2	4	8	General revenue balances are currently above the agreed 3% guideline level and forecast to remain above this level throughout the period. In addition the PCC has earmarked revenue reserves of around £12.3m (estimated level at 31.3.21) which could be called upon in an emergency
4	That the taxbase will not grow at the assumed annual rate of 1.7% in 2019/20 and 2.00% in 2020/21	3	2	6	The annual increase in 2018/19 is just 1.37%, However, this is lower than the average increase in taxbase in the previous 4 years which was 1.9%. Each 1% increase in taxbase generates additional council tax income of around £1.62m
5	That the surplus on collection funds is less than the £2.00m per annum currently budgeted for	3	2	6	Although the average annual surplus over the last five years is £2.00m, this sum exceeds the annual surplus in all years before 2014/15 when the new local council tax reduction schemes were introduced.

		Likelihood	Impact	Total	
6	Technology – the need for investment in new and emerging technology is moving from the traditional capital based funding to more revenue based Software as a Service (SaaS), together with increasing demands for licences as staff and officers require greater access.	3	2	6	Investment strategies are being constantly reviewed to ensure that the consequential ongoing costs are provided for within the future budgetary plans as soon as possible, with the impact being offset by continued scrutiny of other costs through the productivity strategy.
7	The impact of the Brexit decision on costs and prices due to fluctuating exchange rates, and equipment and services being supplied from the EU may increase cost pressures in the future.	3	2	6	Constant monitoring of procurement and contract prices, together with a collaborative approach to contracts, should enable us to maximise the value attained from contracts and minimise the negative impact of price variations.
8	There is inadequate provision in the insurance fund and annual revenue contributions to meet liabilities as they fall due	2	3	6	The final report from the Insurance Actuary was received after the revenue budget and the MTFP had been produced. The Actuary has recommended that we increase our annual fund contribution by circa £0.3m per annum with effect from 2018/19. We will monitor the insurance fund very carefully and review again as part of the 2019/20 budget preparation process
9	That future pay settlements for police officers and police staff are at a higher level than currently assumed in the MTFP	1	4	4	Pay increases are currently assumed at 2% throughout the MTFP. Each 1% increase in police officer and staff pay adds £3m
10	That the Government reduces the level of security grant paid to the PCC in future years beyond current estimates.	2	2	4	The budgeted amount for 2018/19 is £6.8m. Future cuts in grant will be matched by a reduction in the resources provided to this area of business.
11	That due to the impact of the new police funding formula, potentially in 2020/21, future Government Grant Allocations are lower than expected, therefore requiring a greater level of revenue savings than currently planned for	1	4	4	At this stage we do not know whether a new funding formula will be introduced, when it will be implemented, what it will look like, how it will affect annual grant allocations and, finally, how it will be phased in. Each 1% reduction in police grant equates to £2.1m.
12	That the Government reduces the threshold at which a council tax referendum is required and/or the Police and Crime Panel does not support a council tax increase of 2% per annum	1	3	3	A 1% increase in council tax is equivalent to additional income, or reduced budget reductions, of around £1.46m. The Government's Spending review is predicated on PCC's increasing their council tax precept by the maximum permissible amount each year.

POLICE OFFICER AND STAFF ESABLISHMENTS 2018/19 to 2020/21

A lot of emphasis is given to establishment numbers and what they mean for the police service. In reality the important question is, "*are we delivering on our priorities and providing the appropriate level of service?*" Being more innovative in how we look to reduce the organisational cost and developing service delivery mechanisms, for example with the use of technology and workforce modernisation, will allow us to direct more resources at those priority areas as well as new and emerging crimes. These new innovative approaches may lead to an overall reduction in establishment but, providing this sits alongside reduced demand and a change in delivery model, including investment in technology, there does not have to be a reduction in our priority services. The estimated position over the MTFP period is shown below.

	Police	Police Staff	PCSOs	Total
Original Estimated Establishment at March 2018	**3,827.50**	**2,624.14**	**422.00**	**6,873.64**
2017/18 In Year Adjustments:				
Reinstate Phase 2 operating Model	50.00			**50.00**
TUPE Staff		(4.00)		**(4.00)**
Major Crime Restructure		9.00		**9.00**
Other Adjustments	3.00	1.00		**4.00**
Revised Estimated Establishment at March 2018	**3,880.50**	**2,630.14**	**422.00**	**6,932.64**
2018/19 Adjustments:				
Civilianisation of Contact Management Sgts	(8.00)	8.00		**-**
Productivity Plan Savings				
Review of Vacant Staff Posts	(5.00)	(3.00)		**(8.00)**
PCSO Partner Reviews			(11.00)	**(11.00)**
Criminal Justice Restructure	(1.00)	(10.08)		**(11.08)**
Review of Operating model		(1.46)	5.00	**3.54**
Windsor Guard productivity reinstated			2.00	**2.00**
	(6.00)	(14.54)	(4.00)	**(24.54)**
Growth				
Temporary CRED Staff Reduction		(22.00)		**(22.00)**
MASH & CSE Growth		13.00		**13.00**
Major Operations Team - Temporary Uplift	4.00			**4.00**
Case Investigators - Temporary Growth		95.00		**95.00**
	4.00	86.00	-	90.00
Estimated Establishment at March 2019	**3,878.50**	**2,701.60**	**418.00**	**6,998.10**
2019/20 Adjustments				
Productivity Plan Savings		(27.00)	(10.00)	**(37.00)**
Reduce Case Investigators - Temporary Growth		(10.00)		**(10.00)**
Estimated Establishment at March 2020	**3,878.50**	**2,664.60**	**408.00**	**6,951.10**
2020/21 Adjustments				
Productivity Plan Savings		(76.60)		**(76.60)**
Remove Temporary Major Ops Uplift	(4.00)			**(4.00)**
Reduce Case Investigators - Temporary Growth		(10.00)		**(10.00)**
Estimated Establishment at March 2021	**3,874.50**	**2,578.00**	**408.00**	**6,860.50**

MEDIUM TERM FINANCIAL PLAN (2018/19 – 2020/21)

1. One of the key requirements of the Prudential Code for Capital Finance is that the PCC takes a longer-term view of the spending pressures facing the organisation, in setting and approving the budget and council tax for the ensuing financial year. Given the ongoing uncertainty around funding and allocations, this forward planning is more important than ever. Table 1 provides a summary of the medium term financial plan; full details are provided on pages 45 to 48.

Table 1

	2018/19	2019/20	2020/21
	£'000	£'000	£'000
Annual Base Budget	392,631	405,994	419,571
In Year Virements	1,590	0	0
Inflation	7,898	8,751	8,414
Productivity Savings	- 2,561	- 3,555	- 8,111
Committed Expenditure	- 3,430	216	1,573
Current Service	3,542	- 598	- 293
Improved Service	4,883	7,245	4,655
In Year Appropriations	1,441	1,517	834
Net Budget Requirement	**405,994**	**419,571**	**426,643**
Total External Funding	**-405,994**	**-419,571**	**-426,643**
Cumulative Budget (Surplus)/Shortfall	***0***	***0***	***0***
Annual Budget (Surplus)/Shortfall	***0***	***0***	***0***

Budget Risk & Uncertainties

2. As already identified there is an increasing demand on the police arising from new and emerging crimes but it is very difficult to predict with any degree of certainty the growth in resources required to deal with this changing demand. The CCMT constantly reviews resourcing levels across the force, changing the resourcing levels of individual units where necessary, within the overall budgetary constraints

3. The retention and recruitment of police officers has caused significant concern over the past 12 months. It is very difficult to predict wastage levels (officers only have to give 1 months' notice) and to estimate the future success of current new recruitment and retention campaigns initiated under the current workforce gold group. Variations in police officer numbers can have a significant effect on the revenue budget.

4. The Public sector pay cap was lifted by the Treasury in the 2017 autumn budget. At this stage we do not know what the various pay bodies will recommend for the 2018 annual pay awards, but the letter from the Minister for Policing and Fire (Nick Hurd MP) indicated that the additional funding available next year should enable forces to make appropriate provision for 2018 pay awards. The MTFP includes provision for the non-consolidated police pay award in 2017 and a 2% uplift thereafter. A 1% pay award for both officers and staff equates to circa £3m.

Future Years Forecasts

5. The future years of the MTFP still carry some significant risks which could alter the currently identified plans either upwards or downwards. Primarily these include:

- The Home Office has maintained the 2018/19 Grant allocations at a cash flat level compared to 2017/18 (i.e. no reduction, but no increase for inflation) and has stated its intention to maintain a broadly flat police grant in 2019/20 and repeat the same precept flexibility to allow PCCs to raise an additional £1 per month of local precept in 2019/20, However, this is dependent on the police service nationally delivering clear progress against agreed milestones on productivity and efficiency in 2018. This information has helped to balance the budget in 2018/19 and 2019/20. At this stage there is no indication as to what the grant settlement will be in 2020/21. A 1% change in core grants equates to approximately £2.1m per annum.

- The Home Office review of the national funding formula is still being discussed, but no further information is expected until later in 2018. Again each 1% change in funding would have an impact of approximately £2.1m per annum.

- The rules around increases in council tax precept have been changed in the current year, with PCCs being allowed to increase council tax by up to £12 for a band D property in 2018/19. The Home Office has indicated that this will follow through to 2019/20 and is part of the assumptions for this MTFP. However, this is likely to be a local decision for the PCC as part of the next budget round for 2019/20. Each 1% reduction in council tax, from the 7% increase currently assumed, equates to around £1.6m.

- The MTFP also assumes growth in the taxbase of 1.3% rising to 2.0% over the period. The increase in taxbase reflects a lower increase than in previous years, but an increase over the period to recognise the fact that house building continues to expand and flourish in some parts of the Thames Valley. Should this not be the case then receipts from the Council Tax could be lower than anticipated.

- The impact and fallout from the Brexit decision in 2016 is still much unknown in terms of when, what and how it may it may impact on policing. It is evident that areas such as inflation and exchange rates are being impacted upon and these do have a downstream effect on the costs of goods and services being procured by the police service. Future trade agreements may also impact on some of the more specialist equipment and services we use where parts or services are coming from EU countries.

- The use and investment in technology is imperative for policing to reform and maintain pace with new criminality and crime. This does present potential financial risks as the rapid pace of technology can be hard to predict and financially plan for. The national programmes are starting to move rapidly but the infrastructure requirements and implications for individuals forces can be difficult to identify until the national model has been agreed, hence not providing forces with sufficient time to financially plan for changes. Given the limited capital resources available to the force, the decision as to whether technology is financed as new capital investment or as a revenue service, is underlined by the fact that the financial cost will have to be met by the revenue budget.

Mitigation of Risks & Uncertainties

6. As can be seen from the above, there are gaps in information available around key factors that could influence the level of funding available to the PCC as well as the forecast expenditure levels in future years.

7. The work that has already started within the Productivity Strategy will continue to be developed and taken forward to ensure the drive to improve the efficiency of our service continues, by reducing the underlying cost of our organisation and directing resources to our priority areas. Specifically work will continue on:

- The renewed Efficiency and Effectiveness Programme will continue to be developed to ensure resources are being directed to our priority areas, and that service delivery is not undermined by funding issues.

- The review of the Join Operations Unit will continue to assess the implications of the proposed changes in service delivery with a view to making recommendations on where efficiencies can be achieved

- Further investment in national programmes, and delivery of major technology investment programmes like the Contact Management Programme, ESMCP and ERP will all continue to receive scrutiny and challenge to ensure they deliver the required service improvements and savings as planned and expected.

- Collaboration will continue to be a main focus of both improved services and reduced cost. This will include collaboration both within the police service and with other partners.

- The use of revenue to support the capital investment programme could be reviewed and reduced in future years, however this would require additional borrowing for the force if those capital schemes are to continue and be implemented.

8. The force is also acutely aware of the political impacts on policing, as outlined above, and will be monitoring closely the developments with the new national funding formula, together with the impacts that might be felt from policies or decisions that are made through the ongoing Brexit process nationally.

Thames Valley Police
Medium Term Financial Plan 2018/19 - 2020/21

		2018/19	2019/20	2020/21
	Annual Base Budget	**392,630,749**	**405,994,134**	**419,570,602**
	In Year Virements (Contra Entry in Funding)	**1,590,133**	**0**	**0**
	Inflation			
	General	1,433,416	1,167,525	1,183,003
	Police Pay	3,193,513	4,024,779	4,094,775
	Police Staff Pay	1,971,214	2,369,120	2,433,731
	Specific	1,299,480	1,189,786	702,787
	Inflation	**7,897,623**	**8,751,210**	**8,414,296**
	Productivity Plan			
	Collaborative Units	-325,888	-2,592,000	-4,159,000
	Structure & Process Reviews	-720,984	0	-2,467,348
	Value for Money Reviews	-1,372,370	-862,693	-25,000
	Priority Based Budget Review	-141,793	-100,104	-1,459,397
	Total Productivity Plan Savings	**-2,561,035**	**-3,554,797**	**-8,110,745**
	Committed Expenditure			
	Police Officer - Pay Allowances			
9	Compensatory Grant	-27,000	-29,000	0
58	Restructure of Police Housing & Rent Allowance	-171,343	-171,386	-200,000
252	Police Officer Increments Payable	2,115,484	1,715,746	1,705,008
253	Police Officer - Turnover Pay Changes	-3,007,656	-2,284,264	-2,080,204
345	Reserve Funding for Additional Bank Holidays	-370,000	185,000	0
420	Police Officer Non-Consolidated Pay Award	650,000	-650,000	0
422	Vacancy Factor Due to Recruitment Lag	-3,504,960	320,000	448,000
	Police Officer - Pay Allowances	*-4,315,475*	*-913,904*	*-127,196*
	Police Staff - Pay Allowances			
7	Committed Police Staff Pay Performance Award	320,000	460,000	425,000
8	Police Staff Performance Award from July	1,380,000	1,240,000	1,275,000
265	Police Staff - Turnover Pay Changes	-350,000	-350,000	0
346	Reserve Funding for Additional Bank Holidays	-60,000	30,000	0
372	Apprentice Scheme Levy Income	-500,000	-250,000	0
	Police Staff - Pay Allowances	*790,000*	*1,130,000*	*1,700,000*

	Legal & Compliance			
416	NPAS Increase in Charges	112,012	0	0
430	Review of External Audit Fees	-15,978	0	0
	Legal & Compliance	*96,034*	*0*	*0*
Committed Expenditure		**-3,429,441**	**216,096**	**1,572,804**
Current Service				
	Support Services			
48	Changes in Debt Charges	65,499	64,598	126,620
299	Community Safety Fund - Expenditure	100,000	0	-100,000
405	Abingdon PFI Contract Renegotiation	0	-250,000	0
429	Case Investigators to Offset Officer Shortage	3,040,000	-320,000	-320,000
433	Increase in Police Staff Overtime for FISO	250,000	0	0
	Support Services	*3,455,499*	*-505,402*	*-293,380*
	Income			
232	Changes to Firearms Licensing Income	86,658	-92,346	0
	Income	*86,658*	*-92,346*	*0*
Current Service		**3,542,157**	**-597,748**	**-293,380**
Improved Service				
	Support Services			
373	Technology & Infrastructure Investment	2,200,000	6,300,000	5,000,000
376	Police Officer Redeployment	393,750	0	0
402	CMP Programme Additional Growth	791,932	0	0
423	ESN Implementation Costs	0	381,600	381,600
425	Growth for CSE Researchers	59,000	0	0
426	CSE/PVP Review and Uplift	517,873	0	0
427	MASH Review and Restructure	105,000	0	0
431	Contribution to SERIP	320,000	0	0
432	Increase in Major Operations Team	146,000	0	-146,000
	Support Services	*4,533,555*	*6,681,600*	*5,235,600*
	Legal & Compliance			
418	HVM Works for Windsor Security	250,000	-250,000	0
	Legal & Compliance	*250,000*	*-250,000*	*0*
	Specific Revenue Funded Projects			
254	Data Centre Resilience	-520,000	0	0
325	Langford Locks A/C Replacement	-250,000	0	0
354	KFC - Ground Floor Electrical Works	175,000	-200,000	0
355	Lodden Valley - Custody Ventilation	-190,000	0	0
381	ICT - Investment for Rationalisation	0	-822,000	-164,400
395	Maintenance Fountain Court	-180,000	0	0

398	Temporary Growth for CRED Staff	-770,000	0	0
410	UCPI - IICSA Public Enquiries	0	-197,000	0
411	Lodden Valley - Lighting and Asbestos	165,000	-165,000	0
412	Maidenhead Lighting & Asbestos	415,000	-415,000	0
413	Newbury Heating	0	130,000	-130,000
414	Meadow House Air Conditioning	0	440,000	-440,000
415	ICT 2020 Programme Resources	-309,253	0	0
	Specific Revenue Funded Projects	*-1,464,253*	*-1,229,000*	*-734,400*
	Ring Fenced Specific Grant			
384	CTSFO Expenditure Uplift	-339,000	0	0
	Ring Fenced Specific Grant	*-339,000*	*0*	*0*
	ICT Projects			
391	Application, Infrastructure Monitoring	9,500	0	0
393	Portfolio/Programme Management Tool	19,500	0	0
394	Service Desk Co-Sourcing	68,500	0	0
396	Corporate Wi-Fi	166,000	0	0
424	ICT Roadmap Critical Items - Revenue Consequence	1,639,000	2,042,000	154,000
	ICT Projects	*1,902,500*	*2,042,000*	*154,000*
Improved Service		**4,882,802**	**7,244,600**	**4,655,200**
<u>In Year Appropriations From Reserves</u>				
	Appropriations from Performance Reserve			
185	Appropriation from Improvement Performance Reserve	1,614,253	1,229,000	734,400
	Appropriations from Performance Res	*1,614,253*	*1,229,000*	*734,400*
	Appropriations from General Balances			
334	Appropriation to General Reserves	146,893	-146,893	0
347	Reserve Funding for Additional Bank Holidays	430,000	-215,000	0
421	Police Officer Non-Consolidated Pay Award	-650,000	650,000	0
434	Community Safety Funding From Earmarked Reserve	-100,000	0	100,000
	Appropriations from General Balances	*-173,107*	*288,107*	*100,000*
In Year Appropriations From Reserves		**1,441,146**	**1,517,107**	**834,400**

	Net Budget Requirement	**405,994,134**	**419,570,602**	**426,643,177**
	Percentage Budget Increase	**3.40%**	**3.34%**	**1.69%**
	Cash Budget Increase	**13,363,385**	**13,576,468**	**7,072,575**
	<u>Funded By:</u>			
	Opening Budget	**-392,630,749**	**-405,994,134**	**-419,570,602**
	In Year Funding Virements	**-1,590,133**	**0**	**0**
	<u>Funding Changes</u>			
	Formula Grant			
274	Police Grant Funding Changes	0	0	0
304	Formula Grant Allocation Changes	0	0	0
	Formula Grant	*0*	*0*	*0*
	Specific Grants			
303	Changes to Loan Charges Grant	101,679	37,554	5,250
	Specific Grants	*101,679*	*37,554*	*5,250*
	Council Tax Requirement			
305	Council Tax Precept Requirement	-12,820,450	-13,614,022	-7,077,825
307	Council Tax - Surplus on Collections	606,519	0	0
	Council Tax Requirement	*-12,213,931*	*-13,614,022*	*-7,077,825*
	Ring Fenced Specific Grant			
383	CTSFO Uplift	339,000	0	0
	Ring Fenced Specific Grant	*339,000*	*0*	*0*
	Funding Changes	**-11,773,252**	**-13,576,468**	**-7,072,575**
	Total External Funding	**-405,994,134**	**-419,570,602**	**-426,643,177**

Cumulative Shortfall / (Surplus)	**0**	**0**	**0**

Annual Shortfall / (Surplus)	**0**	**0**	**0**

Analysis Of Growth Items

Ref	Details	2018/19	2019/20	2020/21

Committed Expenditure

Police Officer - Pay Allowances

Ref	Details	2018/19	2019/20	2020/21
9	**Compensatory Grant** Calculation of requirements based on predicted Officer numbers shows an annual cash reduction year on year. This is excluding inflationary increases which have been set at zero and reflect the decreasing number of officers receiving rent allowance.	-27,000	-29,000	0
58	**Restructure of Police Housing & Rent Allowance** Recalculation of the requirements based on estimated numbers of officers likely to be eligible to claim.	-171,343	-171,386	-200,000
252	**Police Officer Increments Payable** Separation out of police increments due based on annual pay progression.	2,115,484	1,715,746	1,705,008
253	**Police Officer - Turnover Pay Changes** Reduction in police officer pay bill based on annual leavers being removed at a higher salary rate that those new starters coming into the organisation, and also to reflect the phasing of recruitment intakes within the financial years.	-3,007,656	-2,284,264	-2,080,204
345	**Reserve Funding for Additional Bank Holidays** Funding from general reserves for additional Bank Holiday overtime due to the fluctuation in the number of Bank Holidays per financial year from the base level of 8. 2017/18: Total 09 days - 1 Additional Day @ £185k 2018/19: Total 07 days - 1 less day @ -£185kk 2019/20: Total 08 days - No Adjustment	-370,000	185,000	0
420	**Police Officer Non-Consolidated Pay Award** FYE of 2017/18 Police Officer Non-Consolidated Pay Award	650,000	-650,000	0
422	**Vacancy Factor Due to Recruitment Lag** Vacancy Factor due to recruitment and retention issues around achieving and maintaining the desire police officer establishment	-3,504,960	320,000	448,000

Ref	Details	2018/19	2019/20	2020/21
Total	**Police Officer - Pay Allowances**	**-4,315,475**	**-913,904**	**-127,196**

Police Staff - Pay Allowances

Ref	Details	2018/19	2019/20	2020/21
7	**Committed Police Staff Pay Performance Award** The growth element of the award relating to the committed 3 months from the previous years pay award.	320,000	460,000	425,000
8	**Police Staff Performance Award from July** The increment equivalent pay uplift used to underwrite the performance related pay element from July annually.	1,380,000	1,240,000	1,275,000
265	**Police Staff - Turnover Pay Changes** Reduction in police staff pay bill based on annual leavers being removed at a higher salary rate that those new starters coming into the organisation.	-350,000	-350,000	0
346	**Reserve Funding for Additional Bank Holidays** Funding from general reserves for additional Bank Holiday overtime due to the fluctuation in the number of Bank Holidays per financial year from the base level of 8. 2017/18: Total 09 days - 1 Additional Day @ £30k 2018/19: Total 07 days - 1 less day @ £30k 2019/20: Total 08 days - no adjustment	-60,000	30,000	0
372	**Apprentice Scheme Levy Income** Income derived to cover the cost of running and implementing various apprentice schemes across the	-500,000	-250,000	0
Total	**Police Staff - Pay Allowances**	**790,000**	**1,130,000**	**1,700,000**

Legal & Compliance

Ref	Details	2018/19	2019/20	2020/21
416	**NPAS Increase in Charges** Increase in charges for the National Police Air Support unit in line with flying time and call out requirements	112,012	0	0

Ref Details	2018/19	2019/20	2020/21
430 Review of External Audit Fees Following a review, PSAA are proposing a cash reduction in our combined external audit fees for next year.	-15,978	0	0
Total Legal & Compliance	**96,034**	**0**	**0**

Total Committed Expenditure	**-3,429,441**	**216,096**	**1,572,804**

Current Service

Support Services

Ref Details	2018/19	2019/20	2020/21
48 Changes in Debt Charges Anticipated revenue changes associated with changes to borrowing requirements as the capital programme funding is reviewed.	65,499	64,598	126,620
299 Community Safety Fund - Expenditure Community Safety Fund - Growth in funding from specific earmarked reserve.	100,000	0	-100,000
405 Abingdon PFI Contract Renegotiation Potential future reduction in finance charges for Abingdon PFI	0	-250,000	0
429 Case Investigators to Offset Officer Shortage Temporary investment in Case Investigators to offset the current shortfall in police officers against the target establishment.	3,040,000	-320,000	-320,000
433 Increase in Police Staff Overtime for FISO Increase in Police Staff Overtime for FISO to allow for additional workloads and civilianisation programme.	250,000	0	0
Total Support Services	**3,455,499**	**-505,402**	**-293,380**

Income

Ref	*Details*	*2018/19*	*2019/20*	*2020/21*
232	**Changes to Firearms Licensing Income** Profile of income to reflect expected requests and income	86,658	-92,346	0
Total	**Income**	**86,658**	**-92,346**	**0**

Total	**Current Service**	**3,542,157**	**-597,748**	**-293,380**

Improved Service

Support Services

373	**Technology & Infrastructure Investment** Direct Revenue Funding for changes in technology and infrastructure delivery	2,200,000	6,300,000	5,000,000
376	**Police Officer Redeployment** Potential redeployment of officers from savings identified through the Productivity Plan and PBB process.	393,750	0	0
402	**CMP Programme Additional Growth** Revenue growth to support the on-going CMP Programme development and implementation	791,932	0	0
423	**ESN Implementation Costs** ESN Implementation Costs	0	381,600	381,600
425	**Growth for CSE Researchers** Growth for 2 FTE CSE Researchers	59,000	0	0
426	**CSE/PVP Review and Uplift** Increase of 11 FTE posts for CSE/PVP	517,873	0	0
427	**MASH Review and Restructure** MASH Review and Restructure	105,000	0	0
431	**Contribution to SERIP** Contribution to SERIP	320,000	0	0

Ref	Details	2018/19	2019/20	2020/21
432	**Increase in Major Operations Team** Temporary increase in the Major Operations team to take account of known events and expected operations over the next two years.	146,000	0	-146,000
Total	**Support Services**	**4,533,555**	**6,681,600**	**5,235,600**

Legal & Compliance

Ref	Details	2018/19	2019/20	2020/21
418	**HVM Works for Windsor Security** HVM Works for Windsor Security	250,000	-250,000	0
Total	**Legal & Compliance**	**250,000**	**-250,000**	**0**

Specific Revenue Funded Projects

Ref	Details	2018/19	2019/20	2020/21
254	**Data Centre Resilience** Remove previous years funding for work on the Data Centres	-520,000	0	0
325	**Langford Locks A/C Replacement** Remove previous years funding for replacing the air conditioning at Langford Locks.	-250,000	0	0
354	**KFC - Ground Floor Electrical Works** Electrical upgrade to ensure sustainability of the building and new CRED/PEC working environment.	175,000	-200,000	0
355	**Lodden Valley - Custody Ventilation** Remove previous years funding for ventilation work at Lodden Valley Custody.	-190,000	0	0
381	**ICT - Investment for Rationalisation** Growth, funded from reserve, to cover a distinct piece of work in rationalising the ICT estate to deliver permanent savings identified within the productivity plan.	0	-822,000	-164,400
395	**Maintenance Fountain Court** Remove previous years funding for Fountain court maintenance works.	-180,000	0	0

Ref	*Details*	*2018/19*	*2019/20*	*2020/21*
398	**Temporary Growth for CRED Staff** Remove previous years funding for a temporary increase of 22 FTE for CRED staffing during 2017/18 to enable the introduction and embedding of the new CMP software.	-770,000	0	0
410	**UCPI - IICSA Public Enquiries** Funding for temporary staff to support the national undercover policing and child sexual abuse enquiries.	0	-197,000	0
411	**Lodden Valley - Lighting and Asbestos** Maintenance - Lodden Valley - Lighting and Asbestos	165,000	-165,000	0
412	**Maidenhead Lighting & Asbestos** Maintenance - Maidenhead Lighting & Asbestos	415,000	-415,000	0
413	**Newbury Heating** Maintenance - Newbury Heating	0	130,000	-130,000
414	**Meadow House Air Conditioning** Maintenance - Meadow House Air Conditioning	0	440,000	-440,000
415	**ICT 2020 Programme Resources** Remove previous years funding for the staffing resources specifically required to managed and deliver the ICT 2020 Programme.	-309,253	0	0
Total	**Specific Revenue Funded Projects**	**-1,464,253**	**-1,229,000**	**-734,400**

Ring Fenced Specific Grant

384	**CTSFO Expenditure Uplift** Remove previous years funding for one-off expenditure for CTSFO's.	-339,000	0	0
Total	**Ring Fenced Specific Grant**	**-339,000**	**0**	**0**

ICT Projects

Ref	*Details*	*2018/19*	*2019/20*	*2020/21*
391	**Application, Infrastructure Monitoring** Improved ICT systems, application and network monitoring and alerting across the estate, allowing the proactive identification and resolution of issues, limiting outages and network problems and improving ICT support capabilities	9,500	0	0
393	**Portfolio/Programme Management Tool** The upgrading of currently employed project management tools to a Cloud/Software as a service based Portfolio and Project Management Tool (PPM) to enable the effective management and delivery of Force Change Programmes. This will mitigate risk of future resource waste and bring numerous other benefits.	19,500	0	0
394	**Service Desk Co-Sourcing** This bid supports the introduction of a service management tool to allow multi force ICT help desk request sharing across TVP & HC and sets out a platform for Surrey and Sussex to potentially join, which would enable a co -sourced 3rd party overflow solution for out of hours help desk requests.	68,500	0	0
396	**Corporate Wi-Fi** The roll out of commercial standard Wi-Fi across the Force addressing areas that currently have no or limited provision. This requires acceleration of existing capital funding and incurs additional Revenue costs.	166,000	0	0
424	**ICT Roadmap Critical Items - Revenue Consequence** ICT Roadmap Critical Items - Revenue Consequence	1,639,000	2,042,000	154,000
Total	**ICT Projects**	**1,902,500**	**2,042,000**	**154,000**
Total	**Improved Service**	**4,882,802**	**7,244,600**	**4,655,200**

In Year Appropriations From Reserves

Appropriations from Performance Reserve

Ref	*Details*	*2018/19*	*2019/20*	*2020/21*
185	**Appropriation from Improvement Performance Reserve** Appropriation of funding to support specific revenue projects from the Improvement and Performance reserve.	1,614,253	1,229,000	734,400
Total	**Appropriations from Performance Reserve**	**1,614,253**	**1,229,000**	**734,400**

Appropriations from General Balances

Ref	Details	2018/19	2019/20	2020/21
334	**Appropriation to General Reserves** Appropriation to General Reserves	146,893	-146,893	0
347	**Reserve Funding for Additional Bank Holidays** Reserve funding for Police and Staff additional Bank Holidays - Ref: 346 & 345	430,000	-215,000	0
421	**Police Officer Non-Consolidated Pay Award** Funding for FYE of Police Officer Non-Consolidated Pay Award	-650,000	650,000	0
434	**Community Safety Funding From Earmarked Reserve** Community Safety Funding From Earmarked Reserve	-100,000	0	100,000
Total	**Appropriations from General Balances**	**-173,107**	**288,107**	**100,000**

Total	**In Year Appropriations From Reserves**	**1,441,146**	**1,517,107**	**834,400**

<u>Funding Changes</u>

Formula Grant

Ref	Details	2018/19	2019/20	2020/21
274	**Police Grant Funding Changes** Changes in funding received through the main government police grant.	0	0	0

Ref	*Details*	*2018/19*	*2019/20*	*2020/21*
304	**Formula Grant Allocation Changes** Changes in funding received through the ex-DCLG Grant Allocation.	0	0	0
Total	**Formula Grant**	**0**	**0**	**0**

Specific Grants

Ref	*Details*	*2018/19*	*2019/20*	*2020/21*
303	**Changes to Loan Charges Grant** Changes to Loan Charges Grant	101,679	37,554	5,250
Total	**Specific Grants**	**101,679**	**37,554**	**5,250**

Council Tax Requirement

Ref	*Details*	*2018/19*	*2019/20*	*2020/21*
305	**Council Tax Precept Requirement** Council Tax Requirement Changes for Precept Billing	-12,820,450	-13,614,022	-7,077,825
307	**Council Tax - Surplus on Collections** Council Tax - Surplus on Collections	606,519	0	0
Total	**Council Tax Requirement**	**-12,213,931**	**-13,614,022**	**-7,077,825**

Ring Fenced Specific Grant

Ref	*Details*	*2018/19*	*2019/20*	*2020/21*
383	**CTSFO Uplift** CTSFO Grant Uplift	339,000	0	0
Total	**Ring Fenced Specific Grant**	**339,000**	**0**	**0**

Ref	*Details*	*2018/19*	*2019/20*	*2020/21*
Total	**Funding Changes**	**-11,773,252**	**-13,576,468**	**-7,072,575**

Thames Valley Police - Productivity Strategy Summary Report for Period 2018/19 to 2020/21

RAG Status Included: Green

		2018/19 Year 1			2019/20 Year 2			2020/21 Year 3			TOTAL		
		Police	Staff	£	Police	Staff	£	Police	Staff	£	Police	Staff	£
Collaborative Units													
303	Joint ICT Unit	0.00	0.00	75,888	0.00	0.00	1,014,000	0.00	0.00	1,296,000	**0.00**	**0.00**	**2,385,888**
382	Review of Contact Management Function	0.00	0.00	0	0.00	26.00	1,328,000	0.00	27.00	1,327,000	**0.00**	**53.00**	**2,655,000**
397	Business Support Review	0.00	0.00	0	0.00	0.00	0	0.00	49.70	1,536,000	**0.00**	**49.70**	**1,536,000**
476	Regionalisation of Special Branch	0.00	0.00	250,000	0.00	0.00	250,000	0.00	0.00	0	**0.00**	**0.00**	**500,000**
		0.00	**0.00**	**325,888**	**0.00**	**26.00**	**2,592,000**	**0.00**	**76.70**	**4,159,000**	**0.00**	**102.70**	**7,076,888**
Structure & Process Reviews													
466	VISOR Workforce Modernisation	0.00	0.00	78,000	0.00	0.00	0	0.00	0.00	0	**0.00**	**0.00**	**78,000**
474	ESMCP Changeover Annual Usage Costs	0.00	0.00	0	0.00	0.00	0	0.00	0.00	2,467,348	**0.00**	**0.00**	**2,467,348**
475	Review of Assisted Travel	0.00	0.00	100,000	0.00	0.00	0	0.00	0.00	0	**0.00**	**0.00**	**100,000**
481	Review of Vacant Staff Positions	5.00	3.00	398,000	0.00	0.00	0	0.00	0.00	0	**5.00**	**3.00**	**398,000**
482	Review of Premises Recharges	0.00	0.00	144,984	0.00	0.00	0	0.00	0.00	0	**0.00**	**0.00**	**144,984**
		5.00	**3.00**	**720,984**	**0.00**	**0.00**	**0**	**0.00**	**0.00**	**2,467,348**	**5.00**	**3.00**	**3,188,332**
Value for Money Reviews													
336	PCSOs Review	0.00	11.00	181,500	0.00	10.00	165,000	0.00	0.00	0	**0.00**	**21.00**	**346,500**
368	Carbon Management Savings	0.00	0.00	50,000	0.00	0.00	0	0.00	0.00	0	**0.00**	**0.00**	**50,000**
375	Estates Review through the Asset Management Plan	0.00	0.00	178,920	0.00	0.00	222,693	0.00	0.00	0	**0.00**	**0.00**	**401,613**
413	Review of Transport Costs	0.00	0.00	260,000	0.00	0.00	200,000	0.00	0.00	100,000	**0.00**	**0.00**	**560,000**
414	Review of Property & Premises Costs	0.00	0.00	250,000	0.00	0.00	250,000	0.00	0.00	0	**0.00**	**0.00**	**500,000**
478	Alarms TecSOS Phones	0.00	0.00	200,000	0.00	0.00	100,000	0.00	0.00	0	**0.00**	**0.00**	**300,000**
480	Review of OPCC Controlled Budgets	0.00	0.00	51,950	0.00	0.00	0	0.00	0.00	0	**0.00**	**0.00**	**51,950**

		2018/19 Year 1			2019/20 Year 2			2020/21 Year 3			TOTAL		
		Police	Staff	£	Police	Staff	£	Police	Staff	£	Police	Staff	£
		0.00	**11.00**	**1,172,370**	**0.00**	**10.00**	**937,693**	**0.00**	**0.00**	**100,000**	**0.00**	**21.00**	**2,210,063**

Priority Based Budget Review

446	Criminal Justice	1.00	10.08	334,143	0.00	1.00	100,104	0.00	0.00	0	**1.00**	**11.08**	**434,247**
465	Review of Demand Led Operating Model	0.00	-3.54	-126,350	0.00	0.00	0	0.00	0.00	0	**0.00**	**-3.54**	**-126,350**
468	Windsor Guard Change Duty Review	0.00	-2.00	-66,000	0.00	0.00	0	0.00	0.00	0	**0.00**	**-2.00**	**-66,000**
485	Technology Enabled Savings	0.00	0.00	0	0.00	0.00	0	0.00	0.00	1,459,397	**0.00**	**0.00**	**1,459,397**
		1.00	**4.54**	**141,793**	**0.00**	**1.00**	**100,104**	**0.00**	**0.00**	**1,459,397**	**1.00**	**5.54**	**1,701,294**
	Force Totals	**6.00**	**18.54**	**2,361,035**	**0.00**	**37.00**	**3,629,797**	**0.00**	**76.70**	**8,185,745**	**6.00**	**132.24**	**14,176,577**

MEDIUM TERM CAPITAL PLAN 2018/19 to 2020/21

Introduction

1. In addition to spending on day to day activities the PCC incurs expenditure on builds, information technology and other items of plant and equipment that have a longer term life.

Capital Plan – key Focus

2. The aim of the MTCP is to support service delivery of the PCC's Police and Crime Plan and the Force Commitments. The Plan provides the Force infrastructure and major assets through capital investment, enabling the Force to strengthen and streamline core assets and systems, and provides the framework for delivering innovative policing strategies with our collaborative partners throughout policing and within the Criminal Justice system.

3. The Plan is compiled with full reference to the current financial climate and the drive to reform the methods for delivering the policing service to maximise the level of resources directed to priority areas and improve overall productivity levels. The plan reflects the police finance settlement for 2018/19.

4. Key focuses of the MTCP are:

   - To ensure the property estate remains fit for purpose, identifying opportunities to streamline assets and develop the estate infrastructure; maintaining core sites and facilities and progressing the Asset Management Plan to deliver long term savings.

   - To ensure provision is made for the continued maintenance and development of ICT Technology through the ICT Roadmap and Digital Transformation Programmes, which allows the force to work with its collaborative partners, regionally and nationally, to develop new efficient and effective policing delivery models within the overall Criminal Justice System and improve overall service to the public.

   - The maintenance and replacement of other core assets where necessary e.g. vehicles and radios. This includes provision for the Emergency Services Mobile Communications Project (EMSCP), the national replacement of airwave services.

5. The cost and funding estimates within this draft capital programme are based on the best information available at the time. This can be standard building costs, desktop estimates or an estimate based on the experience of another force. Future inflation is reviewed annually as part of the budget development process and included where appropriate.

6. The HM Treasury guidance on capital projects recognises that there is potential for project costs to exceed the initial assessment. This is called Optimism Bias – (OB) and relates to any project type, although it can be particularly impactive when relating to the development of Information and Communication Technology. The Force recommends that, based on the size of the MTCP, an Optimism Bias Reserve of around £12m is retained to support the level of investment. This reserve will be created by transferring money from the Improvement and Performance reserve, which will be reduced to just £0.1m by the end of 2020/21 as shown in the separate report on reserves and balances.

Capital Programme – Summary

7. The MTCP builds on the existing capital plan approved in July 2017.

8. All existing and proposed new schemes are sponsored by chief officer leads and are reviewed by CCMT taking into consideration the strategic priorities of the PCC, the operational priorities of the Force and the risk associated with each scheme. The assumptions, scope and costs underlying each scheme are challenged as are the schemes themselves to ensure they remain justified given the economic climate. Figures within the MTCP reflect this and, as a consequence, some revisions have been made to existing programme schemes, as well as new ones introduced.

9. The planned gross expenditure within the MTCP totals £64.860m, which includes £15.124m of project budget re-phased from 2017/18 to allow for planning and tendering procedures. This is summarised in Table 1 below. A more detailed analysis is provided in Appendix 1, which details the various projects within each category of investment.

SCHEDULE 1 : DRAFT CAPITAL EXPENDITURE FORECAST SUMMARY Jan-18

	Revised 2017/18 £000	Re-phased from 2017/18 £000	New Spend 2018/19 £000	Total Spend 2018/19	New Spend 2019/20 £000	New Spend 2020/21 £000	Total 2018/19 to 2020/21 £000	Schedule Reference
Property	7,410	5,217	1,447	6,664	3,872	10,300	20,836	Schedule 2
ICT/ Business changes	16,595	2,900	8,754	11,654	7,167	3,373	22,193	Schedule 3
SECTU/ Tactical Firearms	1,557				-	-		Schedule 4
Equipment & Radio Replacement	1,486	7,007	-2,262	4,745	6,329	150	11,224	Schedule 5
Vehicles	3,097		3,421	3,421	3,593	3,593	10,606	Schedule 6
Capital Total to be Financed	**30,145**	**15,124**	**11,361**	**26,485**	**20,960**	**17,415**	**64,860**	
Financing Available	**44,162**			**12,345**	**13,948**	**25,053**	**51,346**	Schedule 7
Cumulative Funding Position	**14,018**			**-122**	**-7,134**	**504**	**504**	Schedule 7

10. The MTCP presented today has a small remaining capital funding balance of £0.504m at the close of the MTCP period. The funding is principally through the use of reinvested capital receipts, substantial direct revenue financing, grant funding and the use of both existing PCC reserves. However there is an expectation that the Force will need to borrow approximately £5m towards the end of the MTCP to support the redevelopment of Reading police station.

11. Funding of the MTCP is shown in more detail in Appendix 1, Schedule 7. The bottom row in this table and table 1 above shows the balance of accumulated capital reserves at the end of each financial year. This implies that at the end of 2018/19 there will be a minimal shortfall of £0.122m and a larger shortfall of £7.134m in 2019/20 i.e. that we plan to spend

more in those years than we can afford to fund from available reserves and forecast capital income over those years.

12. In practice this is unlikely to happen exactly as indicated since planned expenditure is rarely incurred according to the original profile. The profile of actual expenditure will be monitored very closely to ensure that we do not commit more resources than we can afford to fund in each year and the PCC will be updated via the regular capital monitoring reports.

The Capital Programme – New or Revised Major Schemes

13. The significant new projects or scheme changes since the current MTCP was approved in July 2017 are listed below and for ease if identification are listed at the bottom of schedules 2 & 3 within appendix 1 and specifically highlighted within schedules 4-6. The vast majority of new projects have been previously presented to the PCC in Draft for review in November, but are included here again for completeness. Some projects will have been re-phased to reflect updated work profiles.

Property schemes – Schedule 2

14. The Property Services MTCP items are shown in Schedule 2 of Appendix 1. These schemes are necessary to meet a combination of key priorities, including maintaining operational performance and capacity as well as strategic asset management. The new prioritised project bids are listed at the bottom of the appendix, totalling **£5.389m**. As previously reported the existing scheme for Milton Keynes has identified a saving of **£0.453m** compared to the original budget and has been re-phased to reflect expected timelines. New or updated Property projects include:

- **Reading Police Station –** The project timescales have been reassessed and a later completion date in 2021/22 is now expected, moving some costs to later years, but also delaying the capital receipt until after the MTCP period. Final design plans remain uncertain pending decisions on locating ARV and Roads Policing which may impact on overall cost estimates.

- **Windsor Station Replacement -** The original approved project reflected the preferred option to relocate the Police Station to the RBWM York House site. This is no longer achievable (planning issues) and the agreed fall-back option is to redevelop our current site. There is an expected additional cost of £0.100m, the expected timescales for completion are re-phased and the sale of the excess land will be reduced in scope and hence realise a smaller receipt. The sale proceeds are now profiled to occur after 2020/21, outside the MTCP period.

- **CTFSO Accommodation -** An estimated £1.525m build for CTFSO accommodation at Sulhamstead. This includes an expectation that this should be fully funded from grant (included in schedule 7) and is therefore nil cost to TVP.

- **Fountain Court Infrastructure work -** As part of the feasibility work prior to Fountain Court being purchased it was identified, in the pre-acquisition report, that there was a need for some infrastructure refurbishment work. This is now estimated at £2.750m, based on recent work on other parts of the building.

- **Asset Management Plan (AMP) Works –** £1.014m - Investment required in a number of schemes to release £2.450m of capital receipts and generate revenue savings included in the MTFP.

Technology Schemes - Schedule 3

15. Over the last several months the ICT department has developed and presented a 5 year Strategy Roadmap of prioritised activities to continue modernising the legacy infrastructure and create a solid technology platform, from which the force can continue to transform working practices.

16. In addition, separate consultants were engaged to develop a Digital Transformation Portfolio (DTP) resulting in quantified initiatives to integrate digitised policing into the Criminal Justice System, improve digital investigation and intelligence and ensure frontline resources have the technology they require and improve digital public contact.

17. The PCC was presented with a summarised version of these two pieces of work and other ICT impact bids from across the force within the JCOG Change Programmes at the Joint TVP/HC Collaboration Governance Board on 6th and 30 November and . The Force, along with its lead collaborative partner, Hampshire Constabulary have sought to include joint Tier 1 (Critical or Mandatory) and Tier 2A (High priority) proposals within the MTCP for approval. It is recognised that other lower priority bids have not been included for approval at this time, but the force may have to reconsider those over the coming years, subject to funding being available.

18. There are 29 new or updated ICT related projects included in the MTCP, 26 of which are collaborative, all of which have been previously presented to Joint Chief Officers or discussed in previous reports. Examples of the more significant projects are included below.

19. Note: unless otherwise stated, ICT costs shown are the TVP share of total joint investment costs with Hampshire Constabulary or other partners.

Examples of Tier 1 & Tier 2A Collaborated Projects include:

- **End User Devices:** A **£1.517m** uplift in provision over the 3 years (excluding later years) for the replacement of phones and BWV - End User Devices. This budget will support a staged replacement and ongoing provision of smartphones based on a 2 to 3 year hardware lifespan for 11,000 phones between both forces. The provision also includes a staged replacement budget for 1,250 BWV devices in TVP based on a 4 year lifecycle.

- **Increased Laptops and Reduced Desktops:** The ICT Roadmap identified that the roll out of laptops / reduction of desktops and a provision for ongoing replacements is an essential enabler to support the mobile vision. An additional **£2.775m** uplift (adjusted to reflect existing provision and excluding later years) has therefore been included which allows for a staged rollout of hardware and a replacement cycle of 3 years for 10,000 devices across both forces.

- **The Essential Upgrade to Windows 10 –** Windows 8 is going out of support and manufacturers have stopped mass production of Windows 8 compatible machines – requiring the force wide upgrade to Windows 10 at **£2.466m**.

- **NPTC (National Police Technology Council – Upgrade to Office 365 – £0.822m** – This project is the implementation of Micrsosoft Office 365 which is an Office Productivity Platform enabling staff an officers to work more efficiently through remote working e.g. Skype, presence and team sites.

- **DEMS** – **Digital Evidence Management –** £0.493m investment in technology used for assuring the evidential integrity of digital evidence from point of creation to enabling transfer and presentation to court.

- **CMP** – Contact Management Platform – As previously reported, this project is nearing completion with go live expected to start in March 2018. This project has been the subject of some implementation delays resulting in an additional funding requirement of £1.644m across 2017/18 and 2018/19 being approved by the PCC on 12 December 2017

- **Enterprise Resource Planning (ERP) -** The ERP programme is currently engaged in a major re-plan/reset. Although definite go live dates are not yet available expectations are that it is now likely to be towards the end of 2019/20. This means that the internal project team engagement and hence associated costs will increase proportionately. A capital budget uplift of £1.1m to £6.1m is now requested, which includes £1m contingency. The KPMG contract is a fixed price contract so the external costs will not increase.

- **TVP Force Specific Investment:** A further **£1.837m** is identified for TVP specific projects including expansion of the number of electronic devices for Neighbourhood Officers, including further Body Worn Video and for the replacement of aged analogue PACE interview recording with a new digital solution.

Other Items – Schedule 4-6 Appendix 1.

Equipment & Radio – Schedule 5

- **General Annual Equipment Provisions:** Annual provisions for non-specific capital equipment purchases and ANPR installation replacements are also included for 2019/20 & 2020/21 adding **£0.200m** to the total plan costs.

- **ESMCP – Grant and Device costs**: An additional **£1.8m** has been included for ESMCP devices to align our unit price provision with the other SE forces at £800 each. This is believed to represent a prudent upper-end cost provision and increases the total budget to £4.8m for 6,000 devices. There is no specific provision for replacement of these items in future years although it is likely the cost will be absorbed to some extent in the phone and BWV replacement provisions. In addition, the £0.895m ESN grant received last year for control room upgrades has been recognised within the ESMCP project budget.

- **Fleet Vehicles:** Vehicle Fleet renewals through the Chiltern Transport Consortium (CTC) are included for year 3 - 2020/21 (£3.593m) and existing provisions uplifted by additional inflation (to £3.421m for 2018/19) to reflect recent price increase notifications from suppliers. This is also an area of potential risk for the future where the impact of Brexit and exchange rates may continue to have a negative impact on cost. The future replacement plans are regularly reviewed within CTC with an eye to future transport innovations. The impact of a move to a potentially more efficient and clean fleet fuel mix, possibly considering electric and hybrid motors are expected to be the subject of future reports over the next 12 months but will potentially require increased capital funding.

Funding of the Medium Term Capital Plan 2018/19 to 2020/21:

20. The MTCP, recommended for approval today, comprises schemes costing £64.860m gross expenditure over the 3 year period. This includes £15.124m of budget re-phased from the current capital plan. Re-phasing may is likely to fluctuate as we approach the end of the financial year. Assuming that external borrowing of £5m is approved for property schemes in 2020/21 the MTCP has a relatively small funding surplus of £0.504m at the end of the current planning period. Funding of the MTCP is detailed in schedule 7 of Appendix 1 attached.

Capital Receipts

21. Capital receipts of £13.7m from Asset Management Plan (AMP) disposals, house sales, shared equity repayments and vehicle sales are expected to provide significant support to the overall plan over the 3 year period; AMP sales provide £8.81m of this funding. It should be noted that whilst a prudent approach to capital receipts in relation to both amounts and timing has been adopted, the receipts may vary from planned profiles.

Revenue Contributions

22. In recognition of the decrease and finite nature of future capital receipts and reserve funding significant additional revenue contributions have now been included in the MTCP funding strategy. Direct revenue financing will, in the future, likely provide the single largest contribution towards ongoing capital investment and asset refreshes. Over the next 3 years the force will increase its revenue support to £13.5m per annum from 2020/21 onwards providing £24.620m overall funding over the 3 years.

Capital Grant

23. Capital grant allocations have been largely maintained at current levels in the recent Police Grant Settlement and are anticipated to stay at £1.478m per annum for the next 3 years.

Police Transformation Grant

24. The Force will continue to seek to gain access to additional grant funding. This will most likely be through cost avoidance by being an adopter of technologies developed by the National Enabling Programme and the Digital Policing Programme. These programmes are funded via the Transformation fund and early adopters of these new national technology strategies.

Revenue Reserves

25. The 2018/19 to 2020/21 MTCP will draw down £1.493m from the Improvement & Performance (I & P) reserve and £0.093m from the risk management reserves. As previously indicated the HM Treasury guidance on capital projects recognises that there is potential for project costs to exceed the initial assessment, identified as Optimism Bias. It is recommended that a new £12m Optimum Bias reserve – (OB) be established to support the size of the MTCP investment. This reserve will be created by transferring monies from the Improvement and Performance reserve, which will be reduced to nil over the coming 3 years.

26. **It is therefore requested that the PCC formally approves:**

- External borrowing of up to £5m in 2020/21 to help fund long term property projects
- The establishment of a £12m Optimism Bias Reserve in reference to HM Treasury guidance on project costing.

Future Considerations

27. Beyond the MTCP period capital receipts from one off property sales and development will become increasingly more difficult to identify. In the years immediately following the MTCP there are currently only 2 identified potential receipts for Reading and Windsor Police stations which are thought to potentially release circa £9m. These were previously included within the MTCP period but, due to project timing, are now expected later.

28. Additional Revenue Reserve contributions are likely to be limited to support from the OB reserve for existing schemes only (no new schemes) until the existing schemes are complete and any unused funding released.

29. Revenue contributions to the Capital Programme have had to be increased significantly over the next 3 years in order to provide the Force with a realistic level of funding for the renewal of fixed assets and the maintenance of our technology infrastructure with a small amount of capacity for further investment.

30. The average level of capital investment over recent years **and** that which is planned for between 2017/18 and 2020/21 at £94.951m (average of £23.74m per year) cannot be funded past 2021/22, with renewable capital funding currently limited to about £15m per year from revenue contributions and grant. Investment beyond this level will require additional revenue contributions or borrowing.

Financing of the Capital Programme

31. Recommended financing of the capital programme 2018/19 to 2020/21 is set out in table 2 below:

	2018/19	Total 3 years
	£m	£m
Capital grant (including CTFSO Grant)	1.503	5.959
Capital receipts	6.766	13.731
Revenue contributions	2.340	24.620
Revenue reserves (Risk Management)	0.093	0.093
Revenue reserves (Improvement & Performance)	1.493	1.493
Third party contributions	0.150	0.450
Safer Roads Partnership		
Brought forward capital grant	14.018	14.018
Borrowing to support long term property assets		5.000
Cash flow timing	0.122	-0.504
Total Financing	**26.485**	**64.860**

Issues for Consideration:

32. Whilst the figures included in the MTCP are as accurate as possible it should be noted that a number of elements will continue to be developed and result in future change requests. These include:

- **Asset Management Plan (AMP)** schemes still require firm solutions to be identified; hence costs will be subject to variation. The timing of AMP schemes are partly dependant on availability within the market. In addition, currently leased premises will continue to be considered for purchase where it makes sound financial sense to do so. These are in addition to current AMP works.

- **Sale of Land -** The future development of Gowell Farm in Bicester for predominantly residential use as part of the North West Bicester Garden Village (former Eco Town), if successful, is anticipated to generate a sizable capital receipt. This is currently not included in the funding projections (schedule 6) due to significant uncertainty over scope and timing (potentially many years away) given the complexity and phasing of the future development. When realised, this income will support future capital projects.

- **Other External factors –** The full impact of Britain exiting the EU still remains unknown. There are potentially heightened risks around the value of sterling compared to other currencies and imports, including brought in skills through external suppliers that may continue to increase in relative cost. This could add additional pressures to the future programme.

Conclusion & Recommendation

33. The schemes included in the 2018/19 MTCP are considered by CCMT to be essential for enabling and improving future service provision through a more efficient estate and better use of technology. The Force MTCP is a prioritised programme of works. As policing continues to evolve other investment opportunities and legislative changes to improve levels and efficiency of service and to continue to align with other Criminal Justice Partners will no doubt present themselves and will need to be assessed against available resources.

34. The MTCP presented today for approval identifies total planned spend of £64.860m over the 3 year period 2018/19 to 2020/21. This includes £15.124m re-phased from the 2017/18 approved projects. This is likely to fluctuate as we progress towards the year end. Assuming the PCC approved new external borrowing of £5m in 2020/21 there is a small surplus of resources of £0.504m which will be carried forward to help finance capital investment in 2021/22.

35. Overall revenue contributions are being increased significantly to help support the capital programme, however this funding is unlikely to be sufficient in the years beyond the MTCP and so additional pressure is expected on the Force revenue budget beyond 2020/21 to continue to contribute and support the capital programme.

36. The PCC approved:

- A capital programme for 2018/19 in the sum of £26.485m as set out in Table 1, which includes £15.124m of re-phased budget from 2017/18.
- The financing of the capital expenditure as set out in Table 2.
- External borrowing of £5m in 2020/21 to help fund long-term property projects
- The 3 year Medium Term Capital Plan (2018/19 to 2020/21) for planning purposes at £64.860m (including re-phasing) as set out in Table 1.
- The creation of an Optimism Bias Reserve of £12m to support the overall MTCP, to be funded by a transfer from the Improvement and Performance Reserve.

SCHEDULE 1 : DRAFT CAPITAL EXPENDITURE FORECAST SUMMARY

	Revised 2017/18 £000	Re-phased from 2017/18 £000	New Spend 2018/19 £000	Total Spend 2018/19	New Spend 2019/20 £000	2020/21 £000	Total 2018/19 to 2020/21 £000	Total inc current year 17/18 to 20/21 £000	Later Years £000	Schedule Reference
Property	7,410	5,217	1,447	6,664	3,872	10,300	20,836		4,649	Schedule 2
ICT/ Business changes	16,595	2,900	8,754	11,654	7,167	3,373	22,193		3,747	Schedule 3
SECTU/ Tactical Firearms	1,557				-	-			-	Schedule 4
Equipment & Radio Replacement	1,486	7,007	-2,262	4,745	6,329	150	11,224		150	Schedule 5
Vehicles	3,097		3,421	3,421	3,593	3,593	10,606		3,593	Schedule 6
Capital Total to be Financed	**30,145**	**15,124**	**11,361**	**26,485**	**20,960**	**17,415**	**64,860**	**95,004**	**12,138**	

Financing Available	**44,162**			**12,345**	**13,948**	**25,053**	**51,346**	**95,508**	**27,928**	
Cumulative Funding Position	**14,018**			**-122**	**-7,134**	**504**	**504**	**504**	**16,293**	

SCHEDULE 2: PROPERTY SCHEMES	TOTAL PROJECT COST £000	Re-phased **2016/17** £000	New Spend **2017/18** £000	Total **2017/18** £000	**Re-phased from 2017/18** £000	New Spend 2018/19 £000	Total **2018/19** £000	**2019/20** £000	**2020/21** £000	Later years £000
<u>Corporate Schemes</u>										
HQ South - C, D E & G block (Work and Demolition)	3,350	609		609			0			
St Aldates Police Station	893	285	234	518			0			
Sulhamstead - Imbert Court	2,535	24	1,200	1,224		1,200	1,200	75		
Sulhamstead - White House	2,094	47	1,330	1,377		714	714	0		
Milton Keynes- site wide works	3,695	698	102	800	543	1,757	2,300	443		
Milton Keynes- windows	600		300	300		300	300			
Buildings - Store	395		379	379			0			
<u>Asset Management Plan (AMP)</u>										
# Reading Station Replacement	10,000	104	81	185	799	-564	235	750	6,500	2,274
# Windsor Station Replacement	3,900	0	25	25	3,875	-3825	50	350	1,100	2,375
# Newport Pagnell Replacement	121	120		120			0			
# Wallingford Replacement	120		120	120			0			
# Marlow Replacement	300	9	290	299			0			
Bletchley Replacement	890		555	555		335	335			
Chipping Norton Replacement	30	7		7			0			
Fit out costs - AMP Replacement Budget	970	441	19	460		510	510			
Total inflation allowance (Inc remaining non AMP inflation)	617	82	44	125		305	305	187		
<u>Asset Management Plan (AMP) total</u>	**16,948**	**762**	**1,134**	**1,896**	**4,674**	**-3,239**	**1,435**	**1,287**	**7,600**	**4,649**
<u>Carbon Management Works</u>										
Ongoing Voltage optimisation work	101	40		40			0			
new works	363	167	100	267		93	93			
Carbon Management Works: REC, Officer Safety Training Centre Sulhamstead & HQ South A-Block	**464**	**207**	**100**	**307**	**0**	**93**	**93**	**0**	**0**	**0**
<u>New Funding Requirements for consideration</u>										
Windsor Station Replacement / Redevelopment	100			0		100	100			
CTSFO - Long term accomodation	1,525			0		25	25	150	1,350	
Fountain Court Infrastructure Works	2,750			0		50	50	1350	1,350	
New AMP works										
Wokingham Office Relocation	278			0		25	25	253		
Princes Risborough Replacement	334			0		20	20	314		
Chipping Norton Replacement	172			0		172	172			
Faringdon Police Office Replacement	230			0		230	230			
Bracknell Police Station - **Council to fully fund if proceeds**	0			0			0			
Total cost of New Bids	**5,389**	**0**	**0**	**0**	**0**	**622**	**622**	**2,067**	**2,700**	**0**
Total Property	**36,363**	**2,632**	**4,778**	**7,410**	**5,217**	**1,447**	**6,664**	**3,872**	**10,300**	**4,649**

Data processing

Ref	SCHEDULE 3: ICT SCHEMES and BUSINESS CHANGE	Previous Spend £000	TOTAL PROJECT COST £000	Total 2017/18 £000	Re-phased from 2017/18 £000	New Spend 2018/19 £000	Total 2018/19 £000	2019/20 £000	2020/21 £000	Later years £000
	ICT CORE SCHEMES									
	EUD Replacement Budgets									
	End User Devices - Desktops and Laptops, Tablets and handheld devices.	699	4,239	2,258	-	716	716	566	-	-
	Network & Connectivity Infastructure									
	Network & Connectivity Infastructure	5,756	6,782	634	350	-	350	-	-	-
	Data Centres, Data Processing & Storage Infastructure									
	Data Processing - New Data Centre, existing servers, ICT security and tools.	659	3,786	690	350	400	750	625	400	400
	PROJECT PORTFOLIO									
	ICT 2020 Capital Budgets									
	ICT 2020 Capital Budgets - 5 Year Plan	2,974	3,297	323	-	-	-	-	-	-
	Digital Policing Portfolio									
	Digital Policing Portfolio (DPP)	337	463	126	-	-	-	-	-	-
	Digital Contact / Contact Management									
	Digital Contact	9,461	17,545	6,972	400	712	1,112	-	-	-
	Digital Investigation & Intelligence									
	Digital Investigation & Intelligence	2,571	3,563	493	300	200	500	-	-	-
	Total - Digital First									
	Total - Digital First	-	209	209	-	-	-	-	-	-
	Digital Frontline									
	Digital Frontline	72	291	82	-	137	137	-	-	-
	DESKTOP OPERATING SYSTEM									
	Windows 8.1 Upgrade	2,900	3,052	152	-	-	-	-	-	-
	Police Secure Network (PSN)									
	PSN Migration & Citrix	634	1,706	1,072	-	-	-	-	-	-
	Control Rooms Projects									
	Total - Control Room Based Projects	113	150	37	-	-	-	-	-	-
	Monitoring Based Projects									
	Total - Surveillance Based Projects	-	925	925	-	-	-	-	-	-
	Other MTCP Projects									
	Other MTCP Projects	72	981	909	-	-	-	-	-	-

Data processing

Ref		SCHEDULE 3: ICT SCHEMES and BUSINESS CHANGE	Previous Spend £000	TOTAL PROJECT COST £000	Total 2017/18 £000	Re-phased from 2017/18 £000	New Spend 2018/19 £000	Total 2018/19 £000	2019/20 £000	2020/21 £000	Later years £000
		ICT Service Improvement			-						
		ICT Service Improvement	-	589	589	-	-	-	-	-	-
		NON ICT LED PROJECTS									
		ENTERPRISE RESOURCE PLANNING (ERP)									
		ERP - Enterprise, Resource & Planning Tool	1,453	6,100	1,548	1,000	440	1,440	1,660	-	-
		New Funding Requirements for consideration									
		Force Change Paper - Collaborative Tier 1		-	-			-			
Tier 1		Single Instance ESRI Gazeteer		214	-		214	214			
		Q-Pulse		25	25			-			
Tier 1	Enabl	General Data Protection Regs GDPR		65	-		65	65			
Tier 1	Dig C	Digital Contact - Online Services Enabler		(0)	-		(0)	(0)			
Tier 1	D first	TWIF / Digital Case File (17/18 funding request)		375	250		125	125			
Tier 1	DI&I	ANPR NAS Project		71	71		-	-			
		ICT RoadMap		-	-			-			
ICT T1	Infra	HTCU Central Storage Solution (uplift)		50	-		50	50			
ICT T1	Infra	IL4 Confidential Infrastructure Refresh		164	-		164	164			
ICT T1	DTP	Windows 10 Build only - No EUD provision		2,466	-		822	822	1,644		
ICT T1	DTP	Laptops Rollout / Desktop Reduction		4,145	-		285	285	1,120	1,370	1,370
ICT T1	DTP	Managed Mobilty Service		247	-		137	137	110		
ICT T1	DTP	End User Devices (EUD) Phones & BWV only		2,334	-		200	200	501	817	817
ICT T1	DTP	Direct Access (Scaling VPN)		137	-		137	137			
ICT T1	Comm	EUD Retender		192	-		192	192			
ICT T1	DII	RMS - existing capital budget adjusted.		100	-		100	100			
ICT T1	Apps	PSN Remediation		371	315		56	56			
ICT T2A	DTP	NPTC - Office 365		822	-		411	411	411		
		Collaborative Tier 2									
T2A	Enabl	Data Architecture		234	-		234	234			
T2A	Enabl	Data Governance		137	-		137	137			
T2A	Dig C	Digital Contact - Dev online services		420	-		332	332	88		
T2A	Dig C	Digital Contact - Social Media Crime Reporting		160	-		127	127	33		
ICT T2A	New	Network Infra Refresh (base budget required)		876	-		219	219	219	219	219
T1	D first	DEMS (Digital Evidence Management)		493	-		493	493			
T2A	Enabl	Data Visualisation		460	-			-	153	307	
T2A	Enabl	Data Analytics and Demand Analysis		110	-			-	37	73	
				-	-			-			
		TVP only Tier 2A									
T2A		Devices for Neighbourhood Officers		1,760	-		838	838		84	838
T2A	DFL	BWV - Personal Issue (Reduced Pooled option)		618	-		412	412		103	103
T2A		PACE recording Equip - cost uncertain		400	-		400	400			
				-	-			-			
		Other Items		-	-			-			
Existing	New	CMP - Budget increase and contingency		-	-		-	-			
	New	ERP -		-	-			-	-		
ICT T2A	New	Estates Change (AMP)		-	-		-	-	-	-	-
				-	-			-			
		Issues & Potential Removals		-	-			-			
Existing		CCTV - reprofiled & reduced prov.(£750k to £500k)		(250)	(750)	500		500			
Existing	T2B	Existing - PSD Protective Monitoring - Removed		(175)	(175)			-			
T2B	T2B	DII - Digitising Forensics 1 - Fingerprints - existing provision?		(160)	(160)			-			

Data processing

Ref	SCHEDULE 3: ICT SCHEMES and BUSINESS CHANGE	Previous Spend £000	TOTAL PROJECT COST £000	Total 2017/18 £000	Re-phased from 2017/18 £000	New Spend 2018/19 £000	Total 2018/19 £000	2019/20 £000	2020/21 £000	Later years £000
			16,861	(424)	500	6,149	6,649	4,316	2,973	3,347
	TOTAL - ICT CORE SCHEMES	7,114	14,807	3,582	700	1,116	1,816	1,191	400	400
	TOTAL - PROJECT PORTFOLIO	19,133	32,771	11,888	700	1,049	1,749	-	-	-
	TOTAL - NON ICT LED PROJECTS	1,453	6,100	1,548	1,000	440	1,440	1,660	-	-
	TOTAL - NEW FUNDING BIDS	-	16,861	(424)	500	6,149	6,649	4,316	2,973	3,347
	TOTAL - ICT - OVERALL	27,700	70,538	16,595	2,900	8,754	11,654	7,167	3,373	3,747

REF	SCHEDULE 4: Grant/NCCP HQ funded	TOTAL PROJECT Cost £000	Re-phased from 2016/17 £000	New Spend 2017/18 £000	Total 2017/18 £000	Re-phased from 2017/18 £000	New Spend 2018/19 £000	Total 2018/19 £000	New Spend 2019/20 £000	New Spend 2020/21 £000	Later £000
	Equipment CITU & CTU	373			-			-			
	Vehicles CITU & CTU	1,738		585	585			-			
	Buildings - Unit 1	1,058		590	590			-			
	SECTU Equipment	382		382	382			-			
		-			-			-			
	NCA Crawley (Buildings Store)	-			-			-			
					-						
	Firearms Support Arrangement	(5)			-			-			
	TOTAL ACPO TAM funded	**3,546**	**-**	**1,557**	**1,557**	**-**	**-**	**-**	**-**	**-**	**-**

REF	SCHEDULE 5: Equipment & Radio	TOTAL PROJECT COST £000	Slippage from 2016/17 £000	New Spend 2017/18 £000	Total 2017/18 £000	Re-phased from 2017/18 £000	New Spend 2018/19 £000	Total 2018/19 £000	New Spend 2019/20 £000	New Spend 2020/21 £000	Later £000
	Annual Provision	605	98	100	198		100	100	100	100	100
	Video Conferencing	169			-			-			
	TSU equipment	475			-			-			
	Safer Roads (Hypothecation Equipment)	3,668	231	450	681	1,307	593	1,900			
	SEROCU	511			-			-			
		5,428	**329**	**550**	**879**	**1,307**	**693**	**2,000**	**100**	**100**	**100**
	ANPR - further static sites- partner funded	510		50	50		50	50	50		
	ANPR - replacement of installations/infrastructure	548	50	50	100		50	50	50	50	50
	ANPR	**1,058**	**50**	**100**	**150**	**-**	**100**	**100**	**100**	**50**	**50**
	Airwave replacement- ESMCP - overall project	2,181	0	332	333	1,426	-	1,426	279		
	ICCS	274		-	-	274		274			
	Airwave replacement- ESMCP - Funding uplift	1,000		-	-	1,000	(1,000)	-	1,000		
	Grant uplift	895			-		895	895			
	Airwave replacement- ESMCP - Devices	3,000		-	-	3,000	(3,000)	-	3,000		
New	Airwave replacement- ESMCP - New Devices Uplift	1,800			-		-	-	1,800		
	National radio system upgrade - ESMCP TVP costs	**9,150**	**0**	**332**	**333**	**5,700**	**(3,105)**	2,595	**6,079**	**-**	**-**
	Radio Replacements - Covert	881	(5)	5	-			-			
ICT T1	Radio Replacements - Officers	2,852	44		44		50	50	50		
	Radio Replacements - Vehicles	805	86	(5)	81			-			
	ICT -Airwave	**4,538**	**125**	**-**	**125**	**-**	**50**	**50**	**50**	**-**	**-**
	Other grants	-			-			-			
	Total Equipment & Radio Replacement	**20,174**	**504**	**982**	**1,486**	**7,007**	**(2,262)**	**4,745**	**6,329**	**150**	**150**

	SCHEDULE 6: VEHICLES	TOTAL PROJECT COST £000	Slippage from 2016/17 £000	New Spend 2017/18 £000	Revised 2017/18 £000	Slippage from 2017/18 £000	New Spend 2018/19 £000	Total 2018/19 £000	New Spend 2019/20 £000	New Spend 2020/21 £000	Later £000
	TVP Vehicle Replacement	23,925		3,097	3,097		3,421	3,421	3,593	3,592.51	3,593
	Vehicle Telematics (tba)	1,099			-			-			
	others - SRP/ADDITIONA				-			-			
	Total Vehicle Replacement	**25,024**	**-**	**3,097**	**3,097**	**-**	**3,421**	**3,421**	**3,593**	**3,593**	**3,593**

3,174

SCHEDULE 7: RESOURCES REQUIRED TO FINANCE THE CAPITAL PROGRAMME

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total 2018/19 to 2020/21 £000	Future years £000
Capital Balances Brought Forward 1/4/2017	17,366				-	
Estimated funding generated during year						
Capital Receipts including AMP	5,785	5,281	1,300	2,300	**8,881**	9,000
- House Sales	1,845	735	1,480	385	**2,600**	
- House Shared Equity repayments	300	300	300	300	**900**	
- Vehicle Sales	450	450	450	450	**1,350**	450
Revenue Contributions						
Vehicles	140	140	140	140	**420**	3,500
DRF	2,493	2,200	8,500	13,500	**24,200**	13,500
General Reserves	-	-	-	-	**-**	-
Borrowing						
Borrowing for Property Related Projects Capital (Reading)				5,000	**5,000**	
Third Party Contributions						
S106 or CIL Contributions	150	150	150	150	**450**	-
ANPR Contributions	-	-	-	-	**-**	-
Other Contributions	-	-	-	-	**-**	-
Capital Grants						
General	1,478	1,478	1,478	1,478	**4,434**	1,478
Specific grants (SECTU, SEROCU or T66)	1,557	-	-	-	**-**	-
Other government Departments/agency - CTFSO Grant	-	25	150	1,350	**1,525**	-
Assumed Home Office Funding for ICCS (TBC)	-	-	-	-	**-**	
Reserves						
Earmarked Reserves -						
Improvement & Performance Reserve	9,649	1,493	-	-	**1,493**	-
Risk Management Reserve (Carbon Management)	368	93	-	-	**93**	
Other Income					**-**	
Safer Roads Partnership	2,581	-	-	-	**-**	
Transformation Fund					**-**	
Property Schemes (borrowing)	-	-	-	-	**-**	
Resources Available (inc B/F Capital Reserves)	**44,162**	**12,345**	**13,948**	**25,053**	**51,346**	**27,928**
Total Resources Programme Requires	**30,145**	**26,485**	**20,960**	**17,415**	**64,860**	**12,138**
Shortfall / Surplus in year *(shortfall is a negative)*	**14,018**	**-14,140**	**-7,012**	**7,638**	**-13,514**	**15,790**
Cumulative funding position *(shortfall is a negative)*	**14,018**	**-122**	**-7,134**	**504**	**504**	**16,293**

RESERVES, BALANCES AND PROVISIONS

Introduction

1. This report provides information on the estimated level of reserves, balances and provisions currently held and explains how some of these will be applied over the next three years to help support the revenue budget and capital programme.

NATIONAL GUIDANCE

2. In July 2014, CIPFA issued updated guidance on the establishment and maintenance of local authority reserves and balances, setting out the key factors that should be taken in account locally in making an assessment of the appropriate level of reserves and balances to be held.

3. In the written statement that accompanied the Provisional Police Grant report on 19th December 2017 the Minister stated '*You may be aware that police reserves currently stand at around £1.6bn, which compares to £1.4bn in 2011. We will be changing guidance to PCCs to ensure that police officers and the public have access to more detailed information on how PCCs intend to use this public money*.' This report complies with the new Ministerial requirement.

GENERAL REVENUE BALANCES

Background

4. In order to assess the adequacy of unallocated general reserves (otherwise known as general balances) when setting the budget the PCC, on the advice of the two chief finance officers, should take account of the strategic, operational and financial risks facing the authority. This assessment of risk should include external risks, such as flooding, as well as internal risks, for example the ability to deliver planned efficiency savings.

5. Table 1 examines how Thames Valley Police (TVP) currently complies with the 7 key CIPFA principles to assess the adequacy of reserves.

Table 1: Compliance with the 7 key principles

Budget assumptions	Current situation in Thames Valley
The treatment of inflation and interest rates	TVP makes full and appropriate provision for pay and price rises. We have provided for future pay awards at 2% per annum and general inflation is linked to CPI. An informed assessment is made of interest rate movements. All individual expenditure and income heads in the revenue budget are prepared and published at estimated outturn prices.
Estimates of the level and timing of capital receipts	TVP makes a prudent assumption of future capital receipts. Attached at Appendix 3 is a schedule of planned receipts over the next 3 financial years
The treatment of demand led pressures	The Force is required to operate and manage within its annual budget allocation. The Chief Constable retains 2 central reserves to help finance large scale or corporate

	operations or issues. These are the 'Major Operations Reserve' and the 'Tasking Fund Reserve'. In addition the CCMT also holds a small reserve to deal with day to day changes in demand and pressure. The Force has been able to accommodate the additional costs arising from the various major incidents over the last 10 years without asking the PCC for additional reserve funding. The Force has already identified £12.8m of cash savings which will be removed from the budget over the next three years (2018/19 to 2020/21). This is over and above the £99m of cash savings that have been removed from the base budget in the last seven years (i.e. 2011/12 to 2017/18). This cumulative level of budget reduction (at least £112m) will inevitably mean that operational budgets will come under even greater pressure and/or risk of overspending in future years. Some government grants (e.g. DSP) are announced annually in advance and are cash limited. Any new policing pressures arising during the year will have to be funded from TVP's own resources. TVP has created a number of earmarked revenue reserves to help finance specific, ad-hoc, expenditure commitments. Appropriations are made to and from these reserves on an annual basis, as required. Finally, general balances are used as a last resort to manage and fund demand-led spending pressures.
The treatment of planned efficiency savings/productivity gains	The Force has consistently achieved its annual efficiency target. Although the £10.5m of planned productivity strategy savings removed from the budget in 2017/18 will not be fully achieved in-year, expectations are that they will be delivered in 2018/19, The MTFP has been updated accordingly. Savings elsewhere in the revenue budget have been identified to cover any shortfall and an underspend is forecast. As explained above, over £99m of cash savings has already been taken out of the base budget with a further £12.8m required over the next three years.
The financial risks inherent in any significant new funding partnerships, collaboration, major outsourcing arrangements or major capital developments	The financial consequences of partnership collaboration working, outsourcing arrangements or capital investment are reported to the PCC as part of the medium term planning process. Where relevant, any additional costs are incorporated in the annual revenue budget and/or capital programme.

	As explained in the separate report on the Medium Term Capital Plan a new Optimisation Bias Reserve is being created which will hold sufficient funds to mitigate against cost and time over-runs for major capital investment projects. The value of this fund will be reassessed on a regular basis to ensure it remains at an appropriate level for the size, scale and complexity of the approved capital programme. There is clearly a risk that local authority partners will continue to withdraw funding as their own budgets are squeezed, or that the continued financial viability of private sector commercial partners will be exposed to risk in the face of an economic recession.
The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	TVP has created a number of earmarked revenue reserves and provisions to meet specific expenditure items. These are referred to in more detail below. TVP maintains an insurance provision; the adequacy of which is determined annually by a firm of qualified insurance actuaries. The access criteria for special grants state that PCCs may be required to fund up to 1% of their net budget requirement themselves before Government considers grant aid. This applies on an annual basis.
The general financial climate to which the authority is subject.	On 19th December 2017 the Home secretary announce that core police grants would be maintained at the same cash level as in 2017/18 and that PCCs would be allowed to increase their council tax precept by up to £12 a year for a band D property. Subject to meeting national targets on efficiency and productivity the same funding settlement will also apply in 2019/20. . General inflation in the UK is higher than in recent years. CPI is currently 2.8% (Nov 2017). RPI is slightly higher at 3.9%. The 2017 police officer pay settlement included a non-consolidated 1% bonus. This cost £0.9m in 2017/18. The full year effect in 2018/19 is £0.65m. Base rate was increased for the first time in over a decade in November, raising it from 0.25% to 0.5%. The Governor of the Bank of England has indicated that any future increases will be minimal and gradual. The 3 year medium term financial plan reflects our local 'best estimate' of future inflation rates and increases in government grants and contributions.

6. General balances are required to cover financial risks and uncertainties such:

- unforeseen emergencies, such as a terrorist incident or major investigation;
- changes in the demand for policing;
- managing the timing of making savings;
- costs of national programmes; and
- uneven cashflows

7. Home Office special grant rules require us to fund the first 1% of net revenue expenditure for each incident before we can submit a claim for financial assistance. As such, in an organisation the size of Thames Valley, with a net budget in excess of £405m, the current policy is to maintain general balances around a guideline level of 3% of annual net revenue expenditure budget, with an absolute minimum level of 2.5%. This is felt to be an appropriate percentage and cash sum.

8. The current and forecast level of general balances is set out in Table 2 below.

Table 2: Predicted level of general balances

	£m	% of 2018/19 Net Budget
Balance as at 31 March 2017	**18.091**	**4.46%**
Adjustment for late notification of c/tax changes	0.039	
Additional bank holidays	- 0.215	
Forecast revenue underspend 2017/18	0.455	
Forecast balance as at 31 March 2018	**18.370**	**4.52%**
Adjustment for late notification of c/tax changes	0.147	
Fewer bank holidays	0.215	
Fund police officer non-consolidated pay award	- 0.650	
Forecast balance as at 31 March 2019	**18.082**	**4.45%**
Forecast balance as at 31 March 2020	**18.082**	**4.45%**
Forecast balance as at 31 March 2021	**18.082**	**4.45%**

Commentary of the Table

9. The current forecast level of general balances at 31 March 2018 is £18.370m which equates to 4.52% of the net revenue budget requirement in 2018/19. There are proposals to use some of this money in 2018/19 to help fund one-off costs (e.g. the non-consolidated pay award) but the overall level remains above the agreed 3%. This is a healthy position to be given the planned reduction in earmarked reserves and the very difficult operational environment that the force continues to operate in.

Risk and Sensitivity Analysis

10. Attached at Appendix 1 is the Risk and Sensitivity Assessment for General Balances for 2018/19. This provides the PCC with more accurate, timely and risk based information on the type of issues that may have significant potential implications for the level of general reserves held, both now and in the near future.

11. The Appendix has been produced in accordance with the Force Risk Model and scores the likelihood of each risk occurring, and the impact that it would have on the level of general balances currently held, on a scale of 1-5 (with 5 being 'high risk' / 'high impact', respectively). The two scores are then multiplied to provide an

aggregate risk score. The risks in the Appendix are ranked in order, with high risk, high impact issues being shown at the top of the list.

12. The two biggest risks are (1) that the additional costs of one-off operational incidents or in-year emergencies cannot be contained within budget or be fully grant funded by Government and (2) that the Force fails to contain expenditure within agreed annual budget limits, including unfunded national pay increases.

EARMARKED REVENUE RESERVES

13. The predicted position at 31 March 2018 for each earmarked revenue reserve - which has a specific purpose and particular timescale for its expenditure - is shown in Table 3 below.

14. The predicted annual movement in each reserve over the next 4 years (including 2017/18) is shown in Appendix 2. This shows that by the end of 2020/21 the overall level of earmarked reserves will be £14.3m, including £2.1m in the Conditional Funding Reserve and the SEROCU which are not available to help with general operational policing.

Table 3: Earmarked reserves

Reserve	**Balance at 1 April 2017 £m**	**Predicted Movement in year £m**	**Forecast Balance 31.3.18 £m**	**Purpose of Reserve**
Risk management reserve	0.461	- 0.368	0.093	To help 'pump prime' future risk management or carbon reduction initiatives.
Transport reserve	0.265	- 0.197	0.068	TVP share of the Chiltern Transport Consortium (CTC) reserves
Improvement and Performance reserve	26.300	- 22.070	4.230	Used to help fund one-off initiatives such as capital investment and property maintenance
Optimisation Bias	0.000	12.001	12.001	To fund any cost over-runs on the capital programme
Insurance	1.175	- 1.074	0.101	Funds held in case insurance provision proves inadequate to meet known liabilities
Community safety	0.149	0.117	0.266	To fund the PCC's community safety initiatives
Sub-total	**28.350**	**- 11.591**	**16.759**	
SEROCU	0.665	- 0.181	0.484	Provision held on behalf of the hosted regional organised crime unit to support infrastructure investment and risk management against in year grant cuts.
Conditional Funding reserve	5.706	- 2.626	3.080	The Force is actively engaged in a number of projects which are funded by government grants, contributions from partner bodies and other agencies. Income received can only be spent on the specified purpose.
Total	**34.721**	**- 14.398**	**20.323**	

Commentary on Table 3 and Appendix 2

15. The **Risk Management Reserve** is being used to fund one-off expenditure items in the capital programme in 2017/18 and 2018/19. It will then be fully utilised and the reserve will be closed.

16. The **Chiltern Transport Consortium Board** has agreed to limit its reserves to 3% of the devolved recharge for each force. The CTC is currently forecasting an overspend in 2017/18 which will funded by an appropriation from this reserve.

17. The **Improvement & Performance (I&P) Reserve** is being be used to fund essential one-off expenditure items which will improve performance or deliver efficiency savings. The special grant income from Operation Hornet (£1.992m) will be paid into

this reserve, but £12.001m is being transferred to the new Optimisation Bias reserve. The remaining balance of £14.1m will be largely be applied in full over the next three years to fund one-off expenditure items in the revenue budget and capital programme.as shown in Table 4 below, leaving a small residual balance of £0.99m.

Table 4 – Proposed drawdown from the I&P Reserve

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Opening balance	**26.300**	**4.230**	**0.774**	**0.040**
Add special grant income from Op Hornet	1.992			
Transfer to the Optimisation Bias reserve	-12.001			
Kingfisher Court electricals		- 0.200		
Lodden Valley – lighting / asbestos		- 0.165		
Maidenhead – lighting / asbestos		- 0.415		
Newbury heating			- 0.130	
Meadow House air conditioning			- 0.440	
Temp CRED staff	- 0.770			
Force change initiatives	- 0.150			
UCI public enquiries	- 0.197	- 0.197		
ICT 2020	- 0.309			
ICT rationalisation	- 0.986	- 0.986	- 0.164	
Capital programme	- 9.649	- 1.493		
Annual drawdown to fund one-off items	**-12.061**	**- 3.456**	**- 0.734**	**0.000**
Closing balance	**4.230**	**0.774**	**0.040**	**0.040**

18. HM Treasury guidance on capital projects recognises that there is the potential for project costs to exceed the initial assessment. This is called **Optimisation Bias** and relates to any project type, although it can be particularly impactive when relating to the development of new technology. The value of this reserve will be assessed on a regular basis to ensure it remains appropriate given the scale and complexity of the medium term capital plan. Given that the size of the annual capital programme is likely to reduce beyond 2020/21, the value of the reserve should also fall in value.

19. The **Insurance Reserve** is being held as a contingency against future increases in premiums and/or increases in the value of assessed insurance liabilities (see paragraphs 23 to 25 below). Up to £1.074m may be required to fund the increase in actuarially assessed insurance liabilities as at 31st March 2018. Please see paragraphs 24 and 25 below.

20. The **Community Safety Reserve** will enable the PCC to invest in one–off community safety initiatives such as the Hate Crime campaign and also help fund the new victim service redesign. The fund will increase in value during 2017/18 due to underspends within the OPCC, but we plan to increase spending on community safety initiatives, in support of the Police and Crime Plan, by £0.1m in both 2018/19 and 2019/20.

21. The **SEROCU Reserve** is held on behalf of the regional organised crime unit and is for future development and investment in regional infrastructure in support of the unit, as well as being held to also support potential in year shortfalls in central grant allocations.

22. The **Conditional Funding Reserve** holds monies that can only be spent on specific purposes; it is not available to general operational policing. There are plans to spend monies of new digital safety cameras and other safer roads initiatives during 2017/18 which reduce the value of the fund considerably.

Compliance with Home Office guidance on police reserves

23. On 31st March 2018 the Minister for Policing and the Fire Service published new guidance on the information that each PCC must publish in terms of police reserves. One of the key requirements is that the information on each reserve should make clear how much of the funding falls into each of the following three categories:

- Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan
- Funding for specific projects and programmes beyond the current planning period
- As a general contingency to meet other expenditure needs held in accordance with sound principles of good financial management

24. This information is provided in Appendix 3 which analyses the forecast balance of £39.440m on 31st March 2018 over the headings. It does not, therefore, include the significant planned drawdown from reserves of £30.737m during 2017/18.

PROVISIONS

25. The CIPFA Statement of Recommended Practice is prescriptive about when provisions are required (and when they are not permitted). Basically, a provision must be established for any material liabilities of uncertain timings or amount, to be settled by the transfer of economic benefits. In accordance with this statutory guidance the Thames Valley Police has established the following provision.

Insurance

26. A revenue provision exists for meeting ongoing claims under a self-insurance scheme. The insurance provision has recently been valued by our actuary, Marsh, Their provisional assessment of total liabilities as at 31st March 2018 is £8.08m which is £1.074m higher than the existing provision at 1st April 2017.

27. As part of the closedown process for 2017/18 officers will monitor and compare the actual fund size with the assessed liability. For planning purposes at this stage it has been assumed that the full difference of £1.074m will be required, which reduces the insurance reserve to just £0.101m

CAPITAL BALANCES

28. In addition to the earmarked revenue reserves and insurance provision referred to above, we also maintain three capital reserves. These are used to help finance the 3 year capital programme.

Capital grants unapplied

29. Each year we receive an allocation of capital grant from the Home Office to help finance our capital investment plans. Unlike some other grants, which can only be used for a specific purpose or have to be spent within a particular timeframe, this grant is very flexible in that it can be applied to fund our general capital programme and can be carried forward, without penalty, until it is required to finance capital expenditure.

30. The fund balance as at 1st April 2017 was £8.769m, but this will be largely utilised during 2017/18 to help finance the capital programme.

31. Future capital investment beyond 2020/21 will largely be dependent on revenue contributions, capital receipts and borrowing for new building projects.

Capital receipts

32. There are three main sources of capital receipt in Thames Valley.

- Sale of police houses
- Sale of operational police properties to deliver the Asset Management Plan
- Income from the sale of police vehicles is used to fund their replacements

33. The latest schedule of planned disposals and their estimated value is attached as Appendix 4.

34. To avoid having to pay 51% of all interest earned on the investment of capital receipts to the Government - as part of the loan charges grant calculation - capital receipts are applied to finance the capital programme as soon as they are received.

CONCLUSIONS

35. Current policy is to maintain revenue general balances close to an operational guideline level of 3.0% of the net annual revenue budget, with an absolute minimum level of 2.5%. The latest estimate of general balances at 31st March 2018 is £18.4m which equates to 4.5% of the draft revenue budget in 2018/19. At present a relatively small amount of money is required to fund one-off initiatives in 2018/19 but, based on current planning assumptions, the level of general balances should stay above the 3% guideline level through to 2020/21. This is an acceptable and appropriate position to be in as we continue the prolonged period of fiscal tightening and do not know, at this stage, the exact level of government grant support that we will receive in future years (i.e. beyond 2019/20).

36. Appendix 1 shows that there are a number of risks that may impact on the level of general balances currently held. There are two risks with a score of 8:

- the additional costs of one-off operational incidents or in-year emergencies cannot be contained within budget or be fully grant funded by Government

- the Force is unable to deliver, in full, the £2.5m of planned cash savings to be removed from the base budget during 2018/19

37. We have created a number of earmarked revenue reserves and an insurance provision to help fund specific initiatives or meet areas of future spending. In the main these are being applied over the next 3-4 years to finance one-off revenue and capital investment initiatives. Based on current planning assumptions, earmarked reserves will reduce from £34.7m on 31st March 2017 to just £14.3m at 31 March 2021, including £2.1m in the Conditional Funding Reserve and the SEROCU which are not available to fund general police expenditure. The application of these reserves will clearly be reviewed on an annual basis in light of current budgetary pressures and demands.

38. Based on current planning assumptions the ‘Capital Grants Unapplied’ reserve will be largely utilised by the end of the current financial year.

Background Papers

CIPFA LAAP Bulletin 99 – July 2014 “Local authority reserves and balances”

Appendix 1

Risk and Sensitivity Assessment for General Balances in 2018/19

	RISK DESCRIPTION	RISK ASSESSMENT			SENSITIVITY
		Likelihood	**Impact**	**Total**	
1	The additional costs of one-off operational incidents or in-year emergencies cannot be contained within budget or be fully grant funded by Government	2	4	8	Home Office access criteria for special grants imply that the PCC will have to fund up to 1% of his net revenue budget (i.e. circa £4.0m) of these one-off costs from his own resources on an annual basis. Mitigating 2017/18 force operational contingency budgets held are approx: ➢ Major Operations £0.53m ➢ Tasking & Coordinating £0.59m
2	The Force fails to contain expenditure within agreed annual budget limits, including unfunded national pay increases	2	4	8	Continued monitoring and scrutiny arrangements and medium term financial planning.
3	The Force is unable to deliver, in full, the £2.6m of planned cash savings to be removed from the base budget during 2018/19	2	3	6	The residual risk is that we won’t deliver the full £2.6m e.g. a couple of £m shortfall or slippage
4	The one-off cost of delivering ongoing savings, e.g. redundancy costs, termination of contracts, etc. cannot be contained within existing budgetary provisions	2	2	4	The PCC maintains the Improvement & Performance Reserve which can be used to help fund one-off costs such as redundancies, property and ICT adaptations. However, to date these costs have been contained within the annual revenue budget.

Risk Impact' Scoring Table

APPENDIX 1A'

Factor	Score	Political	Economic	Social	Technology	Environmental	Legal	Other Organisational
Guidance on criteria		Ability to respond to HMIC / Audit Commission/ Police Authority & Home Office performance requirements, including Partnership Objectives and potential damage to reputation if not met	Level of funding and Resources	Human Rights – diversity and the damage to reputation if requirements not met / adhered to.	Examples are: all communications equipment, IT infrastructure, hardware & software. Plus any forensic capability that uses technology	Breech of legislation & / or damage to environment through contamination or pollution with potential for legal action against TVP	Health & Safety legislation and regulations. Plus personal safety and all other relevant legislation.	Ref protective marking guide 2007 relating to Public Order; safety; law enforcement & infrastructure etc
Very Low	**1**	Failure to meet individual operational target	Up to £100.000	Minor contravention of internal policies.	Minor ICT project delay	Insignificant impact on the environment – no breach of legislation	Local incident – local review no legal or regulatory breaches	Protect Data Loss / compromise /misuse resulting in ltd impact on personal human rights or operational activity
Low	**2**	Failure to meet a series of operational targets – adverse publicity	Between £100.000 and £500.000	Increasing numbers in minor contravention of internal procedures.	Short term loss of non critical ICT	Minor impact on the environment with no lasting effects – no breach of legislation	Minor incident – review protocols No adverse publicity	Restricted Data loss/compromise/ misuse resulting in limited impact to personal human rights or operational activity
Medium	**3**	Failure to meet a critical target – impact on an individual performance indicator - adverse internal audit report prompting timed improvement / action plan.	Between £500.00 and £1 million	Medium impact incident. Appears in local media	Longer term loss of non critical ICT	Minor impact on the environment with some short term effects – potential breach of legislation	HSE involved in significant incident. Civil litigation receiving adverse publicity and financial cost to the Force.	Confidential Data loss /compromise/misuse causing embarrassment & loss of trust in the force & an adverse impact on personal rights or operational activity
High	**4**	Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action. Highlighted in the local media.	Between £1 million and £10 million	High impact incident. Appears in national media once	Prevention of access to intelligence placing prosecutions at risk including front line officers/staff.	Serious impact on environment with immediate and medium to long term effects – breach of legislation / local media attention	Temporary HSE intervention due to major incident. Force is prosecuted and fines. Intervention by Police Authority	Secret Data loss/compromise/ misuse resulting in serious reputational damage to the force & a severe impact to personal human rights (threat to life) or operational activity
Very High	**5**	Failure to meet a majority of local and national performance indicators – possibility of intervention / special measures. Picked up in the national media	Greater than £10 million	High impact incident(s) or high no of officers / staff taken to court under Human Rights / Diversity legislation. Appears in national media consistently	Damage to critical systems including loss of 999 service	Significant long-term impact on environment – breach of legislation leading to prosecution & reputation damage	Potential Corporate manslaughter charge. HSE close with adverse report Home office intervention. Taken to court by European Commission.	Top Secret Data loss/compromise /misuse resulting in sustained reputational damage to the force, impact upon national security & a serious breach of personal human rights (widespread threat to life) or operational activity

APPENDIX 1A

‘Likelihood’ Scoring Table

Risk Likelihood	Score	Probability or Likelihood of Occurrence within the next 12 months
Highly Unlikely	**1**	Virtually impossible to occur (0 to 5% chance of occurrence)
Unlikely	**2**	Very unlikely to occur (6 to 20% chance of occurrence)
Possible	**3**	More likely not to occur (21 to 50% chance of occurrence)
Likely	**4**	More likely to occur than not (51% to 80% chance of occurrence)
Highly Likely	**5**	Assume almost certain to occur (81% to 100% chance of occurrence)

Appendix 2

Summary of revenue and capital balances

	Balance 31.3.17 £m	Forecast Balance 31.3.18 £m	Forecast Balance 31.3.19 £m	Forecast Balance 31.3.20 £m	Forecast Balance 31.3.21 £m
GENERAL REVENUE BALANCES	**18.091**	**18.370**	**18.082**	**18.082**	**18.082**
% of draft 2018/19 Net Revenue Budget	4.46%	4.52%	4.45%	4.45%	4.45%
EARMARKED REVENUE RESERVES					
Risk management reserve	0.461	0.093			
Transport reserve	0.265	0.068	0.068	0.068	0.068
Improvement and performance reserve	26.300	4.230	0.774	0.040	0.040
Insurance fund	1.175	0.101	0.101	0.101	0.101
Community safety	0.149	0.266	0.166	0.066	
Optimisation Bias	0.000	12.001	12.001	12.001	12.001
Sub-total	**28.350**	**16.759**	**13.110**	**12.276**	**12.210**
SEROCU	0.665	0.484	0.484	0.484	0.484
Conditional Funding reserve	5.706	3.080	2.580	2.080	1.580
Total Earmarked Revenue reserves	**34.721**	**20.323**	**16.174**	**14.840**	**14.333**
TOTAL REVENUE RESERVES	**52.812**	**38.693**	**34.256**	**32.992**	**32.356**
CAPITAL RESERVES					
Capital receipts	7.022				
Capital grants	9.825	0.422			
3rd party capital contributions	0.043				
Section 106 monies	0.475	0.325	0.175	0.025	
Total Capital Reserves	**17.365**	**0.747**	**0.175**	**0.025**	
Insurance provision	**7.006**	**8.080**	**8.080**	**8.080**	**8.080**
TOTAL CASH RESERVES	**77.183**	**47.520**	**42.511**	**41.027**	**40.436**

Appendix 3

Analysis of forecast revenue and capital reserves as at 31st March 2018

	Forecast Balance 31.3.18 £m	Planned expenditure on projects & programmes over next 3 years £m	Funding for specific projects & programmes beyond 2020/21 £m	As a general contingency or resource to meet other expenditure needs £m
GENERAL REVENUE BALANCES	**18.370**	**0.288**	**0.000**	**18.082**
EARMARKED REVENUE RESERVES				
Risk management reserve	0.093	0.093		
Transport reserve	0.068			0.068
Improvement and performance reserve	4.230	4.190	0.040	
Insurance fund	0.101			0.101
Community safety	0.266	0.266		
Optimisation Bias[1]	12.001			12.001
Sub-total	**16.759**	**4.549**	**0.040**	**12.170**
SEROCU	0.484			0.484
Conditional Funding reserve	3.080	1.500	1.580	
Total Earmarked Revenue reserves	**20.323**	**6.049**	**1.620**	**12.654**
TOTAL REVENUE RESERVES	**38.693**	**6.337**	**1.620**	**30.736**
CAPITAL RESERVES				
Capital grants	0.422	0.422		
Section 106 monies	0.325	0.325		
Total Capital Reserves	**0.747**	**0.747**	**0.000**	**0.000**
TOTAL CASH RESERVES[2]	**39.440**	**7.084**	**1.620**	**30.736**

[1] The Optimisation Bias is held to fund variations in the cost of delivering the capital programme. We expect that monies will be required over the next 3 years but, at this stage, we do not know how much and in which years. As such we have shown the reserve as general contingency against delivery of planned capital investment

[2] This table does not include insurance provisions, which are shown in Appendix 2 above

APPENDIX 4

Forecast Capital Receipts

	Asset Management Plan £m	Housing £m	Equity loan repayments £m	Vehicles £m	Total £m
2018/19	5.281	0.735	0.300	0.450	6.766
2019/20	1.300	1.480	0.300	0.450	3.530
2020/21	2.300	0.385	0.300	0.450	3.435
Total	8.881	2.600	0.900	1.350	13.731

INDEX

1 INTRODUCTION

1.1 Background

The Police and Crime Commissioner (PCC) is required to operate a balanced budget, which broadly means that cash income raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the PCC's low risk policy and appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the PCC's capital plans. These capital plans provide a guide to the PCC's borrowing need, essentially the longer term cash flow planning to ensure that the PCC can meet his capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet the PCC's risk or cost objectives.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> *"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.2 Reporting requirements

The PCC is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid-year treasury management report – This will update the PCC with progress on the capital position, amending prudential indicators as necessary, and will indicate whether the treasury operation is meeting the strategy or whether any policies require revision. In addition, this PCC will receive quarterly update reports.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the PCC. As and when appropriate this role will be undertaken by the Joint Independent Audit Committee.

1.3 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) strategy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the PCC;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members (*sic*) with responsibility for treasury management receive adequate training in treasury management. This especially applies to members (*sic*) responsible for scrutiny.

The PCC and all five members of the Joint Independent Audit Committee have been provided with appropriate training. Further training will be provided if required.

The training needs of treasury management staff are reviewed periodically.

1.5 Treasury management consultants

The Office of the PCC uses Link Asset Services as its external treasury management advisors.

The PCC recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

The PCC also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The PCC will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2020/21

The PCC's capital expenditure plans are the key driver of treasury management activity. The output from the capital expenditure plans are reflected in prudential indicators.

2.1 Capital expenditure and financing

The PCC is asked to approve the summary capital expenditure and financing projections. Any shortfall in resources results in a funding borrowing need. This forms the first prudential indicator.

Table 1	2016/17 Actual £m	2017/18 Revised Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Capital Expenditure	26.063	30.145	26.484	20.961	17.416
Financed by:					
Capital receipts	14.664	13.401	9.014	3.530	3.435
Capital grants	2.543	1.058	13.279	1.513	0.000
Revenue Reserves	0.000	2.736	0.093	0.000	0.000
Revenue contributions	1.009	2.633	2.340	8.640	13.640
3rd party contributions	0.212	0.668	0.150	0.150	0.150
Other Income	0.000	0.000	0.000	0.000	0.000
Capital Reserves	0.000	0.000	0.000	0.000	0.000
Improvement & Performance Reserve	0.000	9.649	1.493	0.000	0.000
Cashflow – timing issues[1]	0.000	0.000	0.115	7.128	- 4.809
Net financing need for the year	**7.635**	**0.000**	**0.000**	**0.000**	**5.000**

[1]. If all capital expenditure is incurred as scheduled in the Medium term Capital Plan then we may not have sufficient capital resources in 2018/19 and 2019/20 to cover the expenditure as it is incurred. Should this situation arise, which is unlikely, we would use general balances or general cashflow until the capital resources are received e.g. from the sale of assets

2.2 The PCC's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the PCC's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the PCC's underlying borrowing need. Any capital expenditure included in the table above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The CFR includes other long term liabilities such as PFI schemes and finance leases. Whilst these increase the CFR, and therefore the borrowing requirement, these types of scheme include a borrowing facility and so the PCC is not required to separately borrow for these schemes. The PCC currently [2017/18] has £5.739m of such schemes within the CFR.

The PCC is asked to approve the following CFR projections.

Table 2	2016/17 Actual £m	2017/18 Revised Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Opening CFR	**39.655**	**46.407**	**45.283**	**44.137**	**42.967**
Net financing need for the year (per Table 1 above)	- 0.710	- 0.863	- 0.863	- 0.863	- 0.863
Net Borrowing	7.635	0.000	0.000	0.000	5.000
Less MRP/VRP and other financing movements	- 0.173*	- 0.261	- 0.283	- 0.307	- 0.332
Movement in CFR	**6.752**	**-1.124**	**-1.146**	**-1.170**	**3.805**
Closing CFR	**46.407**	**45.283**	**44.137**	**42.967**	**46.772**

*During 2016/17, an counting error in the PFI model was identified, which has been corrected. The overall result was to increase the liability outstanding to date by £0.079 million

2.3 Minimum revenue provision (MRP) policy statement

The PCC is required to pay off an element of the accumulated capital spend each year (the CFR) and make a statutory charge to revenue for the repayment of debt, known as the minimum revenue provision (MRP). The MRP policy sets out how the PCC will pay for capital assets through revenue each year. The PCC is also allowed to make additional voluntary payments (voluntary revenue provision - VRP).

CLG regulations have been issued which require the PCC to approve an MRP Statement in advance of each year. A variety of options are provided, so long as there is a prudent provision.

The PCC is recommended to approve the following MRP Statement:

- For capital expenditure incurred before 1 April 2008, MRP will be based on the Regulatory Method. MRP will be written down over a fixed 50 year period
- For capital expenditure incurred from 1 April 2008, the MRP will be based on the 'Asset Life Method', whereby MRP will be based on the estimated life of the assets in accordance with the regulations.
- For finance leases, an 'MRP equivalent' sum will be paid off each year.

2.4 Core funds and expected investment balances

Investments will be made with reference to the core balances, future cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Table 3 below provides an estimate of the year end balances for each resource and anticipated day to day cash flow balances.

Table 3 Year End Resources	2016/17 Actual £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
General balances	18.091	18.370	17.935	17.935	17.935
Earmarked revenue reserves	34.721	20.323	16.398	14.954	14.333
Capital grants and reserves	17.365	0.747	0.175	0.025	0.000
Insurance provision	7.006	8.080	8.080	8.080	8.080
Total core funds	**77.183**	**47.520**	**42.588**	**40.994**	**40.348**
Working capital*	5.600	5.600	5.600	5.600	5.600
Expected investments	**82.783**	**53.120**	**48.188**	**46.594**	**45.948**

* The working capital balance is the average difference between cash investments and core cash balances from the last 3 financial years. The actual figure will obviously vary from day to day according to circumstances.

2.5 Affordability prudential indicators

The previous sections cover the overall capital expenditure and control of borrowing prudential indicators but, within this framework, prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the PCC's overall finances. The PCC is asked to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget report.

Table 4 Ratio of Financing Costs to Net Revenue Stream	2016/17 Actual %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
Ratio	0.39	0.51	0.54	0.54	0.57

2.7 Incremental impact of capital investment decisions on PCC council tax.

This indicator is calculated by identifying those revenue costs which appear separately in the medium term financial plan (e.g. changes in DRF, capital financing costs and revenue consequences of capital investment) and then expressing those cash changes in terms of band D council tax.

Table 5 Impact of Capital Investment Decisions on PCC Council Tax	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
Band D council tax	1.92	5.01	8.38	4.92

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activities of the PCC. The treasury management function ensures that the PCC's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The PCC's borrowing portfolio position at 31 March 2017, with forward projections, is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement or CFR), highlighting any over or under borrowing.

Table 6 PCC Borrowing Portfolio	**2016/17 Actual %**	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**2020/21 Estimate %**
External Debt					
Debt at 1 April	14.843	14.843	22.478	27.478	29.978
Expected change in Debt	0.000	7.635	5.000	2.500	12.240
Other long-term liabilities (OLTL) at 1st April	5.980	5.739	5.478	5.195	4.888
Expected change in OLTL	-0.173	-0.261	-0.283	-0.307	-0.332
Actual gross debt at 31 March	**20.650**	**27.956**	**32.673**	**34.866**	**46.774**
The CFR	**46.407**	**45.283**	**44.137**	**42.967**	**46.772**
Under / (over) borrowing	**25.757**	**17.327**	**11.464**	**8.101**	**-0.002**

Within the prudential indicators there are a number of key indicators to ensure that the PCC operates their activities within well-defined limits. One of these is that the PCC needs to ensure that their gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Chief Finance Officer reports that the PCC has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The **operational boundary** for external debt is based on 'probable' debt during the year and is a benchmark guide, not a limit. Actual debt could vary around this boundary for short periods during the year. It should act as a monitoring indicator to initiate timely action to ensure the statutory mandatory indicator (the 'Authorised Limit', per Table 8 below) is not breached inadvertently.

Table 7 Operational boundary	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	22.478	27.748	29.978	42.218
Other long term liabilities	5.739	5.478	5.195	4.888
Short Term liabilities	10.000	10.000	10.000	10.000
Total	**38.217**	**43.226**	**45.173**	**57.106**

The **authorised limit** for external debt is a key prudential indicator which provides control on the overall level of affordable borrowing. It represents a limit beyond which external debt is prohibited and needs to be set and/or revised by the PCC. It reflects the level of external debt which, whilst not necessarily desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority (or PCC), although this power has not yet been exercised.

The PCC is asked to approve the following authorised limit:

Table 8 Authorised limit	2017/18	2018/19	2019/20	2020/21
Debt	42.478	47.748	49.978	62.218
Other long term liabilities	5.739	5.478	5.195	4.888
Short Term liabilities	10.000	10.000	10.000	10.000
Total	**58.217**	**63.226**	**65.173**	**77.106**

3.3 Prospects for interest rates[1]

The PCC has appointed Link Asset Services as his treasury advisor and part of their service is to assist the PCC to formulate a view on borrowing interest rates. The following table and subsequent paragraphs give the Link forecast view.

Table 9	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
	%	%	%	%
Mar 2018	0.50	1.60	2.90	2.60
Jun 2018	0.50	1.60	3.00	2.70
Sep 2018	0.50	1.70	3.00	2.80
Dec 2018	0.75	1.80	3.10	2.90
Mar 2019	0.75	1.80	3.10	2.90
Jun 2019	0.75	1.90	3.20	3.00
Sep 2019	0.75	1.90	3.20	3.00
Dec 2019	1.00	2.00	3.30	3.10
Mar 2020	1.00	2.10	3.40	3.20
Jun 2020	1.00	2.10	3.50	3.30
Sep 2020	1.25	2.20	3.50	3.30
Dec 2020	1.25	2.30	3.60	3.40
Mar 2021	1.25	2.30	3.60	3.40

"As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2nd November. This removed the emergency cut in

1. As of 15 January 2018

August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring relatively more “risky” assets i.e. equities, or the “safe haven” of government bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. A world economic recovery will likely see investors switching from the safe haven of bonds to equities.

We have pointed out consistently that the Fed. Rate is likely to go up more quickly and more strongly than Bank Rate in the UK. While there is normally a high degree of correlation between the yields of gilts and treasuries in the UK and US respectively, we would expect to see a growing decoupling of yields between the two i.e. we would expect US bond yields to go up faster than UK yields. We will need to monitor this area closely and any resulting effect on PWLB rates.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

The balance of risks to increases in Bank Rate and shorter term PWLB rates are probably to the upside, and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise, and how quickly the Brexit negotiations move forward positively.

Our forecasts are predicated on an assumption that there is no break-up of the Eurozone or EU, (apart from the departure of the UK), within our forecasting time period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea, which have a major impact on international trade and world GDP growth.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present. Our revised forecasts are based on the Certainty Rate (minus 20 bps), which has been accessible to most authorities since 1st November 2012.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March and the anti EU popularist Five Star party is currently in the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries.
- The result of the October 2017 Austrian general election has resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major obstacle to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of quantitative easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world."

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.4 Borrowing strategy

The PCC is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the PCC's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as, currently, investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, e.g.:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any urgent decisions taken by the Chief Finance Officer will be reported to the PCC at the next available opportunity.

For budget planning purposes we have included £5.000m of borrowing in 2018/19, and that additional loans of £2.500m in 2019/20 and £12.240m in 2020/21 will be taken out in order to reduce the current level of under-borrowing. This is important given the plans currently in place to utilise a significant proportion of the currently held revenue and capital reserves in coming years to help support one-off expenditure initiatives, including investment in new technology and change programmes.

At this stage we are planning to borrow £5m in 2020/21 to help fund long-term property initiatives in the Medium Term Capital Plan (2018/19 to 2020/21).

Adopting this approach will mean that the level of under-borrowing will fall from its current (31st March 2017) level of £25.757m to nil by the end of 2020/21, due to the statutory annual transfer of monies from the revenue account (i.e. the Minimum Revenue Provision) that will reduce the CFR, all other things remaining equal.

Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies the maximum limit for variable interest rates for both borrowing and investments.
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the PCC's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The PCC is asked to approve the following treasury indicators and limits:

Table 10	**2018/19**	**2019/20**	**2020/21**
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates:			
• *Debt only*	*100%*	*100%*	*100%*
• *Investments only*	*100%*	*100%*	*100%*
Limits on variable interest rates			
• *Debt only*	*50%*	*50%*	*50%*
• *Investments only*	*100%*	*100%*	*100%*

Maturity structure of fixed interest rate borrowing 2018/19		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years and above	0%	100%
Maturity structure of variable interest rate borrowing 2018/19		
	Lower	***Upper***
Under 12 months	*0%*	*100%*
12 months to 2 years	*0%*	*100%*
2 years to 5 years	*0%*	*100%*
5 years to 10 years	*0%*	*100%*
10 years and above	*0%*	*100%*

3.5 Policy on borrowing in advance of need

The PCC will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the PCC can ensure the security of such funds.

3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Any rescheduling undertaken will be formally reported to the PCC in the next quarterly performance update.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The PCC's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The PCC's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the PCC applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the PCC will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in appendix 5.2 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

4.2 Creditworthiness policy

The PCC applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the PCC to determine the suggested duration for investments. The PCC will therefore use counterparties within the following durational bands.

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the PCC uses will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The PCC is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service:

- if a downgrade results in the counterparty / investment scheme no longer meeting the PCC's minimum criteria, its further use as a new investment will be withdrawn immediately.

- in addition to the use of credit ratings the PCC will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the PCC's lending list.

Sole reliance will not be placed on the use of this external service. In addition the PCC will also use market data and market information, information on any external support for banks to help support its decision making process.

4.3 Country limits

The PCC has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.3. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

The UK is excluded from any stipulated minimum sovereign rating requirement.

4.4 Investment strategy

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The majority of funds will be placed in call accounts, money market funds or short-term deposits. Alternatively, tradable certificates of deposit (CDs) will be acquired.

Investments of up to 2 years will also be allowed with the Royal Bank of Scotland Group. No material change in Government ownership is expected during that period. This policy will allow the PCC to lock in potential investment returns whilst continuing to adopt a low risk approach.

Bank Rate is forecast to rise steadily up to 1.25% by quarter 4 2020/21. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

	Now
2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

The overall balance of risks to these forecasts is currently probably skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the PCC's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. A limit of £20m is recommended in order to provide officers with flexibility to take advantage of time and cash limited offers, which sometimes exceed 364 days when initially offered, or to place deposits for up to 2 years in order to lock in investments returns whilst continuing to adopt a low risk approach.

The PCC is asked to approve the treasury indicator and limit:

Table 11 - Maximum principal sums invested > 364 days			
	2018/19	**2019/20**	**2020/21**
Principal sums invested	£20m	£20m	£20m

4.5 Investment risk benchmarking

The PCC has approved benchmarks for investment Security, Liquidity and Yield.

These benchmarks are simple guideline targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position, and amend the operational strategy depending on any changes.

The proposed benchmarking targets for 2018/19 are set out below:

a) **Security** - the PCC's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is:
   - 0.25% historic risk of default when compared to the whole portfolio.

b) **Liquidity** – in respect of this area the OPCC seeks to maintain:

- Bank overdraft limit - £0.1m
- Liquid short term deposits - including the receipt of government grants, council tax precept income and use of short-term borrowing - of at least £5m available within one week.
- 'Weighted Average Life' benchmark - 9 months (270 days), with a maximum of 2 years.

c) **Yield** – performance target is to achieve:

- an average return above the weighted average 7 day and 12 month LIBID rates (i.e. the bespoke TVP benchmark)

Any breach of the indicators or limits will be reported to the PCC, with supporting reasons, in the quarterly performance monitoring reports. Members of the Joint Independent Audit Committee will also be notified.

4.6 End of year investment report

At the end of the financial year the Chief Finance Officer will report on the investment activity as part of his Annual Treasury Report.

5 APPENDICES

5.1 Economic background (as provided by Link on 15.01.2018)

GLOBAL OUTLOOK. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently, in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to either squash economic recovery by taking too rapid and too strong action or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure.

However, growth picked up in quarter 3 to 0.4% and in quarter 4 there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole. Growth in quarter 4 is expected to be around 0.4% again which would see annual growth in 2017 coming in at around 1.7 – 1.8%, almost as strong as the recently upwardly revised figure for 2016 of 1.8%, (which meant that the UK was equal to Germany as having the strongest GDP growth figure for the G7 countries in 2016).

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 - 34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EZ. Economic growth in the EU, (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and +0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in November inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy has been volatile in 2015 and 2016. 2017 followed that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.2%, the first time since 2014 that two successive quarters have been over 3%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1% in November, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on an upswing in rates with four increases since December 2016 to lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. In October, the Fed became the first major western central bank to make a start on unwinding quantitative easing by phasing in a start to a gradual reduction of reinvesting maturing debt.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN. GDP growth has been gradually improving during 2017 to reach an annual figure of 2.1% in quarter 3. However, it is still struggling to get inflation anywhere near to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

5.2 Credit and Counterparty Risk Management

Specified and Non-Specified Investments and Limits

Specified Investments

'Specified' investments are sterling investments of not more than one year maturity made with any institution meeting the minimum 'high' quality criteria where applicable

Non-Specified Investments

These are any investments which do not meet the specified investment criteria. A maximum of 50% will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

Investments of up to 2 years will continue to be allowed with the Royal Bank of Scotland (RBS) Group, since no material change in Government ownership is expected during that period. This policy will allow the PCC to lock in investment returns whilst continuing to adopt a low risk approach.

The proposed criteria for (a) Specified and (b) Non-Specified investments are presented below for approval.

a) Specified Investments

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the PCC has the right to be repaid within 12 months if it wishes.
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	Minimum credit criteria / colour band	Maximum investment per institution	Maximum maturity period
The PCC's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.		Minimal	
DMADF – UK Government	N/A	No limit	6 months
Money Market Funds (MMF)	AAA by at least 2 rating agencies and minimum asset base of £500m	£25m or 1% of total asset base per institution whichever is the lower figure	Liquid (instant access)
Local authorities	N/A	£10m	1 year
Term deposits with banks and building societies	Blue Orange Red Green	£40m £30m £20m £15m	Up to 1 year Up to 1 year Up to 6 months Up to 100 days
CDs or corporate bonds with banks and building societies	Blue Orange Red Green	£40m £30m £20m £15m	Up to 1 year Up to 1 year Up to 6 months Up to 100 days

b) Non-Specified Investments

Non-specified investments are any other type of investment (i.e. not defined as 'specified' above). The identification and rationale supporting the selection of these other investments, and the maximum limits to be applied, are set out below.

Non-specified investments would include any sterling investments with:

	Minimum credit criteria / colour band	Maximum investment per institution	Maximum maturity period
Local authorities	N/A	£10m	5 years
Term deposits with banks and building societies	Purple Blue (RBS)	£30m £20m	Up to 2 years Up to 2 years
CDs or corporate bonds with banks and building societies	Purple Blue (RBS)	£30m £40m	Up to 2 years Up to 2 years

5.3 Approved Countries for investments

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.
- Hong Kong

AA

- Abu Dhabi (UAE)
- France
- U.K.

AA-

- Belgium
- Qatar

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Revenue Budget and Capital Programme 2018/19

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