REVENUE BUDGET AND CAPITAL PROGRAMME 2019/20

POLICE & CRIME COMMISSIONER
THAMES VALLEY

POLICE AND CRIME COMMISSIONER FOR THAMES VALLEY

BUDGET BOOK 2019/20

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Key Figures

2016/17		2018/19	2019/20
£170.28	Council tax for police purposes (at band D)	£182.28	£206.28
876,968	Council tax base (band D equivalents)	890,503	904,393
	Planned year end staffing establishments		
3,828	Police officers	3,850	3,855
2,624	Police staff	2,716	2,949
422	Police Community Support Officers (PCSOs)	418	408
6,874	**Total**	**6,984**	**7,211**
2,390,600	Population estimate as at June	2,420,900	2,426,800
572,680	Area – Hectares	572,680	572,680
1 April 2017		1 April 2018	1 April 2019
4,282	Number of police pensioners	4,392	4,510
£20.503m	External debt	£27.956m	£32.673m
£46.178m	Capital financing requirement	£44.137m	£42.967m

Financial Summary

2017/18 Estimate £m		2018/19 Estimate £m	2019/20 Estimate £m
1.427	PCC controlled expenditure	1.442	1.487
5.815	PCC commissioning budget	5.918	5.968
374.095	TVP operational budget	382.012	402.402
1.984	Net capital financing costs	4.504	11.259
- 4.064	Transfer to/from reserves	- 2.405	- 1.202
379.257	**Cost of services**	**391.471**	**419.914**
	Financed by		
139.249	Police grant	139.249	142.277
72.855	Formula grant	72.855	74.281
15.278	Legacy council tax grants	15.278	15.278
149.500	Council tax	162.320	186.558
2.375	Surplus on collection funds	1.769	1.520
379.257		**392.631**	**419.914**

PREPARATION OF THE REVENUE BUDGET

1 This report provides information on the provisional police funding settlement for 2019/20 and then recommends a draft revenue budget and council tax precept for the Police and Crime Commissioner (PCC) to approve, subject to final notifications on the council tax base from local authorities.

PROVISIONAL POLICE FINANCE SETTLEMENT

2 The Provisional 2019/20 Police Finance Settlement was announced in an oral statement and a letter to the Home Affairs Select Committee by the Minister for Policing and the Fire service, Nick Hurd, on Thursday 13 December 2018.

HEADLINES

3 The key headlines are set out below:

- **Headline of £970m additional funding for the service – includes**
  - £161m additional formula funding,
  - £153m of pension grant,
  - £59m additional funding for Counter Terrorism,
  - £90m additional funding to tackle Serious and Organised Crime and
  - £509m as a result of additional council tax flexibilities.
- **Of the £970m approximately £813m is for local policing**
  - £509m precept
  - £143m (£153m-£10m for NCA and CT) pension grant
  - £161m additional Funding.
- **Precept flexibility of up to £24** for all PCCs (or equivalents) in 2019/20.
- **£161m additional grant funding** – made up of £146m increase in core grant, £12m additional NICC payments and £2.7m precept grant.
- The settlement, including council tax and pension grant, represents an average cash increase (total funding) of 7.1% between 2018/19 and 2019/20.
- £160m additional Counter Terrorism funding (announced at the 2018 Autumn Budget) equivalent to an annual increase of £59m; an 8% increase on total CT funding.
- New Requirements - The minister's letter refers to the requirement to "drive efficiency, productivity and effectiveness".

CORE FUNDING

4 The Government Core Funding (made up of Police Grant, ex-DCLG grant, the Welsh government funding and Welsh top-up) has increased by 2.1% in cash terms between the 2018/19 and 2019/20 settlement. This is equivalent to an additional £146m.

5 This £146m plus an additional £12m for the NICC grants (see section below) and £2.7m precept grant for the City of London sums to the £161m headline increase in grant funding.

6 If each PCC raises his/her precept by up to £24, based on updated tax base assumptions (see below), then there will be an average increase in total income of 7.1% in cash terms. Increases for individual PCCs range from 5.8% in Cleveland to 11.8% in the City of London.

WHAT'S EXPECTED IN RETURN

7 The 2019/20 settlement provides more funding than had been previously expected. The letter to the Home Affairs Select Committee (HASC) outlines the Policing Minister's 4 priority areas to "drive efficiency, productivity and effectiveness next year":

1. Continued efficiency savings in 2019/20 through collective procurement and shared services. There will be an expectation that every force contributes substantially to procurement savings and the Home Office will be working with the police to agree the "right force level objectives for 2019/20 and 2020/21".
2. Major progress expected to resolve challenges in investigative resource identified by HMICFRS, including recruitment of more detectives to tackle the shortfall.
3. Continue to improve productivity, including smarter use of data to deliver £50m of productivity gains in 2019/20.
4. Maintain a SOC response that spans identification and management of local threats as well as support for national priorities.

DOES THIS ADDITIONAL FUNDING COVER THE ADDITIONAL PENSION COSTS IN 2019/20?

8 Recent changes to the way in which police pensions are calculated means that the police, as well as other "unfunded" schemes, will see a sharp increase in costs. These costs, for the Police, are now estimated to be approximately £330m (£302m for police officers and a further £28m for MPS Civil Servants).

9 In 2019/The 20 the Treasury are providing forces with an additional £142.5m pensions grant in addition to the £161m core funding. In some forces the combined grants cover the full pension costs, in others, such as Thames Valley, there is a shortfall and hence a balance to be funded locally. In TVP the funding shortfall is £0.7m.

COUNCIL TAX

10 The Ministry for Housing, Communities and Local Government has published the draft council tax referendum principles. In 2019/20 PCCs will be allowed to increase band D council tax by as much as £24, although in Wales there remains no referendum limits.

11 Nationally, the additional £24 precept, combined with assumptions on increasing tax base (see below) is worth an additional £509m. In terms of net revenue budgets £509m nationally is equivalent to 4.3%.

12 This additional £24 represents increases in council tax of between 9.3% (North Wales) and 18.7% (West Midlands). The Thames Valley figure is 13.2%

13 The City of London, who do not levy a police precept, have been allocated £2.7m precept grant in 2019-20 (see section below).

TAX BASE ASSUMPTIONS

14 The Home Office have updated their tax base assumptions to reflect the latest forecasts from the Office for Budget Responsibility – namely a 1.41% increase in England and a 0.8% increase (no change) in Wales.

REALLOCATIONS

15 In 2019/20 the top-slices/reallocations total £1,029m, £84m higher than 2018/19 (£945m).

16 The settlement announced an additional £90m to tackle Serious and Organised Crime (SOC). This is likely to be made up from the £56m additional reallocation plus the additional £38m under the heading "Strengthening the response to organised crime"

Table 2: National Reallocations

Police Funding	**2017/18 (£m)**	**2018/19 (£m)**	**2019/20 (£m)**
o/w Reallocations and adjustments	**812**	**945**	**1,029**
PFI	73	73	73
Police technology programmes	417	495	495
Arm's length bodies	54	63	63
Top-ups to NCA and ROCUs			56
Strengthening the response to Organised Crime	28	42	90
Police transformation fund	175	175	175
Special Grant	50	93	73
Pre-charge bail	15	4	4

17 Special grant has decreased from £93m to £73m; the grant total rose last year as the Home Office anticipated additional funding for the Commonwealth Heads of Government Summit.

18 The transformation fund will remain the same, in cash terms, at £175m.

COUNTER TERRORISM

19 At the Autumn Budget the Chancellor announced an additional £160m for counter terrorism policing, but that figure was higher than the figure announced at the 2015 Spending Review. In terms of a year-on-year increase the figure is just £59m, representing an 8% rise in counter terrorism funding between 2018/19 and 2019/20.

20 This additional funding will bring the total CT funding to £816m, including a £24m uplift in armed policing from the Police Transformation Fund.

21 PCCs will be notified of their force allocations separately as allocations are not made public.

CAPITAL FUNDING

22 Police Capital Grants have increased very slightly from £75.2m in 2018/19 to £76m in 2019/20.

Table 3: Capital Funding 2019/20

	£m
Police Capital Grant	46.9
Special Grant Capital	1.0
Police Live Services	13.1
National Police Air Service	11.5
Arm's Length Bodies	3.5
Total	**76.0**

NATIONAL AND INTERNATIONAL CAPITAL CITY (NICC) GRANT

23 In 2019/20 the NICC grant for the City of London has increased by £0.305m (7%) to £4.8m, and MOPAC will receive 7% more (£11.7m) at £185.3m.

PRECEPT GRANT

24 In 2018/19, when all other force areas were allowed precept flexibility of up to £12, the City of London received an additional £0.9m due not having a police precept and therefore being unable to benefit from the increased precept flexibility. This year that precept grant has risen to £2.7m. This is funded through a reallocation from within the overall police settlement and is included within the £161m additional grant figure.

MINISTRY OF JUSTICE GRANTS

25 The Ministry of Justice have written to PCCs outlining their 2019/20 Victims funding allocations.

FUTURE SETTLEMENTS

26 There was no further mention of future settlements other than to say "this is the last settlement before the next Spending Review, which will set long term police budgets and look at how resources are allocated fairly across police forces".

FORMULA REVIEW

27 There are no plans to review the Police Allocation Formula until after the Spending Review.

THAMES VALLEY ALLOCATIONS

28 The PCC will receive the following grants in 2019/20.

Table 4: TVP grant allocations 2019/20

	2018/19 £m	**2019/20 £m**	**Variation £m**
Home Office Police Grant	139.248	142.277	3.029
Ex DCLG Formula Funding	72.855	74.280	1.425
Sub-total	212.103	216.577	4.454
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**	**231.835**	**4.454**

29 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 2019/20.

THAMES VALLEY POLICE RESPONSE TO THE POLICE SETTLEMENT

30 The additional grant and increased flexibility in council tax precept, has significantly changed the position we were reporting in November, where the potential level of cuts required were unachievable without a negative change in our service provision. We are now fortunate in that we can make limited investment to address some service and performance issues by increasing our resources, both police officers and police staff, alongside investing in the

technology to make our staff more productive. Concern was beginning to build that the £100m we had already removed from the budget had in some areas, drained our resources too far and as time progressed we were less able to respond to the increases in demand from a volume, scope and complexity perspective.

31 Demand on our service is expected to continue to increase over the next four years, for example: from the continuing increases in terror related incidents, increased reporting of complex crimes such as Child Sexual Exploitation (CSE) and Domestic Violence (DV), new and emerging crimes such as Honour Based Violence, County Lines and Cyber related crime as well as the forecast population increase, the expectations of our communities, and legislative changes. The additional investment in resources from the 2019/20 settlement will help to address current and future demand.

32 We are however clear that this welcomed respite from aggressive cuts is not a panacea for the police service. The limited investment incorporated today will not address the significant cuts we have made in previous years or the additional demand we continue to face. Hence we still need to keep our attention focused on increasing the productivity of our resources by investing in technology and ensuring the appropriate process and cultural change flows from that investment to improve our effectiveness. We need to continue to constantly review what and how we deliver our service across the whole spectrum, to ensure our limited resources continue to be prioritised and utilised as effectively as possible. We will therefore continue to focus on our Productivity Strategy, which includes the Efficiency & Effectiveness programme to ensure this is achieved.

33 There is still considerable uncertainty about future funding levels which could impact our ability to maintain the level of investment incorporated within this budget but, at this time, we are assuming for 2020/21 and beyond a cash flat grant settlement and a return to the 2% council tax precept rise.

OVERVIEW OF THE MEDIUM TERM FINANCIAL PLAN

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 four 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 The Police service, both nationally and locally, is going through a period of reform to adjust to the financial challenges and respond to the increasing complexity and quantum of crime. This reform requires investment in well trained officers and staff as well as the new and developing technologies which will facilitate the change in the way policing services are delivered; unfortunately this investment only increases the financial pressures.

36 The MTFP attempts to address these competing demands of financial constraint in an increasingly complex policing environment. The MTFP sets out the level of police service which is affordable with the funding available.

37 The revenue budget is balanced in all four years (i.e. 2019/20; 2020/21; 2021/22 and 2022/23). The summary position is shown in Table 5 below:

Table 5: Summary of MTFP

	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000
Annual Base Budget	391,471	419,914	426,472	433,260
Inflation	10,659	8,559	8,701	8,926
Productivity Savings	- 4,765	- 3,593	- 4,802	- 1,969
Committed Expenditure	13,347	1,277	619	- 65
Current Service	- 6,125	528	0	0
Improved Service	14,142	155	2,524	- 792
In Year Appropriations	1,185	- 368	- 254	924
Net Budget Requirement	**419,914**	**426,472**	**433,260**	**440,284**
Total External Funding	**- 419,914**	**- 426,472**	**- 433,260**	**- 440,284**
Cumulative Budget (Surplus)/Shortfall	***0***	***0***	***0***	***0***
Annual Budget (Surplus)/Shortfall	***0***	***0***	***0***	***0***

Note: *the opening budget position for 2019/20 (£391.471m) is lower than the published approved net budget for 2018/19 since £14.523m of specific grant income is now treated as local police income, rather than being included in Home Office grants, in order to be consistent with the way that Net Revenue Budget Requirements are published in CIPFA Police Statistics*

38 Significant work has been undertaken by the Force over the last 12 months to support service delivery and address the financial changes facing the Force. The MTFP incorporates the financial outcomes and requirements identified from this internal work alongside the financial impacts of external influences

39 The budget supports a police service for Thames Valley which provides:

- **Responding to the Public**: Our Call Management service is focused on answering emergency and non-emergency calls, deploying resources and carrying out onward tasking when required. Whilst our Local Policing function provides geographically based response, local volume crime investigation and neighbourhood policing teams to provide a local police service based on an appropriate assessment of Threat Harm Opportunities and Risks (THOR).

- **Crime prevention** is a key concept for the Neighbourhood policing teams

- **Investigations** are carried out by our local teams for volume crime with serious and complex crime dealt with by our Force Crime and Protecting Vulnerable People (PVP) units. Our Force crime units investigate a breadth of crime types ranging from Fraud to CSE, by their nature these investigations are high threat, high risk and highly complex.

- **Protecting Vulnerable People**: We have specialist Domestic Abuse Investigation Units (DAIU's) and Child Abuse Investigation Unit (CAIU) to deal with these high risk areas. Female genital mutilation (FGM), Adult safeguarding, Modern Slavery, Hate crime, Honour based abuse, missing persons, Mental Health, Stalking and Harassment are all high risk complex crimes which require investigations.

- **Managing Offenders**: TVP runs a central Multi-Agency Public Protection Arrangements (MAPPA) with the National Probation Service (NPS) as well as an Integrated Offender Management (IOM) cohort and a Public Protection Unit.

- **Serious Organised Crime**: Across the force at any one time there are approximately 70 active Organised Crime Groups (OCG). The threats from these groups are tackled by the Force Intelligence and Specialist Operations (FISO)

- **Major Events**: The Joint Operations Unit is a collaborative unit with Hampshire police which provides specialist policing including Firearms Operations and Roads Policing.

BUDGET PREPARATION

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

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

41 There is a close relationship between preparation of the annual budget, medium term financial forecast and the annual target setting process. All three support and complement the PCC's Police and Crime Plan and the Force Commitment.

42 The proposals developed for the draft budget ensure that resources are targeted towards priority business areas that support the delivery of key strategic objectives, or are necessary for the effective management of policing risk.

Planning Assumptions

43 In compiling the revenue budget and MTFP the following assumptions have been used:

- General inflation is applied at 1.8%; 1.90%; 2.0% and 2.0% in each of the next 4 years. This is in line with the OBR forecast for CPI.
- Specific inflation rates are based on sector led rates, e.g. Premises at 2.6%, Fuel at 8.0% and Utilities at 5% per annum.
- Specific inflation has been applied to the cleaning contract to allow for wage uplifts in relation to the National Minimum Wage (NMW) and recruitment issues, this has been applied at 5.1%.
- Pay inflation has been included at a base 2% annual increase for both Police Officers and Staff.
- Council tax precept to increase by £24 (13.1%) in 2019/20 and then by 2.0% per annum in the following years.
- Council tax billing base to increase by 1.6% in 2019/20 and 1.5% per annum thereafter.
- General police grants to remain cash flat over the period.

- Reserves will be used to support the MTFP & MTCP but will be significantly committed by the end of the four 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 very low level of annual capital grant.

44 The final assumption continues to reflect the increasing demand for investment in technology and the expectation that this will continue with the rollout of national programmes to address the Policing Vision 2025, against declining reserves and minimal capital grant. The provision within the MTFP for the direct revenue funding (DRF) of capital has increased to provide an annual contribution of £10m by 2022/23. This is seen as a sensible approach to future financial sustainability.

Inflation

45 This additional cost does not relate to any increase in service, but is required just to maintain the existing base level of service.

46 General Inflation rates, based on the OBR estimates of CPI, have added an additional £1.0m in 2019/20 and an additional £3.3m for the following 3 years.

47 In addition to this increase in general inflation, specific inflationary increases for the likes of the facilities services contract have also added additional pressures to the base budget of circa £3.7m over the four year period.

48 In addition to the above specific inflation, there has been a significant increase in the motor insurance premiums across the SEERPIC forces, which for Thames Valley has added an additional £1.5m in 2019/20. We have also made provision for an increase of £0.6m in relation to Forensic services due to the current market conditions.

49 Overall inflation for 2019/20 adds £10.659m (average rate of 2.72%) to the annual budget, a further £8.559m in 2020/21 (average rate of 2.01%), £8.701m in 2021/22 (average rate of 2.02%) and £8.926m in 2022/23 (average rate of 2.04%).

Committed Growth

50 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.

51 The main significant changes that have occurred in this section for the 2019/20 period include:

- Removal of the police vacancy factor that was implemented in the 2018/19 budget as it is now expected that we will be able to reach our target establishment in 2019/20. This adds £3.2m to the budget
- An additional 40 permanent police staff case investigators which are to support both Force Crime (12) and the LPA's to assist with the increase in demand. This has added growth of £1.4m.
- Additional growth has been included for an uplift in the firearms bonus payments and for the introduction of a tutoring bonus, this adds an additional £0.174m to the budget but is offset against reductions in other allowances due to the profile of officers.
- By making an upfront payment in relation to the employers' contribution to the police staff pension scheme an annual cash discount of circa £0.390m is achieved.

- Police Pensions - Growth of £9.5m to reflect additional employer contributions, partially offset by income from the pensions grant of £4.3m.

52 Further details are provided on pages 49 to 50.

Current Service

53 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 2019/20 include:

- The additional council tax flexibility has meant that rather than removing the temporary police staff case investigators (ref 92) we can continue to utilise these resources while our officer capacity, (including skills and knowledge) is increased.
- A review of income levels for special services and mutual aid has been undertaken and as such the income budgets (ref 93) have been reduced by £0.309m.
- Additional funding to support the SEROCU (ref 94) has been included at £0.601m as agreed at the last Regional PCC/CC meeting.
- An increase in investigation costs (ref 95) relating to the contract for online references and searches has been included at £0.140m.
- The increased turnover of staff and officers increases the level of essential training required (ref 96) as well as the demand on the vetting unit (ref 97). Essential growth is therefore required to maintain the current level of service.
- The increase in costs for the National Police Air Support (NPAS) service, £0.369m (ref121).

54 Further details are provided on pages 50 to 52.

Improved Service

55 These items of growth are required in order to improve performance and/or meet the growing demands on the service. The main changes that have occurred in this section for 2019/20 include:

- Technology Investment through Direct Revenue Funding (ref 98) is essential to support and allow for future technology refreshes of hardware, together with a provision for any changes in the way technology is delivered through the likes of cloud technology.
- An extension of reserve funding for those temporary staff working on the Public Enquiries (ref 106) for a further 3 years £0.197m.
- Growth has been specifically included for additional costs relating to the ICT Revenue Projects and Roadmap, Azure cloud, and software asset management, at a cost of £1.461m (ref 107).
- A review of one-off property maintenance costs has been undertaken and a number of these schemes have been re-phased to allow the costs to be spread more evenly over the MTFP period (ref 104). These schemes are planned to be funded from the I&P reserve and have increased the drawdown required in 2019/20 by £0.240m.

56 The main areas of additional investment, being funded through the increased council tax precept (£8.5m), are under the following schemes:

- **Improved Services to the Public through Contact Management £1.3m** (ref 122) - The rise in demand and the complexity of that demand have increased the length of time it takes to assess the threat, harm and risk and ensure every call receives the appropriate response. We will reduce call handling times, particularly for 101 calls, by recruiting additional staff to deal with the additional demand and more complex crime and incidents being reported.

- **Increasing Local Front Line Policing and Service Delivery £2.5m** (ref 123) – we will recruit additional officers and staff to increase visibility to our communities and respond to increasing crime demand and complexity and the impact (particularly in the areas of mental health and children's safeguarding) of the reduction in the resources of and services provided by other agencies.

- **Improved Investigative Capacity and Process for Complex Crimes £2.2m** (ref 124) – stretched resources are operating in an increasingly expanding and complex environment with investigations at all levels growing in size and complexity. There has been an impactive increase in organised crime which exploits the vulnerable as well as cyber enabled crime fraud and economic crime. We will recruit more investigators and invest in appropriate new technology and tools.

- **Increasing Our Digital Development Programmes £2.5m** (ref 125) – we will exploit the modern platforms we have been investing in through the development of operational designed tools, expanding our mobile capability and improving connectivity will allow officers and staff to maximise the use of online digital applications facilitating the fast access and transfer of data, while investing in Intelligence technologies will improve the efficiency of transactional processes.

57 Further details are provided on pages 52 to 54.

In Year Appropriations from Reserves

58 In accordance with the agreed policy on the use of reserve funding the PCC has, in recent years, utilised the Improvement and Performance (I&P) reserve to fund one-off expenditure contained within the MTFP. It is proposed that this reserve continues to be utilised to support the overall objectives of the MTFP over the coming years, as well as supporting the capital programme and ICT Strategy implementation.

Funded By

59 The current MTFP includes the announced uplift in central grants for 2019/20 at £8.75m, which includes the specific grant of £4.3m for the pensions cost increase of £9.5m in total. The following years are currently based on the assumption that central Government grants will be based on a cash flat settlement beyond 2019/20, but this will not be known for certain until the next spending review is completed.

60 The MTFP is also based on the assumption that the PCC will increase the council tax precept by £24 in 2019/20 and by 1.99% per annum thereafter.

Force Productivity Strategy

61 The Force has 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 the HMIC during various inspections and reports.

62 The financial and operational demands facing the Force mean that it is more important than ever that the continuous review, challenge and improvement principles underlying the

Productivity Strategy continue to ensure we focus our resources on our priority areas. The Efficiency and Effectiveness programme led by the Chief Superintendent Governance and Service Improvement is progressively reviewing the Force taking into consideration demand and functional processes (rather than departmental structures) and building for the future. Reviews are continuing to utilise the Priority Based Budgeting (PBB) methodology and focus on Method Changes, Volume changes and Service Level changes. New efficiencies have now been identified and are included in the productivity plan as per below.

63 The current productivity plan has been reviewed and scrutinised against the deliverability of the savings and the requirements of the MTFP, and the strategy has been updated with new and changed initiatives, with the key movements including:

- The implementation of the Contact Management Platform (CMP) programme has had a number of delays in the final implementation and, to be prudent, the majority of the savings have been moved to Amber at this stage, with some Green savings starting to accrue in 2020/21.
- A review of the Joint Operations Unit (JOU) has resulted in additional collaborative savings in the areas of Roads Policing, Firearms Command, the Dogs Section and the Mounted Section – total savings of £2.35m have been identified for 2019/20.
- An increase in savings from more stringent management of Alarms has increased total savings of £0.2m.
- The Asset Management Plan savings and general property services related savings have been reviewed and now total £0.2m in 2019/20, and a total of £1.6m over the four years.
- The impact of higher turnover of officers and PCSOs has increased the demand for uniforms and hence the previous savings have been reduced by £0.1m in £2019/20.
- The Efficiency and Effectiveness programme has added additional savings to the plan totalling £1.2m. These savings cover a multitude of initiatives and are from the areas of Force Intelligence and Specialist Operations (FISO), Force Crime, Criminal Justice and Operational Process reviews.

64 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. These savings should all be attainable subject to the current demands and profile of policing.

65 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.

66 A copy of the full Productivity Strategy is provided on pages 56 to 57.

<u>Establishment Changes</u>

67 Over the last seven years we have experienced reductions in both police staff and police officer posts. The investment included in the budget for:

- Improved Services to the Public,
- Increasing local Front Line Policing and
- Improving Investigative capacity

68 All require additional resources with a mix of police officers and police staff. Work is in progress to identify the most effective mix of resources and hence the indicative numbers in the following table may be subject to change. The Chief Constable's Management Team

(CCMT) constantly review the balance of resources against demand to ensure the optimal mix.

69 The estimated summary position for the force establishment over the MTFP period is shown in the following table.

Table 6: Estimated Establishments

	Police	Police Staff	PCSOs	Total
Original Estimated Establishment at March 2018	**3,870.50**	**2,709.60**	**418.00**	**6,998.10**
2018/19 In Year Adjustments:				
MASH Growth	7.00	(7.00)		-
Contact Management		17.00		**17.00**
Federation Representatives	1.60			**1.60**
Armed Response Vehicle Growth	1.00			**1.00**
Regional Special Branch	(1.00)	(4.00)		**(5.00)**
Regional CTFSOs (Holding Account)	(29.00)			**(29.00)**
Revised Estimated Establishment at March 2019	**3,850.10**	**2,715.60**	**418.00**	**6,983.70**
2019/20 Adjustments:				
Productivity Plan Savings	(42.50)	(15.50)	(10.00)	**(68.00)**
Productivity Plan - workforce modernisation	(11.00)	11.00		-
Case Investigators - Temporary Growth		(95.00)		**(95.00)**
Case Investigators - Permanent Growth		40.00		**40.00**
Learning & Professional Development	1.00	3.00		**4.00**
Vetting		2.50		**2.50**
Information Management		2.00		**2.00**
ICT Analyst for Technology Investment		1.00		**1.00**
Improved Service to the Public		48.00		**48.00**
Increasing Front Line Service	26.00	56.00		**82.00**
Improved Volume and Complex Investigation	31.00	41.00		**72.00**
Externally funded		15.00		**15.00**
Insourcing of Detention Officers (TUPE)		124.00		**124.00**
Estimated Establishment at March 2020	**3,854.60**	**2,948.60**	**408.00**	**7,211.20**
2020/21 Adjustments				
Productivity Plan Savings	(3.00)	(63.70)		**(66.70)**
ICT Analyst for Technology Investment		(1.00)		**(1.00)**
Remove Temporary Major Ops Uplift	(4.00)			**(4.00)**
Increasing Front Line Service				-
Improved Volume and Complex Investigation	10.00	8.00		**18.00**
Estimated Establishment at March 2021	**3,857.60**	**2,891.90**	**408.00**	**7,157.50**
2021/22 Adjustments				
Improved Service to the Public		(45.00)		(45.00)
UCPI / IICSA Public Enquiries		(6.00)		**(6.00)**
Productivity Plan Savings		(8.50)		**(8.50)**
Estimated Establishment at March 2022	**3,857.60**	**2,832.40**	**408.00**	**7,098.00**
2022/23 Adjustments				
Productivity Plan Savings				-
Estimated Establishment at March 2022	**3,857.60**	**2,832.40**	**408.00**	**7,098.00**

2019/20 Budget Summary

70 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 2019/20

	2019/20
	£'000
Annual Base Budget	391,471
Inflation	10,659
Productivity Savings	- 4,765
Committed Expenditure	13,347
Current Service	- 6,125
Improved Service	14,142
In Year Appropriations	1,185
Net Budget Requirement	**419,914**

IMPLICATIONS FOR COUNCIL TAX

Public Consultation

71 As stated in paragraph 3 above the Home Secretary announced additional investment in local policing by up to £813m in 2019/20. However, this level of income is dependent on all PCCs increasing their Band D precept by up to £24 which, nationally, will raise around £509m.

72 In TVP, a £24 increase in council tax equates to a just over 13%. Before implementing this level of increase the PCC decided to consult local council taxpayers. A short on-line survey was launched on 19th December with a closing date of 9th January. In order to reach as many people as possible, it was sent to:

- All users of TVP Alert – 82,787 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

73 In total, 8,031 people voted, of which 5,599 or 69.7% voted yes

Impact on Council Tax

74 The PCC will receive police grant of £146.6m, ex-DCLG formula grant of £74.3m and legacy council tax grants of £15.3m in 2019/20. These levels of grant income are determined independent of the PCC's planned spending budget for the year.

Funding the 2019/20 Revenue Budget

75 Table 8 shows how the 2019/20 revenue budget will be financed.

Table 8:

	£m	%
Police grant	142.277	34%
Ex-DCLG formula grant	74.280	17%
Total formula grant	*216.557*	*51%*
Council tax precept (estimate)	186.558	
Council Tax surplus on collection funds (estimate)	1.520	
Total council tax	*188.078*	*45%*
Legacy council tax grants	15.278	4%
Total Financing	**419.914**	**100%**

Council Taxbase

76 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 is 904,493 as illustrated below.

Table 9 - Taxbase and Surplus/Deficit on collection funds 2019/20

	Final Taxbase	Surplus / Deficit (-) on collection funds £	Annual Precept £
Aylesbury Vale	73,446.83	51,400.00	15,150,612.09
Bracknell Forest	45,573.00	-58,174.00	9,400,798.44
Cherwell	53,876.90	148,291.00	11,113,726.93
Chiltern	44,716.00	69,048.17	9,224,016.48
Milton Keynes	84,876.77	490,000.00	17,508,380.12
Oxford City	45,294.50	38,462.00	9,343,349.46
Reading	55,884.00	19,945.00	11,527,751.52
Slough	42,789.80	0.00	8,826,679.94
South Bucks	33,185.80	57,589.56	6,845,566.82
South Oxfordshire	56,793.30	287,746.50	11,715,321.92
Vale of White Horse	51,706.20	403,049.72	10,665,954.94
West Berkshire	65,021.46	-135,612.00	13,412,626.77
West Oxfordshire	43,593.56	56,290.00	8,992,479.56
Windsor & Maidenhead	68,353.00	-79,343.00	14,099,856.84
Wokingham	70,176.70	31,780.00	14,476,049.68
Wycombe	69,104.75	139,175.25	14,254,927.83
Totals	**904,392.57**	1,519,698.20	186,558,099.34

Band D Council Tax

77 The band D council tax for 2019/20 is £206.28, an increase of £24.00 or 13.17% on the comparable figure for 2018/19

LOCAL GOVERNMENT ACT 2003

Robustness of estimates and adequacy of reserves

78 Section 25 of 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

79 Full information is provided on pages 74 to 88.

80 Based on current planning assumptions general revenue balances will stay slightly above the approved 3% target level throughout the next 4 years.

81 Earmarked reserves are forecast to reduce from £26.0m on 1st April 2018 to around £2.7m by 31st March 2023, including £1.0m in the Conditional Funding and SEROCU reserves which are not available to support general operational policing.

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

Reliability / accuracy of budget estimates

83 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.

84 There are a significant number of risks regarding the draft budget proposals and these are clearly set out on pages 39 to 42 and pages 44 and 45.

85 By themselves none of these risks are so significant that they could not be managed in isolation, 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

86 The draft budget proposals were presented to and scrutinised by the PCC at the Level 1 public meeting on 26th 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 12th December. They are next due to meet on 24th January.

Achievability and risks

87 The budget risk and sensitivity analysis for 2019/20 is provided on page 39. 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.

88 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.

89 In addition, the Force continues to identify future budget savings through its ongoing Productivity Strategy, as referred to in paragraphs 61 to 66 above.

90 Accordingly, the assessment of budget risks presented on pages 39 to 42 takes into account the mitigating factors identified above.

91 Risks to the medium term financial plan (2020/21 to 2022/23) are shown on pages 40 to 42.

92 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.

93 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.

94 In response to the inherent risk in the timely delivery of large capital schemes within time and budget an earmarked reserve for Optimisation Bias (OB) has been created, based on HM Treasury Guidance on capital projects. As shown in the Medium Term Capital Plan (MTCP) an assessment of current schemes indicates that we should hold a contingency reserve of £12.769m; unfortunately the current reserve is just over £9m indicating a potential shortfall of around £3.64m. This is clearly a risk but we will continue both the MTCP and the level of the OB reserve on a regular basis and will report to the PCC immediately should we believe the OB reserve is unable to fund increased capital costs. New capital bids will include an appropriate element for OB so the current risk only relates to schemes in this MTCP.

95 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.

96 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

97 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.

98 On 13 December the Secretary of State for CLG published the draft referendum principles for 2019/20. All PCCs are allowed to increase their basic amount of council tax by £24; only increases above £24 will be deemed excessive and require a formal referendum.

Prudential Code for Capital Finance

99 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

100 The 2019/20 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.

101 The provisional settlement enabled each PCC to increase the police element of council tax by £24 a year for a band D property in 2019/20. The results of the short public consultation exercise indicate that local residents are happy to pay that amount to protect local operational policing in the Thames Valley. This will facilitate the force investing £8.5m in additional resources, police staff and police officers, as well as the technology to improve the productivity and efficiency of their work.

102 As shown on pages 40 to 42 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 43 above, the MTFP is currently balanced in all four years.

103 The PCC is reminded that his responsibility for setting the annual budget and council tax precept for 2019/20 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.

<u>CONCLUSIONS</u>

104 The revenue budget is balanced in all 4 years (i.e. 2019/20 to 2022/23) with a £24 increase in precept in 2019/20 followed by 2% per annum in later years

105 The MTFP provides for inflationary increases and limited investment to address some service and performance issues by increasing our resources, both police officers and police staff, alongside investing in the technology to make our staff more productive. The investment has only been possible because of the additional flexibility in the council tax precept.

106 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

107 As shown above the current MTFP requires revenue savings of at £15.1m over the next four years. This is over and above the £101m of cash savings already removed from the base budget in the last eight years (i.e. 2010/11 to 2018/19) meaning that, over the twelve year period in excess of £116m will have been taken out of the base revenue budget.

Revenue Budget Summary 2019/20

	2018/19 Budget	Inflation	Savings	Virements	Growth	2019/20 Budget
PCC Controlled Expenditure						
Office of the PCC	£1,039,667	£20,620	0	0	17,709	£1,077,996
Democratic Representation	£207,670	£3,827	0	0	0	£211,497
Other Costs	£194,101	£2,930	0	0	0	£197,031
Commissioned Services	£5,918,178	£73	0	0	50,000	£5,968,251
	£7,359,616	***£27,450***	***0***	***0***	***67,709***	***£7,454,775***
TVP Operational Budget - Direction and Control of Chief Constable:						
Employees	£333,638,484	£6,432,781	-3,688,821	-662,388	17,530,115	£353,250,171
Premises	£17,093,972	£491,471	-235,079	14,453	240,000	£17,604,817
Transport	£8,398,242	£1,752,603	-261,497	-115,654	0	£9,773,694
Supplies & Services	£55,453,382	£1,859,050	-579,327	819,243	-691,343	£56,861,005
Third Party Payments	£9,422,569	£95,713	0	-2,042,252	369,000	£7,845,030
Force Income	-£27,470,859	£0	0	-689,468	1,337,687	-£26,822,640
Specific Grant	-£14,523,170	£0	0	2,675,728	-4,262,446	-£16,109,888
	£382,012,620	***£10,631,618***	***-4,764,724***	***-338***	***14,523,013***	***£402,402,189***
Net Capital Financing Costs:						
Capital Financing	£5,003,946	£0	0	-17,373	7,162,598	£12,149,171
Interest on Balance	-£500,000	£0	0	0	-390,000	-£890,000
	£4,503,946	***£0***	***0***	***-17,373***	***6,772,598***	***£11,259,171***
Appropriations to/from Balances:						
Appropriations	-£2,405,218	£0	0	17,711	1,184,968	-£1,202,539
	-£2,405,218	***£0***	***0***	***17,711***	***1,184,968***	***-£1,202,539***
Cost of Services	**£391,470,964**	**£10,659,068**	**-4,764,724**	**0**	**22,548,288**	**£419,913,596**
Funded By:						
Police Current Grant	-£139,248,551	£0	0	0	-3,028,537	-£142,277,088
Council Tax - Surplus on Collection	-£1,768,458	£0	0	0	248,810	-£1,519,648
Council Tax Precept Income	-£162,320,827	£0	0	0	-24,237,272	-£186,558,099
Formula Grant	-£72,854,799	£0	0	0	-1,425,633	-£74,280,432
Legacy Council Tax Grants	-£15,278,329	£0	0	0	0	-£15,278,329
	-£391,470,964	***£0***	***0***	***0***	***-28,442,632***	***-£419,913,596***
Total Funding	**-£391,470,964**	**£0**	**0**	**0**	**-28,442,632**	**-£419,913,596**

PCC Controlled Expenditure

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
PCC Controlled Expenditure						
Office of the PCC						
Police Staff Pay	794,304	15,886	0	0	17,709	827,899
Police Staff NI	69,586	1,392	0	0	0	70,978
Police Staff Pension	116,792	2,336	0	0	0	119,128
Training & Conference expenses	10,747	193	0	0	0	10,940
Car Allowances & Travel Expenses	7,870	86	0	0	0	7,956
Office Equipment, Furniture & Materials	12,337	222	0	0	0	12,559
Other Supplies & Services	28,031	505	0	0	0	28,536
Joint working Initiatives	0	0	0	0	0	0
	1,039,667	***20,620***	***0***	***0***	***17,709***	***1,077,996***
Democratic Representation						
Police Staff Pay	132,275	2,646	0	0	0	134,921
Police Staff NI	15,680	314	0	0	0	15,994
Police Staff Pension	18,926	379	0	0	0	19,305
Training & Conference expenses	2,405	43	0	0	0	2,448
Vehicle Fuel	528	42	0	0	0	570
Vehicle Contract Hire & Operating Leases	3,065	55	0	0	0	3,120
Car Allowances & Travel Expenses	4,563	28	0	0	0	4,591
Allowances	15,643	282	0	0	0	15,925
Other Supplies & Services	14,585	38	0	0	0	14,623
Commissioning Services	0	0	0	0	0	0
	207,670	***3,827***	***0***	***0***	***0***	***211,497***
Other Costs						
Office Equipment, Furniture & Materials	1,322	24	0	0	0	1,346
Custody Costs	10,933	197	0	0	0	11,130
Allowances	32,855	591	0	0	0	33,446
Other Supplies & Services	148,991	2,118	0	0	0	151,109
	194,101	***2,930***	***0***	***0***	***0***	***197,031***
Commissioned Services						
Police Staff Pay	2,788	56	0	0	0	2,844
Police Staff NI	385	8	0	0	0	393
Police Staff Pension	426	9	0	0	0	435
Custody Costs	0	0	0	0	0	0
Commissioning Services	5,914,579	0	0	0	50,000	5,964,579
	5,918,178	***73***	***0***	***0***	***50,000***	***5,968,251***
PCC Controlled Expenditure	**7,359,616**	**27,450**	**0**	**0**	**67,709**	**7,454,775**

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	141,131,143	2,779,026	-3,138,917	957,404	471,707	142,200,363
Police Officer NI	17,401,627	335,008	0	-650,510	219,060	17,305,185
Police Officer Pension	32,455,548	621,183	0	-1,366,410	10,951,650	42,661,971
Police Officer Allowances	11,891,255	63,796	-16,821	-193,284	235,969	11,980,915
	202,879,573	***3,799,013***	***-3,155,738***	***-1,252,800***	***11,878,386***	***214,148,434***
Police Officer Overtime						
Police Officer Overtime	7,206,221	143,495	0	-32,229	1,420,000	8,737,487
	7,206,221	***143,495***	***0***	***-32,229***	***1,420,000***	***8,737,487***
PCSO Pay						
PCSO Pay	11,580,084	219,415	-165,000	-781,976	336,459	11,188,982
PCSO NI	1,086,303	19,141	0	-133,449	0	971,995
PCSO Pension	1,682,691	34,127	0	25,538	0	1,742,356
	14,349,078	***272,683***	***-165,000***	***-889,887***	***336,459***	***13,903,333***
PCSO Overtime						
PCSO Overtime	36,787	50	0	-34,120	0	2,717
	36,787	***50***	***0***	***-34,120***	***0***	***2,717***
Other Staff Costs						
Police Staff Pay	78,249,931	1,579,923	-368,083	-1,528,362	6,856,303	84,789,712
Police Staff NI	6,993,968	146,903	0	300,698	17,489	7,459,058
Police Staff Pension	11,868,159	242,872	0	321,459	26,478	12,458,968
Police Staff Allowances	464,326	7,213	0	-13,643	0	457,896
	97,576,384	***1,976,911***	***-368,083***	***-919,848***	***6,900,270***	***105,165,634***
Other Staff Overtime						
Police Staff Overtime	1,499,052	31,511	0	204,552	35,000	1,770,115
	1,499,052	***31,511***	***0***	***204,552***	***35,000***	***1,770,115***
Temporary or Agency Staff						
Temporary or Agency Staff	2,096,314	89,993	0	2,403,376	-3,040,000	1,549,683
	2,096,314	***89,993***	***0***	***2,403,376***	***-3,040,000***	***1,549,683***
Police Officer Injury/Ill health/Death Pensions						
Police Officer Injury/Ill health/Death Pensions	4,057,521	73,036	0	0	0	4,130,557
	4,057,521	***73,036***	***0***	***0***	***0***	***4,130,557***
Other Employee Expenses						
Staff & Officer Recruitment Costs	658,620	7,946	0	0	0	666,566
Staff Welfare	472,524	7,600	0	0	0	480,124
Employee Insurance	1,360,468	7,067	0	0	0	1,367,535
	2,491,612	***22,613***	***0***	***0***	***0***	***2,514,225***
Restructure, Training & Conference Costs						
Restructure Costs	67,753	1,220	0	0	0	68,973
Pension Strain	164,312	2,958	0	0	0	167,270
Training & Conference expenses	1,213,877	19,298	0	-141,432	0	1,091,743
	1,445,942	***23,476***	***0***	***-141,432***	***0***	***1,327,986***
Employees	**333,638,484**	**6,432,781**	**-3,688,821**	**-662,388**	**17,530,115**	**353,250,171**

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	6,677,930	111,978	-37,820	0	240,000	6,992,088
Utilities	2,737,742	133,130	-14,597	-14	0	2,856,261
Rent & Rates	5,280,585	149,250	-168,091	14,467	0	5,276,211
Cleaning & Domestic Supplies	1,731,395	79,008	-13,581	0	0	1,796,822
Other Premises Costs	467,839	14,532	-990	0	0	481,381
Property Insurance	198,481	3,573	0	0	0	202,054
	17,093,972	***491,471***	***-235,079***	***14,453***	***240,000***	***17,604,817***
Premises	**17,093,972**	**491,471**	**-235,079**	**14,453**	**240,000**	**17,604,817**

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	2,130,825	156,027	-199,515	19,026	0	2,106,363
Vehicle Contract Hire & Operating Leases	7,614,426	132,028	-61,982	-119,775	0	7,564,697
Car Allowances & Travel Expenses	1,388,549	4,424	0	-14,905	0	1,378,068
Transport Insurance	0	1,451,739	0	0	0	1,451,739
Transport - Other	-2,735,558	8,385	0	0	0	-2,727,173
	8,398,242	***1,752,603***	***-261,497***	***-115,654***	***0***	***9,773,694***
Transport	**8,398,242**	**1,752,603**	**-261,497**	**-115,654**	**0**	**9,773,694**

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	1,462,064	26,092	-200	-12,455	0	1,475,501
Catering Contracts	521,527	9,390	-1,070	1,285	0	531,132
Clothing, Uniforms & Laundry	862,538	18,086	150,446	-8,401	0	1,022,669
Custody Costs	6,730,552	551,277	0	1,000	0	7,282,829
Forensic Costs	3,585,117	638,219	0	0	0	4,223,336
Investigative Expenses	1,086,859	24,203	-239,531	497,517	-110,000	1,259,048
Police Doctors & Surgeons	567,822	10,409	0	10,133	0	588,364
Interpreters & Translators	879,666	13,848	-100,000	-10,366	0	783,148
Communications & Computing	29,203,461	438,386	-374,450	170,047	1,345,000	30,782,444
Other Supplies & Services	10,553,776	129,140	-14,522	170,483	-1,926,343	8,912,534
	55,453,382	***1,859,050***	***-579,327***	***819,243***	***-691,343***	***56,861,005***
Supplies & Services	**55,453,382**	**1,859,050**	**-579,327**	**819,243**	**-691,343**	**56,861,005**

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	1,631,371	4,301	0	-522,188	0	1,113,484
Joint working Initiatives	361,413	6,505	0	0	0	367,918
Collaboration Payments	5,183,199	84,907	0	-1,520,064	369,000	4,117,042
Police National Computer / Database	1,376,585	0	0	0	0	1,376,585
Other Third Party Payments	870,001	0	0	0	0	870,001
	9,422,569	***95,713***	***0***	***-2,042,252***	***369,000***	***7,845,030***
Third Party Payments	**9,422,569**	**95,713**	**0**	**-2,042,252**	**369,000**	**7,845,030**

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	11,381	0	-1,318,169
	-1,329,550	***0***	***0***	***11,381***	***0***	***-1,318,169***
Sales, Fees, Charges & Rents						
Sale of Assets & Goods	-298,380	0	0	-182	0	-298,562
Fees & Charges - Public Fees	-836,588	0	0	10,000	-92,346	-918,934
Fees & Charges - Rental & Hire Charges	-817,249	0	0	0	0	-817,249
Fees & Charges - General	-8,115,512	0	0	179,394	-250,000	-8,186,118
	-10,067,729	***0***	***0***	***189,212***	***-342,346***	***-10,220,863***
Special Police Services						
Fees & Charges - Private Hire - Single Events	-1,013,556	0	0	0	366,000	-647,556
	-1,013,556	***0***	***0***	***0***	***366,000***	***-647,556***
Reimbursed Services - Other Police Forces						
Inter Force Reimbursements - Collaboration	-12,928,764	0	0	-870,061	1,279,033	-12,519,792
	-12,928,764	***0***	***0***	***-870,061***	***1,279,033***	***-12,519,792***
Reimbursed Services - Other Public Bodies						
Non Inter Force/Local Gov, but Public Body Contributions	-1,090,000	0	0	-20,000	0	-1,110,000
	-1,090,000	***0***	***0***	***-20,000***	***0***	***-1,110,000***
Reimbursed Services - Other						
Sponsorship & Advertising Income	0	0	0	0	0	0
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	35,000	-467,593
	-502,593	***0***	***0***	***0***	***35,000***	***-467,593***
Force Income	**-27,470,859**	**0**	**0**	**-689,468**	**1,337,687**	**-26,822,640**

TVP Operational Budget - Direction and Control of Chief Constable:

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Specific Grant						
Government & Overseas Funding						
PFI Grant	-1,031,892	0	0	0	0	-1,031,892
Security Grant	-6,873,788	0	0	22,163	0	-6,851,625
MoJ - Commisioning of Victims Services	-2,764,995	0	0	0	0	-2,764,995
Loan Charges Specfic Grant	-68,930	0	0	0	37,554	-31,376
CRB Grant	-920,122	0	0	-209,878	0	-1,130,000
Council Tax Freeze Grant	0	0	0	0	0	0
Community Safety Fund	0	0	0	0	0	0
Specialist Firearms Grant	-2,863,443	0	0	2,863,443	0	0
Pensions Grant	0	0	0	0	-4,300,000	-4,300,000
	-14,523,170	***0***	***0***	***2,675,728***	***-4,262,446***	***-16,109,888***
Specific Grant	**-14,523,170**	**0**	**0**	**2,675,728**	**-4,262,446**	**-16,109,888**

Net Capital Financing Costs:

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Net Capital Financing Costs:						
Capital financing and contributions						
Debt Charges	2,266,494	0	0	0	40,970	2,307,464
Capital Expenditure Funded from Revenue	2,454,485	0	0	-17,373	7,098,000	9,535,112
Finance Leases	282,967	0	0	0	23,628	306,595
	5,003,946	***0***	***0***	***-17,373***	***7,162,598***	***12,149,171***
Interest / Investment Income						
Interest / Investment Income	-500,000	0	0	0	-390,000	-890,000
	-500,000	***0***	***0***	***0***	***-390,000***	***-890,000***
Net Capital Financing Costs:	**4,503,946**	**0**	**0**	**-17,373**	**6,772,598**	**11,259,171**

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	-2,117,111	0	0	17,711	532,000	-1,567,400
Transfer to earmarked capital reserves	0	0	0	0	0	0
Transfer to General Reserve	-288,107	0	0	0	652,968	364,861
	-2,405,218	***0***	***0***	***17,711***	***1,184,968***	***-1,202,539***
Appropriations to/from Balances:	**-2,405,218**	**0**	**0**	**17,711**	**1,184,968**	**-1,202,539**

Funded By:

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Funded By:						
Government Grants						
Formula Grant	-72,854,799	0	0	0	-1,425,633	-74,280,432
Legacy Council Tax Grants	-15,278,329	0	0	0	0	-15,278,329
Police Current Grant	-139,248,551	0	0	0	-3,028,537	-142,277,088
	-227,381,679	***0***	***0***	***0***	***-4,454,170***	***-231,835,849***
Local Government Precept						
Council Tax Precept Income	-162,320,827	0	0	0	-24,237,272	-186,558,099
Council Tax - Surplus on Collection	-1,768,458	0	0	0	248,810	-1,519,648
	-164,089,285	***0***	***0***	***0***	***-23,988,462***	***-188,077,747***
Funded By:	**-391,470,964**	**0**	**0**	**0**	**-28,442,632**	**-419,913,596**

Holding Account

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Chiltern Transport Consortium						
Pay & Employment Costs						
Police Staff Pay	1,133,514	0	0	79,489	0	1,213,003
Police Staff NI	163,149	0	0	10,562	0	173,711
Police Staff Pension	212,905	0	0	14,832	0	227,737
Police Staff Overtime	253,426	0	0	14,131	0	267,557
Temporary or Agency Staff	1,380,831	0	0	66,511	0	1,447,342
Staff Welfare	298	0	0	12	0	310
Training & Conference expenses	16,062	0	0	681	0	16,743
	3,160,185	***0***	***0***	***186,218***	***0***	***3,346,403***
Overheads						
Repairs & Maintenance	5,327	0	0	226	0	5,553
Rent & Rates	396,342	0	0	15,244	0	411,586
Cleaning & Domestic Supplies	6,298	0	0	267	0	6,565
Other Premises Costs	764	0	0	33	0	797
Vehicle Fuel	53,688	0	0	5,503	0	59,191
Vehicle Contract Hire & Operating Leases	178,279	0	0	135	0	178,414
Car Allowances & Travel Expenses	4,911	0	0	208	0	5,119
Transport Insurance	3,408,575	0	0	111,401	0	3,519,976
Transport - Other	10,381,016	0	0	393,545	0	10,774,561
Office Equipment, Furniture & Materials	36,680	0	0	1,557	0	38,237
Clothing, Uniforms & Laundry	19,247	0	0	725	0	19,972
Communications & Computing	408,897	0	0	15,943	0	424,840
Other Supplies & Services	30,278	0	0	1,152	0	31,430
	14,930,302	***0***	***0***	***545,939***	***0***	***15,476,241***
Financiing Adjustments						
Depreciation and Impairment Losses	35,525	0	0	932	0	36,457
Asset Disposal	-556,219	0	0	-43,646	0	-599,865
	-520,694	***0***	***0***	***-42,714***	***0***	***-563,408***
Grant, Trading & Reimbursements						
Fees & Charges - General	-483,344	0	0	-16,600	0	-499,944
Inter Force Reimbursements - Collaboration	-17,086,449	0	0	-672,843	0	-17,759,292
	-17,569,793	***0***	***0***	***-689,443***	***0***	***-18,259,236***
Chiltern Transport Consortium	**0**	**0**	**0**	**0**	**0**	**0**

Holding Account

	2017/18 Budget	Inflation	Savings	Virements	Growth	2018/19 Budget
Regional CTSFO						
Pay & Employment Costs						
Police Officer Pay	0	0	0	934,629	0	934,629
Police Officer NI	0	0	0	132,206	0	132,206
Police Officer Pension	0	0	0	206,870	0	206,870
Police Officer Allowances	0	0	0	124,918	0	124,918
Police Officer Overtime	0	0	0	212,760	0	212,760
Police Staff Pay	0	0	0	8,401	0	8,401
Training & Conference expenses	0	0	0	19,800	0	19,800
	0	***0***	***0***	***1,639,584***	***0***	***1,639,584***
Overheads						
Vehicle Fuel	0	0	0	51,307	0	51,307
Vehicle Contract Hire & Operating Leases	0	0	0	125,864	0	125,864
Car Allowances & Travel Expenses	0	0	0	3,039	0	3,039
Office Equipment, Furniture & Materials	0	0	0	200	0	200
Catering Contracts	0	0	0	500	0	500
Clothing, Uniforms & Laundry	0	0	0	76,800	0	76,800
Investigative Expenses	0	0	0	1,100	0	1,100
Police Doctors & Surgeons	0	0	0	5,529	0	5,529
Communications & Computing	0	0	0	5,000	0	5,000
Other Supplies & Services	0	0	0	398,384	0	398,384
Collaboration Payments	0	0	0	901,328	0	901,328
	0	***0***	***0***	***1,569,051***	***0***	***1,569,051***
Grant, Trading & Reimbursements						
Specific Grants	0	0	0	-2,400,512	0	-2,400,512
Inter Force Reimbursements - Collaboration	0	0	0	-808,123	0	-808,123
	0	***0***	***0***	***-3,208,635***	***0***	***-3,208,635***
Regional CTSFO	**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	4,522,093	0	0	1,040,168	0	5,562,261
Police Officer NI	555,023	0	0	257,312	0	812,335
Police Officer Pension	1,121,240	0	0	224,926	0	1,346,166
Police Officer Allowances	288,950	0	0	28,960	0	317,910
Police Officer Overtime	265,583	0	0	38,567	0	304,150
Police Staff Pay	2,982,554	0	0	881,020	0	3,863,574
Police Staff NI	346,787	0	0	112,920	0	459,707
Police Staff Pension	452,173	0	0	228,723	0	680,896
Police Staff Allowances	77,346	0	0	-13,880	0	63,466
Police Staff Overtime	117,812	0	0	3,688	0	121,500
Training & Conference expenses	214,286	0	0	-15,068	0	199,218
	10,943,847	***0***	***0***	***2,787,336***	***0***	***13,731,183***
Overheads						
Repairs & Maintenance	14,873	0	0	-503	0	14,370
Utilities	59,716	0	0	-2,816	0	56,900
Rent & Rates	318,483	0	0	-22,739	0	295,744
Cleaning & Domestic Supplies	17,175	0	0	-75	0	17,100
Property Insurance	2,036	0	0	-36	0	2,000
Vehicle Fuel	168,938	0	0	-4,964	0	163,974
Vehicle Contract Hire & Operating Leases	540,619	0	0	45,751	0	586,370
Car Allowances & Travel Expenses	76,272	0	0	-365	0	75,907
Transport Insurance	0	0	0	0	0	0
Office Equipment, Furniture & Materials	22,393	0	0	3,107	0	25,500
Catering Contracts	3,309	0	0	446	0	3,755
Clothing, Uniforms & Laundry	18,630	0	0	-8,080	0	10,550
Forensic Costs	30,540	0	0	29,460	0	60,000
Investigative Expenses	644,824	0	0	-111,124	0	533,700
Police Doctors & Surgeons	0	0	0	0	0	0
Communications & Computing	243,424	0	0	123,679	0	367,103
Other Supplies & Services	594,027	0	0	-60,963	0	533,064
Collaboration Payments	0	0	0	146,710	0	146,710
	2,755,259	***0***	***0***	***137,488***	***0***	***2,892,747***
Grant, Trading & Reimbursements						
Specific Grants	-3,375,317	0	0	-1,729,909	0	-5,105,226
Inter Force Reimbursements - Collaboration	-10,323,789	0	0	-1,094,915	0	-11,418,704
Proceeds of Crime	0	0	0	-100,000	0	-100,000
	-13,699,106	***0***	***0***	***-2,924,824***	***0***	***-16,623,930***
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	6,408,478	0	0	0	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	4,070,065	0	0	0	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	95,230	0	0	0	0	95,230
Staff Welfare	500	0	0	0	0	500
Training & Conference expenses	188,401	0	0	0	0	188,401
	15,005,017	***0***	***0***	***0***	***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	983,853	0	0	0	0	983,853
Other Supplies & Services	445,295	0	0	0	0	445,295
Collaboration Payments	244,000	0	0	0	0	244,000
	4,168,632	***0***	***0***	***0***	***0***	***4,168,632***
Grant, Trading & Reimbursements						
Specific Grants	-18,750,393	0	0	0	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
	-19,173,649	***0***	***0***	***0***	***0***	***-19,173,649***
CTPSE	**0**	**0**	**0**	**0**	**0**	**0**

Risk Analysis - 2019/20 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 2019/20
3	That the 2019 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 per annum
3	The Force is unable to deliver, in full, the £4.8m 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 £4.8m, 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 £10.7m to the base budget in 2019/20, which equates to an average increase of 2.62%. A 1% increase in general inflation (up from the 1.8% currently provided for) will add £0.58m
5	That the Police & Crime Panel vetoes the PCC's proposed £24 (or 13.2%) increase in the council tax precept	1	4	4	The PCC has consulted the public who have overwhelmingly (70% of respondents) supported the £24 increase. Each 1% increase in council tax in 2019/20 generates £1.65m. 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 2020/21 to 2022/23

	RISK DESCRIPTION	RISK ASSESSMENT			SENSITIVITY
		Likelihood	Impact	Total	
1	That the Force is unable to deliver the full £10.4m of identified budget cuts over the three year period 2020/21 to 2022/231 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	The new 4 year Medium Term Capital Plan only includes known schemes which means that there are only a few schemes starting in 2020/21 and 2021/22. Although a notional £10m has been included in the narrative part of the report this is not yet funded. Any additional capital expenditure over and above the £70.976m currently identified with a direct impact on future year revenue budgets since any new capital investment will have to be funded via Direct Revenue Funding or external borrowing, which lead to higher debt charges	2	4	8	The new capital investment requirement from 2021/22 onwards is likely to be at least £5m per annum. If funded through higher DRF this will have a direct £ for £ impact on the revenue budget If funded through borrowing each £1m will result in revenue debt charges of around £45,000 per annum depending on the asset to be financed and borrowing interest rates prevalent at the time
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 £1.3m (estimated level at 31.3.23) which could be called upon in an emergency
4	That the pensions grant is not baselined and included in future grant settlements from 2020/21 onwards	2	4	8	The pensions grant is currently worth £4.3m

		Likelihood	Impact	Total	
5	That there is insufficient money in the Optimisation Bias (OB) reserve to fund increases in capital scheme costs over the next 4 years. Any additional monies would have to come from other balances (but limited scope) or additional revenue contributions	2	3	6	The OB assessment for schemes in the new 4 year capital plan is £12.769m but the OB reserve is 28% (or £3.64m) lower at £9.13m
6	That the PCC and/or Police and Crime Panel is unable to support a 2% per annum increase in council tax in 2020/21 and later years	2	3	6	Each 1% increase in council tax generates approximately £1.65m
7	That the taxbase will not grow at the assumed annual rate of 1.5% in 2020/21 and later years	3	2	6	The annual increase in 2019/20 is 1.54%, This is lower than the average increase in taxbase in the previous 5 years which was 1.8%. Each 1% increase in taxbase generates additional council tax income of around £1.65m
8	That the surplus on collection funds is less than the £1.25m per annum currently budgeted for	3	2	6	The estimated surplus in 2019/20 is lower than the last 6 years.
9	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.
10	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.
11	There is inadequate provision in the insurance fund and annual revenue contributions to meet liabilities as they fall due	2	3	6	The draft report from the Insurance Actuary indicated that the estimated liability at 31st March would increase by £0.26m compared to the previous year. The Actuary has also indicated that the Force should make an annual contribution of £2.8m, which is £0.9m higher than the current budget provision. We will monitor the insurance fund very carefully and review again as part of the 2020/21 budget preparation process

		Likelihood	Impact	Total	
12	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 approximately £3.2m
13	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 2019/20 is £6.8m. Future cuts in grant will be matched by a reduction in the resources provided to this area of business.
14	That due to the impact of the new police funding formula, potentially in 2021/22, 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 £2.2m.
15	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 £1.65m. 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 ESTABLISHMENTS 2019/20 to 2022/23

Over the last seven years we have experienced significant reductions in manpower. The investment included in the budget for Improved Services to the Public, Increasing local Front Line Policing and Improving Investigative capacity all require additional resources. Work is in progress to identify the most effective mix of resources and hence the indicative numbers in the following table may change.

	Police	Police Staff	PCSOs	Total
Original Estimated Establishment at March 2018	**3,870.50**	**2,709.60**	**418.00**	**6,998.10**
2018/19 In Year Adjustments:				
MASH Growth	7.00	(7.00)		-
Contact Management		17.00		**17.00**
Federation Representatives	1.60			**1.60**
Armed Response Vehicle Growth	1.00			**1.00**
Regional Special Branch	(1.00)	(4.00)		**(5.00)**
Regional CTFSOs (Holding Account)	(29.00)			**(29.00)**
Revised Estimated Establishment at March 2019	**3,850.10**	**2,715.60**	**418.00**	**6,983.70**
2019/20 Adjustments:				
Productivity Plan Savings	(42.50)	(15.50)	(10.00)	**(68.00)**
Productivity Plan - workforce modernisation	(11.00)	11.00		-
Case Investigators - Temporary Growth		(95.00)		**(95.00)**
Case Investigators - Permanent Growth		40.00		**40.00**
Learning & Professional Development	1.00	3.00		**4.00**
Vetting		2.50		**2.50**
Information Management		2.00		**2.00**
ICT Analyst for Technology Investment		1.00		**1.00**
Improved Service to the Public		48.00		**48.00**
Increasing Front Line Service	26.00	56.00		**82.00**
Improved Volume and Complex Investigation	31.00	41.00		**72.00**
Externally funded		15.00		**15.00**
Insourcing of Detention Officers (TUPE)		124.00		**124.00**
Estimated Establishment at March 2020	**3,854.60**	**2,948.60**	**408.00**	**7,211.20**
2020/21 Adjustments				
Productivity Plan Savings	(3.00)	(63.70)		**(66.70)**
ICT Analyst for Technology Investment		(1.00)		**(1.00)**
Remove Temporary Major Ops Uplift	(4.00)			**(4.00)**
Increasing Front Line Service				-
Improved Volume and Complex Investigation	10.00	8.00		**18.00**
Estimated Establishment at March 2021	**3,857.60**	**2,891.90**	**408.00**	**7,157.50**
2021/22 Adjustments				
Improved Service to the Public		(45.00)		(45.00)
UCPI / IICSA Public Enquiries		(6.00)		**(6.00)**
Productivity Plan Savings		(8.50)		**(8.50)**
Estimated Establishment at March 2022	**3,857.60**	**2,832.40**	**408.00**	**7,098.00**
2022/23 Adjustments				
Productivity Plan Savings				-
Estimated Establishment at March 2022	**3,857.60**	**2,832.40**	**408.00**	**7,098.00**

MEDIUM TERM FINANCIAL PLAN (2019/20 – 2022/23)

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 46 to 48.

	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000
Annual Base Budget	391,471	419,914	426,472	433,260
Inflation	10,659	8,559	8,701	8,926
Productivity Savings	- 4,765	- 3,593	- 4,802	- 1,969
Committed Expenditure	13,347	1,277	619	- 65
Current Service	- 6,125	528	0	0
Improved Service	14,142	155	2,524	- 792
In Year Appropriations	1,185	- 368	- 254	924
Net Budget Requirement	**419,914**	**426,472**	**433,260**	**440,284**
Total External Funding	**- 419,914**	**- 426,472**	**- 433,260**	**- 440,284**
Cumulative Budget (Surplus)/Shortfall	***0***	***0***	***0***	***0***
Annual Budget (Surplus)/Shortfall	***0***	***0***	***0***	***0***

Note: *the opening budget position for 2019/20 (£391.471m) is lower than the published approved net budget for 2018/19 since £14.523m of specific grant income is now treated as local police income, rather than being included in Home Office grants, in order to be consistent with the way that Net Revenue Budget Requirements are published in CIPFA Police Statistics*

Budget Risk & Uncertainties

2. As with all planning and assumptions, there are a number of risks and issues which have yet to, or cannot be, quantified. These are highlighted and explained below in the National and Local subsections:

National

3. The significant increase in police officer pension contributions has largely been funded in 2019/20 by the pensions grant and increase in core grant. However, although we are assuming that government grants will be maintained at 'flat cash' from 2020/21 onwards there is no guarantee at this stage that the specific pensions grant will be baselined and maintained at the current cash level in future years

4. The reduction in the discount rate which has caused the significant increase in the employer's contribution of the police pensions will also impact the Staff LGPS valuation which is due next year to inform the 2020/21 budget round. At this stage the impact on the LGPS employer's contribution rates is not expected to be as significant as for the Police scheme and an increase of 1% or £0.9m has been included for 2020/21 at this stage.

5. The potential conclusion of the Brexit discussions have yet to be quantified in terms of government policy for future years and the consequential impact this may have on police funding and grant allocations. Internal procurement work has been undertaken to assess the potential risks which could add an additional pressure to the budget requirement in later years.

6. Police and Staff pay awards are currently forecast at an annual increase of 2%. Given the rising costs of inflation and full employment this may not be sufficient to maintain our resourcing levels. A 1% pay award equates to £3m.

7. The Home Office review of the national police funding formula is still being discussed, but no further information is expected until after the Spending Review in 2019. Each 1% reduction in funding would mean cuts of approximately £2.1m per annum.

8. Further top slicing of the national police grant for the IPCC/HMIC and/or for the creation of new funds (like the Transformation Fund) could reduce the quantum available for distribution to local forces

Local

9. The MTFP assumes an increase of council tax income of £24 or 13.1% in 2019/20 and 2% per annum thereafter. The actual decision on these increases is down to the PCC subject to capping legislation, and will be taken in each of the respective budget setting years. A 1% variation on council tax income equates to approximately £1.65m.

10. Police recruitment and retention suffered severe challenges over the last two years but the expectation is that we will reach full police establishment by the end of 2018/19 or early in the new financial year and we will then continue to increase our strength in line with the additional investment. There is a risk that either recruitment numbers will not be achieved as anticipated or wastage will rise beyond currently predicted levels meaning we cannot achieve the levels anticipated within the timescales. Significant work is currently underway to mitigate this risk.

11. In addition, the increased level of turnover means that we have a higher percentage of new and recently qualified police officers depleting the overall level of skills and knowledge within the organisation. This could impact on service delivery even if we maintain our numbers.

12. Recruitment of police officers is due to move primarily to the apprenticeship scheme within the next year. This is clearly a new venture for the police and as such has a level of risk associated.

13. The prioritisation of our ICT & Technology investment still requires a final review to reduce the scope and level of investment to within our financial resources available. This may lead to some schemes and expenditure being delayed or varying from the profile of spend as allowed for in the MTFP. Additionally, as we continue to invest in new technology there is an element of estimation in relation to the ongoing revenue support costs.

14. Delivery of the scheduled savings within the productivity plan are considered to be fully achievable and hence included to support the current MTFP.

15. Unquantified demand, whether new operational demand or investment requirements, for example to utilise a national technology initiative may impact on these estimates.

Thames Valley Police
Medium Term Financial Plan 2019/20 - 2022/23

		2019/20	2020/21	2021/22	2022/23
Annual Base Budget		**391,470,964**	**419,913,596**	**426,472,247**	**433,260,203**
In Year Funding Virements		**0**	**0**	**0**	**0**
Inflation					
General		1,045,262	1,084,087	1,094,184	1,098,288
Police Pay		3,939,492	4,280,055	4,344,323	4,426,154
Police Staff Pay		2,380,711	2,509,627	2,635,300	2,684,273
Specific		3,293,603	685,043	627,309	717,584
Inflation		**10,659,068**	**8,558,812**	**8,701,116**	**8,926,299**
Productivity Strategy					
Collaborative Units		-2,938,781	-2,028,000	-669,000	-400,000
Value for Money Reviews		-631,125	-483,860	-3,132,698	-569,324
Efficiency & Effectiveness Reviews		-1,194,818	-1,080,890	-1,000,000	-1,000,000
Total Productivity Strategy Savings		**-4,764,724**	**-3,592,750**	**-4,801,698**	**-1,969,324**
Committed Expenditure					
	Police Officer - Pay Allowances				
78	Police Allowances Adjustments	-414,031	-109,589	-85,503	-118,025
79	Police Office Increments	1,156,492	1,300,000	1,300,000	1,300,000
80	Police Officer Turnover	-2,422,944	-2,380,000	-2,380,000	-2,380,000
81	Police Officer Reserve Funding for Bank Holidays	185,000	187,000	374,000	-187,000
82	Police Officer Vacancy Factor Due to Recruitment	3,198,119	0	0	0
83	Police Pensions Review	9,504,000	0	0	0
	Police Officer - Pay Allowances	*11,206,636*	*-1,002,589*	*-791,503*	*-1,385,025*
	Police Staff - Pay Allowances				
84	Police Staff Turnover	-350,000	-350,000	-350,000	-350,000
85	Police Staff Reserve Funding for Bank Holidays	30,000	30,000	60,000	-30,000
86	Apprentice Scheme Levy income	-250,000	0	0	0
87	Case Investigators	1,400,000	0	0	0
88	LGPS Review	-390,000	900,000	0	0
116	Police Staff Pay Award	1,700,000	1,700,000	1,700,000	1,700,000
	Police Staff - Pay Allowances	*2,140,000*	*2,280,000*	*1,410,000*	*1,320,000*
Committed Expenditure		**13,346,636**	**1,277,411**	**618,497**	**-65,025**
Current Service					
	Support Services				
90	Review of Debt Charges	64,598	182,263	0	0

91	Community Safety Fund Expenditure	50,000	0	0	0
92	Case Investigators to offset Officer Shortage	-3,613,343	0	0	0
94	Regional Funding for ROCU	601,033	340,000	0	0
95	Review of Operational Expenses	140,000	0	0	0
96	Increase in L&D Requirements	118,293	0	0	0
97	Increase in Vetting Requirements	98,723	0	0	0
121	NPAS Utilisation Growth	369,000	0	0	0
	Support Services	*-2,171,696*	*522,263*	*0*	*0*
	Income				
93	Review of Income	308,654	0	0	0
113	Changes to Loan Charges Grant	37,554	5,739	0	0
117	Police Pensions Review Grant	-4,300,000	0	0	0
	Income	*-3,953,792*	*5,739*	*0*	*0*
Current Service		**-6,125,488**	**528,002**	**0**	**0**
Improved Service					
	Support Services				
98	Technology Investment Through DRF	4,800,000	-755,654	4,539,301	13,474
99	ESN Implementation Costs	0	381,600	381,600	0
100	Increase in Major Operations Teams	0	-146,000	0	0
101	Review of NLEDS	10,000	0	0	0
102	Review of Data Protection Requirements	76,172	0	0	0
119	CT Security Co-ordinator	79,000	0	0	0
120	PSD Protective Monitoring	48,000	0	0	0
122	Improved Services to the Public through Contact Management	1,260,000	461,500	-1,597,500	0
123	Increasing Local Front Line Policing and Service Delivery	2,500,000	4,000	0	0
124	Improved Investigative Capacity and Process for Complex Crimes	2,240,000	917,000	450,000	0
125	Increasing Our Digital Development Programmes	2,500,000	-1,195,000	-990,000	0
	Support Services	*13,513,172*	*-332,554*	*2,783,401*	*13,474*
	Legal & Compliance				
103	HVM Works for Windsor	-250,000	0	0	0
	Legal & Compliance	*-250,000*	*0*	*0*	*0*
	Specific Revenue Funded Projects				
104	Revenue Maintenance for Properties	240,000	315,000	-180,000	-510,000
105	Investment for ICT Rationalisation	-822,000	-164,400	0	0
106	UCPI/ IICSA Public Enquiries	0	0	0	-197,000
	Specific Revenue Funded Projects	*-582,000*	*150,600*	*-180,000*	*-707,000*
	ICT Projects				
107	ICT Revenue Projects	1,461,000	336,730	-79,360	-98,640
	ICT Projects	*1,461,000*	*336,730*	*-79,360*	*-98,640*
Improved Service		**14,142,172**	**154,776**	**2,524,041**	**-792,166**
In Year Appropriations From Reserves					
	Appropriations from Performance Reserve				
108	Appropriations from the I&P Reserve	582,000	-150,600	180,000	707,000

	Appropriations from Performance Res	*582,000*	*-150,600*	*180,000*	*707,000*
	Appropriations from General Balances				
109	Appropriations from General Balances	652,968	-217,000	-434,000	217,000
110	Appropriation from Earmarked Reserves	-50,000	0	0	0
	Appropriations from General Balances	*602,968*	*-217,000*	*-434,000*	*217,000*
In Year Appropriations From Reserves		**1,184,968**	**-367,600**	**-254,000**	**924,000**

Net Budget Requirement	**419,913,596**	**426,472,247**	**433,260,203**	**440,283,987**
Percentage Budget Increase	**7.27%**	**1.56%**	**1.59%**	**1.62%**
Cash Budget Increase	**28,442,632**	**6,558,651**	**6,787,956**	**7,023,784**

Funded By:

Opening Budget		**-391,470,964**	**-419,913,596**	**-426,472,247**	**-433,260,203**
In Year Funding Virements		**0**	**0**	**0**	**0**

Funding Changes

	Formula Grant				
274	Police Grant Funding Changes	-3,028,537	0	0	0
304	Formula Grant Allocation Changes	-1,425,633	0	0	0
	Formula Grant	*-4,454,170*	*0*	*0*	*0*
	Council Tax Requirement				
305	Council Tax Precept Requirement	-24,237,272	-6,558,651	-6,787,956	-7,023,784
307	Council Tax - Surplus on Collections	248,810	0	0	0
	Council Tax Requirement	*-23,988,462*	*-6,558,651*	*-6,787,956*	*-7,023,784*
Funding Changes		**-28,442,632**	**-6,558,651**	**-6,787,956**	**-7,023,784**
Total External Funding		**-419,913,596**	**-426,472,247**	**-433,260,203**	**-440,283,987**

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

Analysis Of Growth Items

Ref	Details	2019/20	2020/21	2021/22	2022/23

Committed Expenditure

Police Officer - Pay Allowances

Ref	Details	2019/20	2020/21	2021/22	2022/23
78	**Police Allowances Adjustments** Review of Police Officer allowances against the predicted establishments and joiners and leavers.	-414,031	-109,589	-85,503	-85,503
79	**Police Office Increments** Review of annual increments payable to Police Officers based on length of service and rank.	1,156,492	1,300,000	1,300,000	1,300,000
80	**Police Officer Turnover** Review of Police pay budgets taking into account leavers and joiners and the change in salary make-up.	-2,422,944	-2,380,000	-2,380,000	-2,380,000
81	**Police Officer Reserve Funding for 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. 2019/20: Total 08 days - no adjustment 2020/21: Total 09 days - 1 additional day 2021/22: Total 11 days - 2 additional days 2022/23: Total 10 days - 1 additional day	185,000	187,000	374,000	374,000
82	**Police Officer Vacancy Factor Due to Recruitment** Removal of vacancy factor due to recruitment lag from around achieving and maintaining the desired Police Officer establishment numbers	3,198,119	0	0	0
83	**Police Pensions Review** Review of Police Pension Contributions - HMT Pensions directions	9,504,000	0	0	0
Total	**Police Officer - Pay Allowances**	**11,206,636**	**-1,002,589**	**-791,503**	**-1,385,025**

Police Staff - Pay Allowances

Ref	*Details*	*2019/20*	*2020/21*	*2021/22*	*2022/23*
84	**Police Staff Turnover** 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	-350,000	-350,000
85	**Police Staff Reserve Funding for 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. 2019/20: Total 08 days - no adjustment 2020/21: Total 09 days - 1 additional day 2021/22: Total 11 days - 2 additional days 2022/23: Total 10 days - 1 additional day	30,000	30,000	60,000	60,000
86	**Apprentice Scheme Levy income** Income derived to cover the cost of running and implementing various apprentice schemes across the force.	-250,000	0	0	0
87	**Case Investigators** Growth of 40 Case Investigators to support LPA's and Digital Investigations	1,400,000	0	0	0
88	**LGPS Review** Review of the LGPS costs	-390,000	900,000	0	0
116	**Police Staff Pay Award** Funding for the Police Staff performance related pay awards	1,700,000	1,700,000	1,700,000	1,700,000
Total	**Police Staff - Pay Allowances**	**2,140,000**	**2,280,000**	**1,410,000**	**1,320,000**

Total Committed Expenditure	**13,346,636**	**1,277,411**	**618,497**	**-65,025**

Current Service

Support Services

90	**Review of Debt Charges** Anticipated revenue changes associated with changes to borrowing requirements as the capital programme funding is reviewed.	64,598	182,263	0	0

Ref	*Details*	*2019/20*	*2020/21*	*2021/22*	*2022/23*
91	**Community Safety Fund Expenditure** Community Safety Fund - Increase in funding from specific earmarked reserve.	50,000	0	0	0
92	**Case Investigators to offset Officer Shortage** Removal of the temporary investment in case investigators to offset the previous shortfall in Police Officer numbers against target establishment.	-3,613,343	0	0	0
94	**Regional Funding for ROCU** Funding contribution for the South East ROCU	601,033	340,000	0	0
95	**Review of Operational Expenses** Review of operational expenses based on demand and historic profiles.	140,000	0	0	0
96	**Increase in L&D Requirements** Additional Learning and Development resources to support the increase in recruitment of staff and officers.	118,293	0	0	0
97	**Increase in Vetting Requirements** Additional Vetting advisors to support Police Office and Staff recruitment.	98,723	0	0	0
121	**NPAS Utilisation Growth** NPAS Utilisation growth requirement based on the national NPAS funding formula.	369,000	0	0	0
Total	**Support Services**	**-2,171,696**	**522,263**	**0**	**0**

Income

93	**Review of Income** Review of expected income levels based on previous trends and legislation.	308,654	0	0	0
113	**Changes to Loan Charges Grant** Changes to Loan Charges Grant	37,554	5,739	0	0
117	**Police Pensions Review Grant** Police Pensions - Specific Grant Funding	-4,300,000	0	0	0
Total	**Income**	**-3,953,792**	**5,739**	**0**	**0**

Ref Details	2019/20	2020/21	2021/22	2022/23
Total Current Service	**-6,125,488**	**528,002**	**0**	**0**

Improved Service

Support Services

Ref Details	2019/20	2020/21	2021/22	2022/23
98 Technology Investment Through DRF Direct Revenue Funding for investment in technology and infrastructure delivery.	4,800,000	-755,654	4,539,301	4,539,301
99 ESN Implementation Costs Estimated implementation costs for the National Emergency Services Network (ESN).	0	381,600	381,600	381,600
100 Increase in Major Operations Teams Temporary increase in the Major Operations team to take account of known events and expected operations over the next two years.	0	-146,000	0	0
101 Review of NLEDS NLEDS Review - Funding for initial Business Analysis Work.	10,000	0	0	0
102 Review of Data Protection Requirements Increased resources for data Protection to support legislation.	76,172	0	0	0
119 CT Security Co-ordinator CT security Co-ordinator	79,000	0	0	0
120 PSD Protective Monitoring Professional Standards protective monitoring software	48,000	0	0	0
122 Improved Services to the Public through Contact Management The rise in demand and the complexity of that demand have increased the length of time it takes to assess the threat, harm and risk and ensure every call receives the appropriate response. We will reduce call handling times, particularly for 101 calls, by recruiting additional staff to deal with the additional demand and more complex crime and incidents being reported.	1,260,000	461,500	-1,597,500	-1,597,500

Ref	Details	2019/20	2020/21	2021/22	2022/23
123	**Increasing Local Front Line Policing and Service Delivery** We will recruit additional officers and staff to respond to increasing crime demand and complexity and the impact (particularly in the areas of mental health and children’s safeguarding) of the reduction in the resources of and services provided by other agencies.	2,500,000	4,000	0	0
124	**Improved Investigative Capacity and Process for Complex Crimes** Stretched resources are operating in an increasingly expanding and complex environment with investigations at all levels growing in size and complexity. There has been an impactive increase in organised crime which exploits the vulnerable as well as cyber enabled crime fraud and economic crime. We will recruit more investigators and invest in appropriate new technology and tools.	2,240,000	917,000	450,000	450,000
125	**Increasing Our Digital Development Programmes** We will exploit the modern platforms we have been investing in through the development of operational designed tools, expanding our mobile capability and improving connectivity will allow officers and staff to maximise the use of online digital applications facilitating the fast access and transfer of data, while investing in Intelligence technologies will improve the efficiency of transactional processes.	2,500,000	-1,195,000	-990,000	-990,000
Total	**Support Services**	**13,513,172**	**-332,554**	**2,783,401**	**13,474**

Legal & Compliance

Ref	Details	2019/20	2020/21	2021/22	2022/23
103	**HVM Works for Windsor** Removal of one off costs for HMV works in Windsor.	-250,000	0	0	0
Total	**Legal & Compliance**	**-250,000**	**0**	**0**	**0**

Specific Revenue Funded Projects

Ref	Details	2019/20	2020/21	2021/22	2022/23
104	**Revenue Maintenance for Properties** Revenue maintenance funding for various building and properties.	240,000	315,000	-180,000	-180,000
105	**Investment for ICT Rationalisation** Reduction in previous years investment in the ICT rationalisation programme.	-822,000	-164,400	0	0

Ref	*Details*	*2019/20*	*2020/21*	*2021/22*	*2022/23*
106	**UCPI/ IICSA Public Enquiries** Funding for temporary staff to support the national undercover policing and child sexual abuse enquiries.	0	0	0	0
Total	**Specific Revenue Funded Projects**	**-582,000**	**150,600**	**-180,000**	**-707,000**

ICT Projects

107	**ICT Revenue Projects** Funding for identified ICT revenue projects to maintain and improve the infrastructure.	1,461,000	336,730	-79,360	-79,360
Total	**ICT Projects**	**1,461,000**	**336,730**	**-79,360**	**-98,640**

Total	**Improved Service**	**14,142,172**	**154,776**	**2,524,041**	**-792,166**

In Year Appropriations From Reserves

Appropriations from Performance Reserve

108	**Appropriations from the I&P Reserve** Appropriation of funding to support specific revenue projects from the Improvement and Performance reserve.	582,000	-150,600	180,000	180,000
Total	**Appropriations from Performance Reserve**	**582,000**	**-150,600**	**180,000**	**707,000**

Appropriations from General Balances

109	**Appropriations from General Balances** Appropriation to General Reserves	652,968	-217,000	-434,000	-434,000
110	**Appropriation from Earmarked Reserves** Community Safety Funding From Earmarked Reserve	-50,000	0	0	0

Ref	*Details*	*2019/20*	*2020/21*	*2021/22*	*2022/23*
Total	**Appropriations from General Balances**	**602,968**	**-217,000**	**-434,000**	**217,000**
Total	**In Year Appropriations From Reserves**	**1,184,968**	**-367,600**	**-254,000**	**924,000**

Funding Changes

Formula Grant

111	**Police Grant Funding Changes** Changes in funding received through the main government police grant.	-3,028,537	0	0	0
112	**Formula Grant Funding Changes** Changes in funding received through the ex-DCLG Grant Allocation.	-1,425,633	0	0	0
Total	**Formula Grant**	**-4,454,170**	**0**	**0**	**0**

Council Tax Requirement

114	**Council Tax Precept Changes** Council Tax Requirement Changes for Precept Billing	-24,237,272	-6,558,651	-6,787,956	-6,787,956
115	**Council Tax Surplus on Collection Changes** Council Tax - Surplus on Collections	248,810	0	0	0
Total	**Council Tax Requirement**	**-23,988,462**	**-6,558,651**	**-6,787,956**	**-7,023,784**
Total	**Funding Changes**	**-28,442,632**	**-6,558,651**	**-6,787,956**	**-7,023,784**

		2019/20 Year 1			2020/21 Year 2			2021/22 Year 3			2022/23 Year 4			TOTAL		
		Police	Staff	£	Police	Staff	£	Police	Staff	£	Police	Staff	£	Police	Staff	£
Collaborative Units																
303	Joint ICT Unit	0.00	0.00	332,200	0.00	0.00	192,000	0.00	0.00	369,000	0.00	0.00	400,000	**0.00**	**0.00**	**1,293,200**
382	Review of Contact Management Function	0.00	0.00	0	0.00	8.50	300,000	0.00	8.50	300,000	0.00	0.00	0	**0.00**	**17.00**	**600,000**
397	Business Support Review	0.00	0.00	0	0.00	49.70	1,536,000	0.00	0.00	0	0.00	0.00	0	**0.00**	**49.70**	**1,536,000**
476	Regionalisation of Special Branch	0.00	0.00	250,000	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	**0.00**	**0.00**	**250,000**
486	Joint Operations Units Rationalisation	36.50	0.00	2,356,581	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	**36.50**	**0.00**	**2,356,581**
		36.50	**0.00**	**2,938,781**	**0.00**	**58.20**	**2,028,000**	**0.00**	**8.50**	**669,000**	**0.00**	**0.00**	**400,000**	**36.50**	**66.70**	**6,035,781**
Value for Money Reviews																
336	PCSOs Review	0.00	10.00	165,000	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	**0.00**	**10.00**	**165,000**
375	Estates Review through the Asset Management Plan	0.00	0.00	168,091	0.00	0.00	204,977	0.00	0.00	334,787	0.00	0.00	378,245	**0.00**	**0.00**	**1,086,100**
413	Review of Transport Costs	0.00	0.00	200,000	0.00	0.00	200,000	0.00	0.00	0	0.00	0.00	0	**0.00**	**0.00**	**400,000**
414	Review of Property & Premises Costs	0.00	0.00	66,988	0.00	0.00	128,883	0.00	0.00	80,563	0.00	0.00	191,079	**0.00**	**0.00**	**467,513**
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	0	**0.00**	**0.00**	**2,467,348**
477	Review of Uniform Requirements	0.00	0.00	-150,000	0.00	0.00	-50,000	0.00	0.00	0	0.00	0.00	0	**0.00**	**0.00**	**-200,000**
478	Alarms TecSOS Phones	0.00	0.00	181,046	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	**0.00**	**0.00**	**181,046**
487	Abingdon PFI Contract Renegotiation	0.00	0.00	0	0.00	0.00	0	0.00	0.00	250,000	0.00	0.00	0	**0.00**	**0.00**	**250,000**
		0.00	**10.00**	**631,125**	**0.00**	**0.00**	**483,860**	**0.00**	**0.00**	**3,132,698**	**0.00**	**0.00**	**569,324**	**0.00**	**10.00**	**4,817,007**
Efficiency & Effectiveness Reviews																
446	Criminal Justice	0.00	1.00	100,104	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	**0.00**	**1.00**	**100,104**

		2019/20			2020/21			2021/22			2022/23					
		Year 1			Year 2			Year 3			Year 4			TOTAL		
		Police	Staff	£	Police	Staff	£	Police	Staff	£	Police	Staff	£	Police	Staff	£
488	Efficiency & Effectiveness - FISO	8.00	10.00	776,547	3.00	2.00	214,184	0.00	0.00	0	0.00	0.00	0	**11.00**	**12.00**	**990,731**
489	Efficiency & Effectiveness - Criminal Justice	0.00	0.00	100,000	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	**0.00**	**0.00**	**100,000**
490	Efficiency & Effectiveness - Force Crime	9.00	-6.50	159,682	0.00	3.50	116,706	0.00	0.00	0	0.00	0.00	0	**9.00**	**-3.00**	**276,388**
491	Efficiency & Effectiveness - Operational Review	0.00	0.00	58,485	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	**0.00**	**0.00**	**58,485**
522	Future E&E Reviews	0.00	0.00	0	0.00	0.00	750,000	0.00	0.00	1,000,000	0.00	0.00	1,000,000	**0.00**	**0.00**	**2,750,000**
		17.00	**4.50**	**1,194,818**	**3.00**	**5.50**	**1,080,890**	**0.00**	**0.00**	**1,000,000**	**0.00**	**0.00**	**1,000,000**	**20.00**	**10.00**	**4,275,708**
	Force Totals	**53.50**	**14.50**	**4,764,724**	**3.00**	**63.70**	**3,592,750**	**0.00**	**8.50**	**4,801,698**	**0.00**	**0.00**	**1,969,324**	**56.50**	**86.70**	**15,128,496**

MEDIUM TERM CAPITAL PLAN 2019/20 to 2022/23

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.

Medium Term Capital Plan – Overview

2. The Medium Term Capital 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 2019/20.

3. 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 continues to include provision for the Emergency Services Mobile Communications Project (EMSCP), the national replacement of airwave services.

4. The cost and funding estimates within this 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.

5. 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 have a particularly high impact when relating to the development of Information and Communication Technology. The OB reserve continues to be reviewed in relation to the size of the MTCP, the recent review identified an OB estimate of **£12.769m** to support the level of planned investment.

6. Having already utilised £2.872m during 2018/19 the OB reserve currently stands at **£9.129m**, therefore there is a potential shortfall of £3.640m if all capital schemes were to require additional funding. However, this is unlikely and increased funding for the OB is not being sought at this time, but OB reserve levels will be assessed and managed closely as projects in the proposed plan are completed.

Capital Programme – Summary

7. The MTCP builds on the existing capital plan approved in July 2018.

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 2019/20 to 2022/23 MTCP totals £70.976m, which includes £8.642m of project budget re-phased from 2018/19, reflecting re-planning and tendering processes. This is summarised in Table 1 below. A more detailed analysis is provided on pages 67 to 72, which details the various projects within each category of investment. It should be noted that expenditure in years 3 & 4 do not include any significant new projects or priority investment requirements over that period which results in an element of uncertainty regarding future costs. This is explored later in the report within the Issues for Consideration section.

SCHEDULE 1 : CAPITAL EXPENDITURE FORECAST SUMMARY - Including Tier 1 Growth Jan-19

	Total Spend 2018/19	2018/19 Budget Rephased to 2019/20 & later	New Spend 2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total 2019/20 to 2022/23 £000	Schedule Reference
Property	7,327	3,593	4,558	10,298	6,766	529	22,151	Schedule 2
ICT/ Business changes	16,857	3,066	15,428	4,248	2,736	3,574	25,986	Schedule 3
SECTU/ Tactical Firearms	1,336		-	-	-	-		Schedule 4
Equipment & Radio Replacement	3,444	1,983	3,661	4,405	796	150	9,012	Schedule 5
Vehicles	3,503		3,330	3,413	3,498	3,586	13,827	Schedule 6
Capital Projects Total to be Financed	**32,466**	**8,642**	**26,978**	**22,364**	**13,796**	**7,839**	**70,976**	
Financing Available	**39,910**		**18,121**	**22,813**	**13,783**	**13,688**	**75,848**	Schedule 7
Cumulative Funding Position (Existing Programme)	**7,443**		**-1,413**	**-964**	**-977**	**4,872**	**4,872**	
Potential Optimism Bias Reserve Requirement by year			**1,795**	**5,364**	**2,825**	**2,785**	**12,769**	N/A

10. Funding of the MTCP is shown in more detail on page 73. The Cumulative Funding Position row towards the bottom of this table and in table 1 above shows the balance of accumulated capital reserves at the end of each financial year. The table includes the impact of £5m additional borrowing being approved to support the Reading station replacement programme and reflects changes to the timing of capital receipts. This implies that at the end of 2019/20 there will be a shortfall of £1.413m but that overall there is a small surplus of £4.872m across the period. The indications are therefore that we plan to spend slightly more in years 1 to 3 than we can afford to fund from available reserves and forecast capital income.

11. 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.

12. The Optimism Bias Reserve will only be drawn upon if needed, on a project by project basis. Some OB funding may not be required if projects complete within their original budget allocations. The recent OB reserve review based on the MTCP submitted to day suggests a revised OB of £12.769m would be advisable, however at this time it is felt that the existing reserve (£9.129m) should be sufficient and will be managed and reviewed as we progress through the plan period and projects are completed.

13. Any new future capital projects approved would be included with a specific OB allocation assigned to the scheme cost, or separately within the capital programme. The table below provided for information is a summary of the potential OB requirement over time and is based on the recent review.

Potential Optimism Bias Reserve Requirement by year	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total 2019/20 to 2022/23
Optimism Bias Reserve - Property	62	256	140	921	1,379
Optimism Bias Reserve - ICT / Business Change	1,733	5,108	2,685	108	9,634
Optimism Bias Reserve - Equipment & Radio Replacement				1,756	1,756
Potential Optimism Bias Reserve	**1,795**	**5,364**	**2,825**	**2,785**	**12,769**

The Capital Programme – New or Revised Major Schemes

14. The significant new projects or scheme changes since the current MTCP was approved in July 2018 are listed below and for ease of identification are listed at the bottom of the relevant schedules (2 & 3) within Appendix 1. The majority of new projects have been previously presented to the PCC in Draft for review in November, but are included here again for completeness. Following the provisional police grant settlement in December an additional £2.1m of development opportunities have been provided for to improve the overall effectiveness of policing, recorded in Schedule 3 of Appendix 1.

Property Services – Schedule 2

15. The Property Services 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 £0.875m. There are 2 new schemes shown; the first being infrastructure work at building 249 Upper Heyford. The second relates to the long term solution for CTFSO accommodation, which is still being assessed for requirement. Two other key projects, Reading and Windsor, are also discussed below.

- **Upper Heyford – Building 249:** This bid is to secure funding to do urgent infrastructure works on the building including replacement roof, improved heating & insulation and alterations to allow intensification of use. This programme of work will be dependent on TVP securing a new long term lease (20 years) for the building.

- **Long Term CTFSO accommodation:** There is a regional requirement, agreed by all of the SE Forces, to provide suitable accommodation for the CTSFO capability. A temporary facility for this specialist operation unit has been developed at Sulhamstead, however this has time limited planning permission. The long term solution continues to be assessed and as such costs are as yet unidentified. Depending on the final solution a grant application may be made to the Home Office to support the funding required. An update will be brought to future meetings.

- **Reading:** The replacement of Reading Police Station still remains an important part of the estate programme. The PCC has previously approved borrowing of £5m to support the estimated budgeted cost of £10m. It is now recommended that the PCC borrows to fund the full cost of the project (£10m) in 2020/21. The anticipated sales receipt no longer falls within the anticipated MTCP period but will be available to fund future capital investment, beyond the current MTCP period.

- **Windsor:** This project was originally intended to redevelop the current Alma Road site to provide a smaller Police Office and allow the remainder of the site to either be sold or redeveloped. Further consideration is now being given to the size & purpose of the policing requirement at the location and the potential solution, which could be refurbishment of the existing building or a new development, which could impact on the sale value. As such the previously anticipated £4m capital receipt may now not be realised and has been removed from the programme pending this review.

16. The PCC is asked to note that the schedule does not include provision for any additional costs that may occur in relation to the sale and redevelopment at Reading Police Station. In additional there are a number of Property Bids which would further enhance the utilisation of the TVP estate but are not prioritised as critical at this time.

ICT, Digital Policing & Force Change - Schedule 3

17. The ICT 5 year Strategy Roadmap and Digital Policing plans made and approved last year are continuing to progress to modernise the legacy infrastructure and create a solid technology platform, from which forces can continue to transform working practices.

18. This year a number of bids from across the Force, affecting ICT, are being prioritised as essential by both CCMT and partner forces, some of which are completely new and some are supporting existing programmes and areas of work. These bids total £3.779m. In addition CCMT have prioritised a further £2.130m of potential TVP specific projects that will provide either improved volume or complex crime investigation or are development opportunities. In total there are £5.909m of new bids within the programme.

19. Although only predominantly Tier 1 items have been included within the MTCP presented today, there are a high number of bids excluded that remain a lower priority but which may result in future bids being resubmitted in the coming years. These cannot be supported at this time, primarily due to resourcing and financial constraints. They are reflected to some extent in the future capital investment capacity identified in 2021/22 & 2022/23 – see paragraphs 24 and 25.

20. The new bids are shown at the bottom of schedule 3. Examples of prioritised Project Bids include:

- **PACE Interview Recording Equipment:** This is a previously approved bid from Criminal Justice to replace all aged and unsupported PACE recording equipment with new, digitally enabled equipment and storage. The final solution is still being reviewed but potentially the full cost of the solution could be up to £1.257m hence an uplift of £0.857m is required.
- **Office 365.** This is one of the approved ICT Roadmap projects identified last year. A robust project cost has now been identified reflecting the new National Enabling Programme (NEP) requirements for implementation. Additional funding of £0.671m between forces is required bringing total implementation costs up to just over £2.1m between Hampshire Constabulary (HC) & TVP. Both cash and efficiency benefits are expected from this programme but are yet to be formerly identified.
- **Child Abuse Image Database (CAID) 4:** A Home Office mandated project identified by Force Crime to upgrade force infrastructure to enable download, upload and viewing video imaging to and from the CAID system, to support criminal investigations. This is a joint TVP & HC project expected to cost £0.750m between forces.
- **Multiple project bids for additional funding:** There are 6 Tier 1 projects either in flight or not yet started, predominantly jointly funded, that have identified additional funding requirements of £1.376m (TVPs share) in order to complete. These include the BWV roll out (includes £0.127m to meet the requirement of the revised operating model), Data Governance, Citrix Migration, RMS additional funding, Livelink (sharepoint) and PSN programme extension.
- **Aceso specialist computers:** This is a project to renew the advanced computers used for evaluating mobile device information from Force Crime. Hampshire Constabulary are supporting an equivalent device renewal programme. The cost is circa £0.019m per device. The volume of devices is being reassessed but the total cost for TVP is likely to be over £0.5m.
- **Potential Additional Investment Opportunities (£2.130m):** Following the provisional police grant settlement work has identified that a number of Tier 2 projects provide further development/digitalisation opportunities to improve the effectiveness of the police service. They include, for example, a proof of concept on centralised forensic freezers, a reinstated allocation for Corporate Wifi that had been removed due to previous prioritisation, and additional funding for laptops or devices dependant on identified need.

<u>Other Items – Schedules 4-6 of Appendix 1</u>

General Annual Equipment Provisions

21. Annual provisions for non-specific capital equipment purchases and ANPR installation replacements are included throughout the MTCP period.

Fleet Vehicles

22. Vehicle fleet renewals through Chiltern Transport Consortium (CTC) are included in all years in the MTCP. Total spend on vehicles over the 4 years is expected to be about £13m, which includes anticipated inflationary increases. There is an element of uncertainty over the impact of Brexit and exchange rate fluctuations which may have a further negative impact on cost. The replacement plan in future years may also be impacted by developments in electric powered vehicles and the Forces' commitment to the environment.

Emergency Services Mobile Communications Project (ESMCP)

23. The current budget for ESMCP will need revisiting once the final national decisions about the roll-out plans have been agreed. The total project allocation, including some funds spent to date is £9.150m, which includes £4.8m for devices.

Future Capital Investment Capacity

24. It is recognised that in presenting the 4 year MTCP the later years have less clarity and we become less certain regarding the demands and opportunities facing the Force. We have articulated our clear prioritised intentions for the next 2 years but have limited information regarding new investment requirement in years 3 & 4 which makes forecasting uncertain. At present there are no new projects identified to start in that period. We can be clear however that it is extremely likely that we will require further capital investment in 2021/22 and later years beyond the simple refresh of fleet and computer hardware.

25. With this in mind if we consider the prospect of needing to invest a modest sum of £5m in both 2021/22 and 2022/23 to provide future investment capacity, cover national requirements or maintain core infrastructure, the small surplus of £4.872m currently shown at the end of 2022/23 would become a funding shortfall of £5.128m. The MTCP does not include forecasts for unspecified investment, but this a clear risk that needs to be highlighted. The likelihood is that any future investment moving the current MTCP into deficit would need to be funded by further external borrowing, which will have a consequential impact on the medium term revenue plan.

<u>Funding of the Medium Term Capital Plan 2019/20 to 2022/23:</u>

26. The MTCP presented for approval today comprises schemes and provides investment capacity totalling £70.976m for the next 4 years from 2019/20 to 2022/23. The total investment including the current year (2018/19) is £103.4m.

27. Funding the full programme will include the use of £20.5m of brought forward capital balances, £19.7m of capital receipts from finite asset sales (predominantly buildings and houses), £5.8m of previously approved earmarked reserves, £42.8m of Direct Revenue Financing, £5m of approved borrowing and £7.4m from Home Office capital grant. In addition the PCC is asked to approve an increase in borrowing relating to Reading Police Station of a further £5m.

28. A small funding surplus of £4.872m exists over the 4 year period, although a deficit is shown over the first 3 years. This is expected to be manageable since planned expenditure is rarely incurred according to the original profile and will be closely monitored.

29. As previously indicated, investment capacity in later years is not specifically identified, with no new projects forecast to start in 2021/22 or 2022/23. The likelihood is that either national, regional or local requirements will dictate a level of new investment over that period. A modest capital investment of, for example, £5m in each of the last 2 years of the plan would result in a funding shortfall of £5.128m which is likely to require further external borrowing to achieve.

Asset Sales

30. The value of asset sales over the MTCP period has been adjusted downward to reflect the expected timing of non-residential sales. This has reduced the available funding over the period by about £2.5m. Overall £15.9m of the £19.7m asset sales relates to police buildings and houses.

31. It is worth reiterating that towards the end of the programme these one-off sales tail off and will not continue to significantly support the programme beyond 2022/23 as the asset lists are significantly reduced and receipts become sporadic. It should be noted that the capital receipt for Reading Police Station is not currently shown in the forecast of capital receipts due to anticipated timing and the receipt for Windsor, previously recorded, has been removed whilst the plans for the property redevelopment are reconsidered.

Direct Revenue Financing

32. Direct Revenue Financing (DRF) has had to be increased to a minimum of £10m per annum in later years which places a significant burden on the revenue budget in future years since new bids will either, through new borrowing or DRF, directly affect the revenue budget as reserves and capital receipts are exhausted.

Vehicle Fleet and Core Equipment Refreshes

33. As we move forward about £7.5m per year is required to just maintain core equipment levels in terms of computer equipment, phones, other equipment and vehicles. This will absorb the majority of DRF in future and leave little scope for investment. New projects are very likely to require further borrowing which will increase the revenue burden through interest and capital repayments (MRP).

Optimism Bias (OB) Reserve

34. As indicated above, an assessment of Optimism Bias for the revised MTCP using HM Treasury guidance has been conducted which produces a potential requirement of £12.769m to significantly mitigate force financial risk.

35. Having supported delivery of CMP and other property work during 2018/19 the OB reserve currently stands at £9.129m. This implies a potential shortfall £3.640m and therefore represents a financial risk to the Force. The reserve is set aside to acknowledge bias in project costings. However our experience is that not all projects will need to draw on the reserve. Therefore it is felt that as we progress through the MTCP we can assess and manage the risk based on close monitoring of capital projects, falling back on Stage Gate reporting to control and mitigate new project risk.

36. In future budget rounds an assessment of the OB requirement will be included within the scheme bid and the prioritisation process and built into the capital programme.

Issues for Consideration

37. As mentioned earlier, beyond the current MTCP period capital receipts from one-off property sales and development will become increasingly more difficult to identify and realise. In the years following the MTCP there are currently only 2 potential significant identified receipts for the expected sale of Reading Police Station and the land at Gowell Farm in Bicester. The receipts are not expected to fall within the current MTCP period and neither the amounts nor timing can be identified with any element of certainty at this stage.

38. Revenue contributions to the Capital Programme have had to be increased significantly over the next 4 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. Further revenue funding is likely to be a future requirement through DRF or external borrowing. However the capacity to absorb this additional cost within the revenue budget is only likely to be achieved if further savings can be made – either driven by capital investment or though reductions in Force costs.

39. 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 are likely to 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.

    - **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

40. The schemes included in the 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 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.

41. The MTCP identifies total planned spend of £70.976m over the 4 year period 2019/20 to 2022/23. This includes £8.642m re-phased from the 2018/19 approved projects. It is worth noting the level of re-phasing is likely to fluctuate as we progress towards the year end.

42. The level of investment submitted for approval, including £5m of increased borrowing for the replacement Reading Station results in a small funding surplus of £4.872m over the 4 year period. A small level of funding deficit is shown in years 1 to 3 but, in practice, this is unlikely to materialise and is felt to be manageable.

43. It is recognised that identified investments in the later years of the plan are more difficult to specify, but are very likely to be required. A modest investment in new capital projects of, for example, £5m in years 3 & 4 of the plan will result in a funding shortfall of £5.128m. This is likely to come from either additional borrowing or DRF and both sources will impact directly on the revenue budget and will, in all probability, only be affordable if further savings can be identified.

44. The PCC approved:

- A capital programme for 2019/20 in the sum of £26.978m as set out in Table 1, which includes £8.642m of re-phased budget from 2018/19.

- An increase in borrowing from £5m to £10m for the replacement Reading Police Station project.

- The financing of the MTCP as set out in schedule 7 on page 73.

- The 4 year Medium Term Capital Plan (2019/20 to 2022/23) for planning purposes at £70.976m as set out in Table 1.

45. The PCC also recognised:

- The restated Optimism Bias Reserve calculation of £12.769m and acknowledged that the existing reserve of £9.129m will be managed and reviewed as the Force progresses through the plan term.

SCHEDULE 1 : CAPITAL EXPENDITURE FORECAST SUMMARY - Including Tier 1 Growth | Jan-19

	Total Spend 2018/19	2018/19 Budget Rephased to 2019/20 & later	New Spend 2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total 2019/20 to 2022/23 £000	Schedule Reference
Property	7,327	3,593	4,558	10,298	6,766	529	22,151	Schedule 2
ICT/ Business changes	16,857	3,066	15,428	4,248	2,736	3,574	25,986	Schedule 3
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Vehicles	3,503		3,330	3,413	3,498	3,586	13,827	Schedule 6
Capital Projects Total to be Financed	**32,466**	**8,642**	**26,978**	**22,364**	**13,796**	**7,839**	**70,976**	

Financing Available	**39,910**		**18,121**	**22,813**	**13,783**	**13,688**	**75,848**	Schedule 7
Cumulative Funding Position (Existing Programme)	**7,443**		**-1,413**	**-964**	**-977**	**4,872**	**4,872**	

Potential Optimism Bias Reserve Requirement by year			**1,795**	**5,364**	**2,825**	**2,785**	**12,769**	N/A

SCHEDULE 2: PROPERTY SCHEMES	Previous Spend £000	TOTAL PROJECT COST £000	Total 2018/19 £000	Re-phasing from 2018/19 to 2019/20	New MTCP Spend 2019/20 £000	2020/21 £000	2021/22 £000	2022/23	Later years £000
Corporate Schemes									
HQ South - C, D E & G block (Work and Demolition)	2,898	3,350	52			400			
St Aldates Police Station	610	693	83						
Sulhamstead - Imbert Court	993	2,535	1,250	217	292				
Sulhamstead - White House	170	2,655	1,497	988	988				
Milton Keynes- site wide works inc Windows	1,588	4,295	1,907	357	800				
Buildings - Store	72	395	323						
Fountain Court Infrastructure Works		2,750	50		750	1,950			
Asset Management Plan (AMP) total	**190**	**17,887**	**1,601**	**2,031**	**1,678**	**7,123**	**6,766**	**529**	**0**
Carbon Management Works: REC, Officer Safety Training Centre Sulhamstead, HQ South A-Block, Biomass Boilers	**64**	**628**	**564**	**0**	**0**	**0**	**0**	**0**	**0**
New Projects For Approval.									
T3 Building 249 Infrastructure - New		875	0		50	825			
T2 CTSFO - Long term accom. To be defined and re submitted		0	0		0	0	0		
Total Property	**6,585**	**36,063**	**7,327**	**3,593**	**4,558**	**10,298**	**6,766**	**529**	**0**

Ref	SCHEDULE 3: ICT SCHEMES and BUSINESS CHANGE	Previous Spend £000	TOTAL PROJECT COST £000	Total 2018/19 £000	Re-phasing from 2018/19 to 2019/20	New MTCP Spend 2019/20 £000	2020/21 £000	2021/22	2022/23	Later years £000
	ICT CORE SCHEMES									
	EUD Replacement Budgets									
	End User Devices - Desktops and Laptops, Tablets and handheld devices.	1,382	13,655	1,364	(26)	1,961	2,733	2,014	2,014	2,187
	Network & Connectivity Infastructure									
	Network & Connectivity Infastructure	3,343	5,040	602	-	219	219	219	219	219
	Data Centres, Data Processing & Storage Infastructure									
	Data Processing - New Data Centre, existing servers, ICT security and tools.	494	3,734	1,014	-	400	625	400	400	400
	PROJECT PORTFOLIO									
	RMS	2,798	3,612	814	-	-	-	-	-	-
	Digital Contact	9,461	15,660	5,501	577	698	-	-	-	-
	Digital Investigation & Intelligence	103	176	73	-	-	-	-	-	-
	Total - Digital First	-	942	942	-	-	-	-		-
	Digital Frontline	94	2,486	98	1,250	1,250	-	103	941	-
	Digital Technology Enablers	181	4,643	2,297	-	2,165	-	-	-	-
	PSN Migration & Citrix	1,514	2,077	563	-	-	-	-	-	-
	Data Enablers									
	Total - Data Enablers		1,006	320	193	382	303	-	-	-

Ref	SCHEDULE 3: ICT SCHEMES and BUSINESS CHANGE		Previous Spend £000	TOTAL PROJECT COST £000	Total 2018/19 £000	Re-phasing from 2018/19 to 2019/20	New MTCP Spend 2019/20 £000	2020/21 £000	2021/22	2022/23	Later years £000
		Total - Surveillance Based Projects	-	500	250	250	250	-	-	-	-
		Other MTCP Projects	21	712	291	400	400	-	-	-	-
		ICT Service Improvement	-	553	553	-	-	-	-	-	-
	<u>NON ICT LED PROJECTS</u>										
		ERP - Enterprise, Resource & Planning Tool	2,646	6,980	2,173	422	2,162	-	-	-	-
	New Projects For Approval.										
TVP only	T1	PACE Recording Equipment - Budget Uplift to £1.257m		857	-		857				
TVP only	T1	BWV Uplift (to agreed £0.643m from £0.516m).		231	-		231				
Joint	T1	O365 Budget Uplift		368	-		230	138			
Joint	T1	CAID 4 Infrastructure		411	-		411				
Joint	T1	Data Governance Budget Uplift (£0.25m to £0.6m joint)		192	-		192				
Joint	T1	ICT Healthcheck - Citrix Migration		164	-		164				
Joint	T1	RMS Additional Funding		396	-		396				
Joint	T1	Livelink and Alfresco Additional Funding		204	-		204				
Joint	T1	PSN Programme Extension		189	-		189				
Joint	T1	Intranet Replacement (existing £0.250m reassigned)		- 20	-		(250)	230			
Joint	T2	Aceso device replacement (HC are supporting)		532	-		532				
Joint	T2	ICT Health Check Third Party Patching (PSN linked)		88	-		88				
TVP only	T2	LRF Notification System (Everbridge) - Costs TBC		-	-						
Joint	T2	PSD Proactive Monitoring - Enterprise wide		167	-		167				
TVP only	Dev.	Forensic Freezers POC - within Schedule 4 Equipment Allocation		-	-		-				
TVP only	Dev.	Corporate Wifi - Reinstated Allocation	7	412	-		405				
TVP only	Dev.	Laptop/EUD Investment provision		1,000	-		1,000				
	Development Programmes		-	725	-	-	725	-	-	-	
	T1	Total New Bids	7	5,916	-	-	5,542	368	-	-	-

Ref	SCHEDULE 3: ICT SCHEMES and BUSINESS CHANGE	Previous Spend £000	TOTAL PROJECT COST £000	Total 2018/19 £000	Re-phasing from 2018/19 to 2019/20	New MTCP Spend 2019/20 £000	2020/21 £000	2021/22	2022/23	Later years £000
	TOTAL - ICT CORE SCHEMES	5,219	22,428	2,981	(26)	2,580	3,577	2,633	2,633	2,806
	TOTAL - PROJECT PORTFOLIO	14,171	32,367	11,704	2,670	5,145	303	103	941	-
	TOTAL - NON ICT LED PROJECTS	2,646	6,980	2,173	422	2,162	-	-	-	-
	TOTAL - NEW PRIORITISED BIDS	7	5,916	-	-	5,542	368	-	-	-
	TOTAL - ICT - OVERALL	22,042	67,691	16,857	3,066	15,428	4,248	2,736	3,574	2,806

REF	SCHEDULE 4: Grant/NCCP HQ funded	Total 2018/19 £000	Re-phasing from 2018/19 to 2019/20	New MTCP Spend 2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Later £000
	Equipment CITU & CTU	-						
	Vehicles CITU & CTU	400						
	Buildings - Unit 1	536						
	SECTU Equipment	400						
	NCA Crawley (Buildings Store)	-						
	Firearms Support Arrangement	-						
	TOTAL ACPO TAM funded	**1,336**	**-**	**-**	**-**	**-**	**-**	**-**

REF	SCHEDULE 5: Equipment & Radio	Total 2018/19 £000	Re-phasing from 2018/19 to 2019/20	New MTCP Spend 2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Later £000
	Annual Provision	297		100	100	100	100	100
	Video Conferencing	0						
	TSU equipment	0						
	Safer Roads (Hypothecation Equipment)	2,156						
	SEROCU	0						
		2,453	**-**	**100**	**100**	**100**	**100**	**100**
	ANPR - further static sites- partner funded	-22		50				
	ANPR - replacement of installations/infrastructure	150		50	50	50	50	50
	ANPR	**128**	**-**	**100**	**50**	**50**	**50**	**50**
	Airwave replacement- ESMCP - overall project	349	1,183	1,063	905	494		
	ICCS	274						
	Grant uplift	95	800	698	50	52		
	Airwave replacement- ESMCP - Devices inc. uplift	0		1,600	3200			
	National radio system upgrade - ESMCP TVP costs	718	1,983	**3,361**	**4,155**	**546**	**-**	**-**
	Radio Replacements - Covert	-44						
ICT T1	Radio Replacements - Officers	94		50	50	50		
	Radio Replacements - Vehicles	94		50	50	50		
	ICT -Airwave	**145**	**-**	**100**	**100**	**100**	**-**	**-**
	Other grants	0						
	Total Equipment & Radio Replacement	**3,444**	**1,983**	**3,661**	**4,405**	**796**	**150**	**150**

	SCHEDULE 6: VEHICLES	Total 2018/19 £000	Re-phasing from 2018/19 to 2019/20	New MTCP Spend 2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Later £000
	TVP Vehicle Replacement	3,503		3,330	3,413	3,498	3,586	3,676
	Vehicle Telematics (tba)	0						
	others - SRP/ADDITIONA	0						
	Total Vehicle Replacement	**3,503**	**-**	**3,330**	**3,413**	**3,498**	**3,586**	**3,676**

SCHEDULE 7: RESOURCES REQUIRED TO FINANCE THE CAPITAL PROGRAMME

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total 2018/19 to 2022/23 £000
Capital Balances Brought Forward 1/4/2018	20,532					**20,532**
Estimated funding generated during year						
Capital Receipts including AMP	1,600	3,655	1,900	625	-	**7,780**
- House Sales	4,389	2,700	480	-	510	**8,079**
- House Shared Equity repayments	343	300	300	300	300	**1,543**
- Vehicle Sales	450	450	450	450	450	**2,250**
Revenue Contributions						
Vehicles	-	-	-			**-**
DRF	4,678	9,300	7,230	10,780	10,800	**42,788**
General Reserves	-	-	-			**-**
Borrowing						
Borrowing for Property Related Projects Capital (Reading)			10,000			**10,000**
Third Party Contributions						
S106 or CIL Contributions	150	150	150	150	150	**750**
ANPR Contributions	-	38	-			**38**
Other Contributions	-	-	-			**-**
Capital Grants						
General	1,478	1,478	1,478	1,478	1,478	**7,390**
Specific grants (SECTU, SEROCU or T66)	1,336	-	-			**1,336**
Other government Departments/agency - CTFSO Grant	-	-	-			**-**
Reserves						
Earmarked Reserves -						
Improvement & Performance Reserve	1,687	50	825			**2,562**
Optimism Bias Reserve	2,872	-	-	-	-	**2,872**
Risk Management Reserve (Carbon Management)	395	-	-			**395**
Other Income						**-**
Safer Roads Partnership	-	-	-			**-**
Transformation Fund						**-**
Property Schemes (borrowing)	-	-	-			**-**
Resources Available (inc B/F Capital Reserves)	**39,910**	**18,121**	**22,813**	**13,783**	**13,688**	**108,315**
Total Resources Programme Requires	**32,466**	**26,978**	**22,364**	**13,796**	**7,839**	**103,443**
Shortfall / Surplus in year *(shortfall is a negative)*	**7,443**	**-8,857**	**449**	**-13**	**5,849**	**4,872**
Cumulative funding position *(shortfall is a negative)*	**7,443**	**-1,413**	**-964**	**-977**	**4,872**	**4,872**

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 four 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. This report complies with the Ministerial requirement regarding the usage and publication of police reserves.

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 4 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 or so without asking the PCC for additional reserve funding. The Force has already identified £15.1m of cash savings which will be removed from the budget over the next four years (2019/20 to 2022/23). This is over and above the £100m of cash savings that have been removed from the base budget in the last eight years (i.e. 2011/12 to 2018/19). This cumulative level of budget reduction (at least £116m) 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. All savings are delivered through the Efficiency Plan process and are fully risks are assessed in terms of deliverability. As explained above, over £101m of cash savings has already been taken out of the base budget with a further £15.1m required over the next four 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 (MTCP) the latest assessment of potential requirements for the Optimism Bias (OB) Reserve is currently £3.64m higher than the amount currently held. We are not planning on transferring additional monies into the OB reserve so will monitor the situation very closely over the next 4 years. All future capital bids (i.e. over and above those included in the current MTCP will include an

	appropriate element for OB) so we will not need to hold a separate earmarked reserve beyond 2022/23 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. During the last couple of years TVP has successfully applied for, and received grant monies for Operation Hornet and policing of the Royal Weddings and the visit of the President of the USA
The general financial climate to which the authority is subject.	In December 2018 the Home secretary announced the provisional police grant settlement for 2019/20. Grant funding has been provided to cover the increased cost of police officer pensions. In addition, PCCs are being encouraged to increase their council tax precept by up to £24 a year for a band D property) subject to meeting national targets on efficiency and productivity. General inflation in the UK is higher than in recent years. CPI is currently 2.3% (November 2018). RPI is slightly higher at 3.2%. Base rate is currently 0.75%. The Governor of the Bank of England has indicated that any future increases will be minimal and gradual. The 4 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;
- funding the first 1% of costs for major events (e.g. Royal Weddings) in-line with Home Office grant rules; 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 of around £424m, 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 2019/20 Draft Budget
Balance as at 31 March 2018	**18.650**	**4.40%**
Fewer bank holidays	0.215	
Adjustment for late notification of council tax changes	0.147	
Forecast net revenue overspend 2018/19	- 0.083	
Forecast balance as at 31 March 2019	**18.929**	**4.47%**
Forecast balance as at 31 March 2020	**18.929**	**4.47%**
Fund additional bank holidays	- 0.217	
Forecast balance as at 31 March 2021	**18.712**	**4.41%**
Fund additional bank holidays	- 0.651	
Forecast balance as at 31 March 2022	**18.061**	**4.26%**
Forecast balance as at 31 March 2023	**18.061**	**4.26%**

Commentary of the Table

9. The current forecast level of general balances at 31 March 2019 is £18.929m which equates to 4.47% of the draft net revenue budget requirement in 2019/20.

10. At this stage, the overall level of general balances is scheduled to remain above the agreed 3% in coming years which is a healthy position to be given the planned reduction in earmarked reserves, the unknown funding position in 2020/21 and later years and the very difficult operational environment that the force continues to operate in.

Risk and Sensitivity Analysis

11. Attached at Appendix 1 is the Risk and Sensitivity Assessment for General Balances for 2019/20. 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.

12. 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.

13. 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

14. The predicted position at 31 March 2019 for each earmarked revenue reserve - which has a specific purpose and particular timescale for its expenditure - is shown in Table 3 below.

15. The predicted annual movement in each reserve over the next 5 years (including 2018/19) is shown in Appendix 2. This shows that by the end of 2022/23 the overall level of earmarked reserves will be just £2.7m, including £1.0m 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 2018 £m	Predicted Movement in year £m	Forecast Balance 31.3.19 £m	Purpose of Reserve
Risk management reserve	0.395	- 0.395	0	To help 'pump prime' future risk management or carbon reduction initiatives.
Transport reserve	0.295	- 0.106	0.189	TVP share of the Chiltern Transport Consortium (CTC) reserves
Improvement and Performance reserve	20.081	- 14.421	5.670	Used to help fund one-off initiatives such as capital investment and property maintenance
Optimism Bias	0.000	9.129	9.129	To fund any cost over-runs on the capital programme
Insurance	0.159	- 0.159	0	Funds held in case insurance provision proves inadequate to meet known liabilities
Community safety	0.592	0.333	0.925	To fund the PCC's community safety initiatives
Sub-total	**21.532**	**- 5.619**	**15.913**	
SEROCU	1.582	- 1.000	0.582	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	2.910	- 0.500	2.410	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	**26.024**	**- 7.119**	**18.905**	

<u>**Commentary on Table 3 and Appendix 2**</u>

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

17. The **Chiltern Transport Consortium Board** has agreed to limit its reserves to 3% of the devolved recharge for each force.

18. 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. £12.001m was transferred to the new Optimisation Bias reserve in April. The remaining balance will be largely utilised over the next four years to fund one-off expenditure items in the revenue budget and capital programme.as shown in Table 4 below.

Table 4 – Proposed drawdown from the I&P Reserve

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Opening balance	**20.091**	**5.670**	**4.965**	**2.808**	**1.650**
Transfer to the Optimisation Bias reserve	-12.001				
Transfer due to higher taxbase and surplus		0.365			
MK – ventilation plant work		- 0.050	- 0.150		
Banbury Custody suite ventilation				- 0.155	
Maidenhead – roof to main building				- 0.150	
Langford Locks - air conditioning			- 0.260		
Kingfisher Court – electricals		- 0.225			
Maidenhead –custody ventilation				- 0.250	
Newbury – custody ventilation					- 0.175
Maidenhead – lighting, power & switchgear		- 0.100			- 0.315
Newbury heating					- 0.155
Meadow House air conditioning		- 0.440			
High Wycombe – custody ventilation		- 0.205			
High Wycombe – roofs & windows			- 0.250		
Aylesbury – roofs & windows (main block)			- 0.250		
Aylesbury – roofs & windows (welfare block)			- 0.175		
Banbury – main roof			- 0.250		
Lodden Valley – custody air con				- 0.450	
Slough – roof				- 0.150	
UCI public enquiries	- 0.197				
ICT rationalisation	- 0.536				
Capital programme	- 1.687	- 0.050	- 0.825		
Annual drawdown to fund one-off items	**-14.421**	**- 0.705**	**- 2.160**	**- 1.155**	**- 0.645**
Closing balance	**5.670**	**4.965**	**2.805**	**1.650**	**1.005**

19. HM Treasury guidance on capital projects recognises that there is the potential for project costs to exceed the initial assessment. This is called **Optimism Bias** and relates to any project type, although it can be particularly impactive when relating to the development of new technology. As stated in the Medium Term Capital Plan the latest assessment of capital requirements indicates that we should hold £12.769m in a contingency reserve, but this is £3.64m higher than the current cash value. We do not propose to transfer in additional monies at this stage but will monitor capital expenditure very closely over the next 4 years and will inform the PCC immediately should there be a risk that the OB reserve will run out of funds before the current 4 year MTCP is fully implemented. All new capital schemes (i.e. those not already included in the current MTCP) will include an appropriate element for OB and funding will be sought accordingly. As such, the current OB reserve is only required until March 2023. For planning purposes at this stage, it is assumed that the OB reserve will be utilised in the final year of the scheme to which it is associated; the analysis of which is shown in the separate report on the MTCP.

20. The small residual balance of £0.159m in the **Insurance Reserve** is likely to be required in 2018/19 to help fund the increase in the actuarially assessment insurance liability as at 31st March 2019 - see paragraphs 24 to 25 below.

21. The **Community Safety Reserve** will enable the PCC to invest in one–off community safety initiatives.

22. 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.

23. The **Conditional Funding Reserve** holds monies that can only be spent on specific purposes; it is not available to general operational policing.

Compliance with Home Office guidance on police reserves

24. 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

25. This information is provided in Appendix 3.

PROVISIONS

26. 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

27. A revenue provision exists for meeting ongoing claims under a self-insurance scheme. The insurance provision has recently been assessed by our actuary, Marsh. Their provisional assessment of total liabilities as at 31st March 2019 is £8.34m which is £0.26m higher than the existing provision as at 1st April 2018.

28. As part of the closedown process for 2018/19 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 residual balance in the insurance reserve (£0.159m) will be required.

CAPITAL BALANCES

29. 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 4 year capital programme.

Capital grants unapplied

30. 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.

31. The fund balance as at 1st April 2018 was £10.247m, but this will be largely utilised in coming years to help finance the capital programme.

32. Future capital investment beyond 2022/23 will largely be dependent on revenue contributions, capital receipts and borrowing for new building projects.

Other capital grants

33. The PCC also maintains three further capital reserves, however because these grants have conditions attached to them they are shown in the Balance Sheet as long term liabilities rather than usable reserves. These are:

- Capital grants received in advance
- Section 106 monies
- 3rd party capital contributions

34. The value of these grants is shown in Appendix 2

Capital receipts

35. 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

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

37. 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 normally applied to finance the capital programme as soon as they are received.

CONCLUSIONS

38. 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 2019 is £18.9m which equates to 4.5% of the net revenue budget in 2019/20 and, based on current planning assumptions, the level of general balances should stay above the 3% guideline level through to 2022/23. 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).

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

- ➢ the Force is unable to deliver, in full, the £4.8m of planned cash savings to be removed from the base budget during 2019/20

40. 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 4 years to finance one-off revenue and capital investment initiatives. Based on current planning assumptions, earmarked reserves will reduce from £26.0m on 31st March 2018 to just £2.7m at 31 March 2023, including £1.0m 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.

41. 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 2019/20

	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 £4.4m) of these one-off costs from his own resources on an annual basis. The Force maintains a number of operational reserves which amount to £1.9m. The two largest are:: ➢ Events £0.41m ➢ Tasking & Coordinating £0.44m
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 £4.8m of planned cash savings to be removed from the base budget during 2019/20	2	3	6	The residual risk is that we won't deliver the full £4.8m 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 31.3.18 £m	Forecast Balance 31.3.19 £m	Forecast Balance 31.3.20 £m	Forecast Balance 31.3.21 £m	Forecast Balance 31.3.22 £m	Forecast Balance 31.3.23 £m
GENERAL REVENUE BALANCES	**18.650**	**18.929**	**18.929**	**18.712**	**18.061**	**18.061**
% of draft 2018/19 Net Revenue Budget	4.40%	4.47%	4.47%	4.41%	4.26%	4.26%
EARMARKED REVENUE RESERVES						
Risk management reserve	0.395					
Transport reserve	0.189	0.189	0.189	0.189	0.189	0.189
Improvement and performance reserve	20.091	5.670	4.965	2.805	1.650	1.005
Insurance fund	0.159					
Community safety	0.592	0.925	0.775	0.625	0.475	0.325
Optimism Bias	0.000	9.129	7.334	2.226		
Sub-total	**21.532**	**15.913**	**13.263**	**5.845**	**2.314**	**1.678**
SEROCU	1.582	0.582	0.582	0.582	0.582	0.582
Conditional Funding reserve	2.910	2.410	1.910	1.410	0.910	0.410
Total Earmarked Revenue reserves	**26.024**	**18.905**	**15.755**	**7.837**	**3.806**	**2.670**
TOTAL REVENUE RESERVES	**44.674**	**37.834**	**34.684**	**26.549**	**21.867**	**20.731**
CAPITAL RESERVES						
Capital receipts	8.757					
Capital grants	10.247	5.914	- 2.980	- 2.531	- 2.544	3.305
Capital grants received in advance	0.900	0.900	0.900	0.900	0.900	0.900
3rd party capital contributions	0.048	0.048	0.048	0.048	0.048	0.048
Section 106 monies	0.581	0.581	0.581	0.581	0.581	0.581
Total Capital Reserves	**20.533**	**7.443**	**- 2.351**	**- 1.002**	**- 1.015**	**4.834**
Insurance provision	**8.078**	**8.340**	**8.340**	**8.340**	**8.340**	**8.340**
TOTAL CASH RESERVES	**73.285**	**53.617**	**40.673**	**33.887**	**29.192**	**33.905**

Appendix 3

Analysis of Earmarked Revenue Reserves for Home Office

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Estimate £m	31.3.21 Estimate £m	31.3.22 Estimate £m	31.3.23 Estimate £m
Planned expenditure on projects & programmes over next 4 years						
• Risk Management initiatives	0.395					
• Community Safety	0.450	0.450	0.450	0.300	0.125	
• Optimism Bias	12.001	9.129	7.334	2.226		
• Improvement & performance reserve	7.450	5.030	3.960	1.800	0.645	
• Conditional funding	2.500	2.000	1.500	1.000	0.500	
	22.796	**16.609**	**13.244**	**5.326**	**1.295**	
Funding for specific projects & programmes beyond 2022/23						
• Improvement & performance reserve	0.640	0.640	1.005	1.005	1.005	1.005
• Conditional funding	0.410	0.410	0.410	0.410	0.410	0.410
• Community safety	0.142	0.475	0.325	0.325	0.325	0.325
	1.192	**1.525**	**1.740**	**1.740**	**1.740**	**1.740**
As a general contingency or resource to meet other expenditure needs						
• Transport consortium	0.295	0.189	0.189	0.189	0.189	0.189
• Insurance	0.159					
• SEROCU	1.582	0.582	0.582	0.582	0.582	0.582
	2.036	**0.771**	**0.771**	**0.771**	**0.771**	**0.771**
Total Earmarked Reserves	**26.024**	**18.905**	**15.755**	**7.837**	**3.806**	**2.670**

APPENDIX 4

Forecast Capital Receipts

	Asset Management Plan £m	Housing £m	Equity loan repayments £m	Vehicles £m	Total £m
2019/20	3.655	2.700	0.300	0.450	7.105
2020/21	1.900	0.480	0.300	0.450	3.130
2021/22	0.625	0	0.300	0.450	1.375
2022/23	0	0.510	0.300	0.450	1.260
Total	6.180	3.690	1.200	1.800	12.870

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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."*

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

1.2 Reporting requirements

1.2.1 Capital strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019/20, all local authorities (including Police) are to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that the PCC fully understands the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will be presented to the PCC at his budget setting meeting on 22nd January 2019.

1.2.2 Treasury Management reporting

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 in July and January.

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 2019/20

The strategy for 2019/20 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 2017/18 – 2022/23

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	2017/18 Actual £m	2018/19 Revised Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Capital Expenditure	23.417	32.467	26.977	22.364	13.796	7.839
Financed by:						
Capital receipts	4.965	15.538	7.105	3.130	1.375	1.260
Capital grants	1.200	7.147	13.352	3.560	4.035	0.000
Revenue Reserves	9.973	0.395	0.000	0.000	0.000	0.000
Revenue contributions	7.067	4.678	9.300	7.230	10.780	6.429
3rd party contributions	0.212	0.150	0.150	0.150	0.150	0.150
Other Income	0.000	0.000	0.000	0.000	0.000	0.000
Capital Reserves	0.000	0.000	0.000	0.000	0.000	0.000
Improvement & Performance Reserve	0.000	1.687	0.050	0.825	0.000	0.000
Optimisation Bias Reserve	0.000	2.872	0.000	0.000	0.000	0.000
Cashflow – timing issues[1]	0.000	0.000	-2.980	-2.531	-2.544	0.000
Net financing need for the year	**0.000**	**0.000**	**0.000**	**10.000**	**0.000**	**0.000**

[1]. If all capital expenditure is incurred as scheduled in the Medium Term Capital Plan then we may not have sufficient capital resources in 2019/20, 2020/21 and 2021/22 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 [2018/19] has £5.478m of such schemes within the CFR.

The PCC is asked to approve the following CFR projections.

Table 2	2017/18 Actual £m	2018/19 Revised Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Opening CFR	**46.407**	**45.283**	**44.137**	**42.967**	**51.772**	**50.349**
Net financing need for the year (per Table 1 above)	- 0.863	- 0.863	- 0.863	- 0.863	- 1.063	-1.063
Net Borrowing	0.000	0.000	0.000	10.000	0.000	0.000
Less MRP/VRP and other financing movements	- 0.261	- 0.283	- 0.307	- 0.332	- 0.360	-0.390
Movement in CFR	**-1.124**	**-1.146**	**-1.170**	**3.805**	**-1.423**	**-1.453**
Closing CFR	**45.283**	**44.137**	**42.967**	**51.772**	**50.349**	**48.896**

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	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
General balances	18.650	18.929	18.929	18.712	18.061	18.061
Earmarked revenue reserves	26.024	18.905	15.390	7.472	3.441	2.305
Capital grants and reserves	20.533	7.443	-2.351	-1.002	-1.015	4.834
Insurance provision	8.078	8.340	8.340	8.340	8.340	8.340
Total core funds	**73.285**	**53.617**	**40.308**	**33.522**	**28.827**	**33.540**
Working capital*	4.100	4.100	4.100	4.100	4.100	4.100
Expected investments	**77.385**	**57.717**	**44.408**	**37.622**	**32.927**	**37.640**

* The working capital balance is the average difference between cash investments and core cash balances from the last 5 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	2017/18 Actual %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
Ratio	0.36	0.35	0.40	0.45	0.54

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 2018, 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 5 PCC Borrowing Portfolio	2017/18 Actual %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
External Debt					
Debt at 1 April	14.843	22.478	27.478	29.978	42.478
Expected change in Debt	7.635	5.000	2.500	12.500	2.500
Other long-term liabilities (OLTL) at 1st April	5.739	5.478	5.195	4.888	4.556
Expected change in OLTL	-0.261	-0.283	-0.307	-0.332	-0.360
Actual gross debt at 31 March	**27.956**	**32.673**	**34.866**	**47.034**	**49.174**
The CFR	**45.283**	**44.137**	**42.967**	**51.772**	**50.349**
Under / (over) borrowing	**17.327**	**11.464**	**8.101**	**4.738**	**1.175**

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 2019/20 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 6 Operational boundary	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Debt	27.478	29.978	42.478	44.978
Other long term liabilities	5.478	5.195	4.888	4.556
Short Term liabilities	20.000	20.000	20.000	20.000
Total	**52.956**	**55.173**	**67.366**	**69.534**

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 7 Authorised limit	2018/19	2019/20	2020/21	2021/22
Debt	47.478	49.978	62.478	64.978
Other long term liabilities	5.478	5.195	4.888	4.556
Short Term liabilities	20.000	20.000	20.000	20.000
Total	**72.956**	**75.173**	**87.366**	**89.534**

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 8	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
	%	%	%	%
Mar 2019	0.75	2.10	2.90	2.70
Jun 2019	1.00	2.20	3.00	2.80
Sep 2019	1.00	2.20	3.10	2.90
Dec 2019	1.00	2.30	3.10	2.90
Mar 2020	1.25	2.30	3.20	3.00
Jun 2020	1.25	2.40	3.30	3.10
Sep 2020	1.25	2.50	3.30	3.10
Dec 2020	1.50	2.50	3.40	3.20
Mar 2021	1.50	2.60	3.40	3.20
Jun 2021	1.75	2.60	3.50	3.30
Sep 2021	1.75	2.70	3.50	3.30
Dec 2021	1.75	2.80	3.60	3.40
Mar 2022	2.00	2.80	3.60	3.40

“The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor’s fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of

1. As of 8 January 2019

the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10 year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets. However, by early January 2019, US 10 year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

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, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Investment and borrowing rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. 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, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

These interest rate forecasts are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, 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.
- A resurgence of the **Eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. At the time of writing, the EU has rejected the proposed Italian budget and has demanded cuts in government spending which the Italian government has refused. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen sharply – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming

up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.

- **Other minority eurozone governments.** Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** in 2018, has also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **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 QE, 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.
- 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,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

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 2019/20 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, 20120/21 and 2021/22 will be taken 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 £10.000m in 2020/21 to help fund long-term property initiatives in the Medium Term Capital Plan (2019/20 to 2022/23).

Adopting this approach will mean that the level of under-borrowing will fall from its current (31st March 2018) level of £17.327m to £1.175m by the end of 2021/22.

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 9	**2019/20**	**2020/21**	**2021/22**
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 2019/20			
		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 2019/20			
		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 MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments are covered in the Capital Strategy (a separate report).

The PCC's investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code").
- CIPFA Treasury Management Guidance Notes 2018

The PCC's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the MHCLG 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.

UK banks – ring fencing
The largest UK banks (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits) are required by UK law to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The PCC will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

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 potentially enable the PCC to lock in investment returns whilst continuing to adopt a low risk approach.

Bank Rate is forecast to rise steadily up to 2.00% by quarter 4 2021/22. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

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
2018/19	0.75%
2019/20	1.00%
2020/21	1.50%
2021/22	1.75%
2022/23	1.75%
2023/24	2.00%
Later years	2.50%

- The overall balance of risks to economic growth in the UK is probably neutral.

- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, 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 10 - Maximum principal sums invested > 364 days			
	2019/20	**2020/21**	**2021/22**
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 2019/20 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 08.01.2019)

GLOBAL OUTLOOK. World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

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. A new period is well advanced in the US, and started more recently in the UK, of 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 a 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 also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we have indeed, seen a sharp fall in equity values in the last quarter of 2018. 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 neither squash economic recovery, by taking too rapid and too strong action, or, conversely, 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.** At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and was likely to cause a recession in the US economy.

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt, (currently about $50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

UK. The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.3% in November. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the **labour market** figures in October**,** unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.0%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

USA. President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2 % in November, However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the rate and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles, of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world plunging under the weight of fears around the Fed's actions, the trade war between the US and China, an expectation that world growth will slow, Brexit etc.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

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. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

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 potentially enable 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) – (Low Volatility Net Asset Value) & (Constant Net Asset Value)	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 RFB 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 RFB 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.

AA

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

AA-

- Belgium
- Qatar

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Revenue Budget and Capital Programme 2019/20

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