

POLICE AND CRIME COMMISSIONER FOR LEICESTERSHIRE DECISION RECORD

To be completed in cases where a decision is required

DECISION OF POLICE AND CRIME COMMISSIONER

Date: 16 March 2017

Officers present: Helen King, Chief Finance Officer, Angela Perry, Head of Governance and Assurance

Received in OPCC Date:

OPCC Ref: *EX 20003/17*

Title: Budget and Precept Confirmation 2017/18

Summary of Issue:

Following agreement with the Chief Constable of the Force Budget allocation requirements the Proposed Precept 2017/18 and Medium Term Financial Strategy was considered by the Police and Crime Panel at their meeting on the 3/2/17.

The report and discussions at the Panel also covered the Budget, Capital Programme, Treasury Management Strategy and level of Reserves. Included within this was the permanent addition of 8 Police Officers to the current establishment and allocated one to each Neighbourhood Policing Area.

The Police and Crime Panel issued their report to the PCC which unanimously supported the proposed Precept increase of 1.99% to £187.2303 and the PCC responded to the report. Both documents are published on the OPCC website.

The above documents are included within this Decision Record.

The PCC precept was notified to Billing Authorities (Bands A to H) on the 7th February 2017.

The PCC will continue to hold the Chief Constable to account during 2017/18 on the application of the Budget in pursuance of the Police and Crime Plan. The PCC will also ensure that his own budget is appropriately applied in pursuance of both the Police and Crime Plan, the Commissioning Framework and the Grants Process.

Key discussion points at meeting:

As above

It was resolved that :

This Decision Record confirms the Budget and Precept set for 2017/18.

OFFICE OF PCC APPROVAL

Chief Executive or Chief Finance Officer:

I have been consulted about the proposal and confirm that appropriate advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner



Signature:

Name: Helen King

Date: 16/3/17

Publication Scheme

Decision of Monitoring Officer:

As Monitoring Officer for the Office of Police and Crime Commissioner for Leicestershire I have determined that :

It is appropriate to publish this record of decision made by the Police and Crime Commissioner : **Yes**

It is appropriate to publish the contents of the assessment of the decision by either of the senior post holders in the Office of the Police and Crime Commissioner for Leicestershire (i.e. either the Chief Executive or Chief Finance Officer) : **Yes**

It is appropriate to publish details of the decision by the Police and Crime Commissioner for Leicestershire : **Yes**

Reasons for any non Publication (referencing appropriate legislation):

None

Signature



Name ANGELA PERRY

Date 23.3.17

Police and Crime Commissioner for Leicestershire

Having received the advice set out above and within the relevant documentation, my decision made in regard of this matter is:

Supported

Signature

W. Bauls

Date



Agenda Item 8

**POLICE & CRIME
COMMISSIONER
for Leicestershire**

*Your voice in Leicester,
Leicestershire & Rutland*

LORD WILLYBACH

Our ref: OPCC/PCC13/D/5

16th February 2017

Joe Orson JP CC
Chairman
Leicestershire Police and Crime Panel

Dear Joe,

Re: Police and Crime Panel Report of the PCC Proposed Precept 2017/18 and Medium Term Financial Strategy

Thank you for the report on my proposed precept and medium term financial strategy as discussed at the Police and Crime Panel on the 3rd February 2017.

The priority for my 2017 /18 budget and precept was to provide the Chief Constable with an appropriate level of resource to deliver the priorities of my Police and Crime Plan whilst allocating additional funding to support visibility in the form of 8 additional police officers, one for each Neighbourhood Policing Area.

I believe that my precept proposal meets that priority and I am delighted that the public have given me their support (through the recent consultation) to do so.

I should like to take the opportunity to thank the Police and Crime Panel for their unanimous support of my first precept proposal which, I believe, will set a strong financial foundation for policing in Leicester, Leicestershire and Rutland.

Yours faithfully *GW*

Willy

Lord Willy Bach
Police and Crime Commissioner for Leicestershire

**LEICESTER, LEICESTERSHIRE AND RUTLAND POLICE AND CRIME
PANEL**

3 FEBRUARY 2017

**PROPOSED PRECEPT 2017/18 AND MEDIUM TERM FINANCIAL
STRATEGY**

At its meeting on Friday 3 February 2017 the Police and Crime Panel considered the Police and Crime Commissioner's proposed Precept 2017/18 and his Medium Term Financial Strategy. It was agreed that the minute of the meeting on this item would serve as the Panel's report and recommendation on the proposed Precept.

The Minute of the discussion on this item is set out below:

The Panel considered a report of the Police and Crime Commissioner concerning the Proposed Precept for 2017/18 and the Medium Term Financial Strategy. A copy of the report, marked "Agenda Item 8", is filed with these minutes.

The PCC and his Chief Finance Officer in introducing the item made the following points:

- The provisional Police Grant Settlement referred to in the report had now been confirmed and it was considered to be less positive for Leicestershire than expected. The amount of 'topslicing' was more than predicted. Consequently more savings were required to be made by the Force;
- Despite the challenging funding position the budget was balanced and would prioritise frontline policing as had been pledged in the PCC's manifesto;
- The intended 1.99% precept increase would enable the Force to maintain cash levels but the following years of the MTFS would be particularly challenging. It was noted that the Government might change its 2% precept increase trigger point for a referendum and the PCC would be alive to precepting for a higher rise if he was able to do so without triggering a referendum.
- It was announced that the PCC would be adding an extra 8 frontline officers with 1 allocated to each of the neighbourhood policing areas. It was noted that there was currently a Police Officer for every 599 citizens in Leicester, Leicestershire and Rutland whereas a decade ago it was one Officer for every 430 citizens.

Arising from discussions the following points were noted:

- It was noted that in previous years the Force had been able to bid successfully for funding for specific projects where the funding had been taken from 'topslicing' which had resulted in a net gain in the overall budget for Leicestershire Police. Confirmation was given that for the current year every effort was being made to again bid for additional funding for specific projects. There had thus far been two successful transformation bids relating to NICHE and other ICT projects. However, it was emphasised that the Force would not bid for all available funding as some schemes might not be appropriate for Leicestershire.
- It was explained that the "flat cash" pledge (referred to in paragraph 9 of the report) referred to statements by Government ministers in 2016 in which they submitted that whilst the Police Grant Settlement would be less for 2017/18, taking into account the ability of PCC's to raise the Precept by 1.99% this resulted in the same level of funding overall for the Police.
- With regard to the Funding Formula Review the PCC stated that he and the Chief Constable would be meeting with the Minister on 21 February 2017 to present the case that the current funding formula was not fair to Leicestershire. After this meeting the PCC would meet with 10 MPs from the region to ask them to canvas on behalf of Leicestershire with regard to the Funding Formula. The PCC asked Panel members to help by raising the issue with MPs themselves. It was believed that the new funding formula would run from 2018/19.
- It was noted that a future financial risk was that auto-enrolment on the pension scheme could increase the amount of people in the pension scheme and therefore the amount of employer's contributions that would have to be paid. It was confirmed that whilst the amount of Police Officers already in the pension scheme was a very high percentage, the amount of police staff currently in the pension scheme was much lower so there was the potential for many more police staff to join which would significantly affect the level of employer's contributions.
- With regard to the possibility of significant structural changes for the OPCC (referred to in paragraph 79 of the report) and the need to fund these changes from the reserve it was noted that the Policing and Crime Bill currently going through Parliament required PCC's to take on more responsibilities such as dealing with complaints and therefore this may require more funding.

It was moved by the Chairman and seconded by the Vice-Chairman that:-

- a) The information presented in this report, including the total 2017/18 net budget requirement of £171.639m including a council tax requirement for 2017/18 of £58.089m. be noted.
- b) The proposal to increase the 2017/18 Precept by 1.99% (£3.65 per annum) for police purposes to £187.2302 for a Band D property be supported.

- c) The future risks, challenges, uncertainties and opportunities included in the precept proposal, together with the financial and operational mitigations and additional considerations identified be noted.
- d) It be noted that any changes required, either by Government grant alterations notified through the final settlement or through amended council tax base and surplus/deficit notifications received from the collecting authorities, may be balanced either through Force Efficiency Savings or through a transfer to or from the Budget Equalisation Reserve (BER).
- e. The current MTFS, the anticipated savings required and plans to identify further solutions alongside the requirements of the Police and Crime Plan be noted.

The motion was carried unanimously.

POLICE AND CRIME COMMISSIONER FOR LEICESTERSHIRE POLICE & CRIME PANEL

Report of	POLICE & CRIME COMMISSIONER
Date	FRIDAY 3 rd FEBRUARY AT 1:00PM
Subject	PROPOSED PRECEPT 2017/18 AND MEDIUM TERM FINANCIAL STRATEGY (MTFS)
Author :	CHIEF FINANCE OFFICER

Purpose of the Report

1. To present the 2017/18 Precept Proposal and the additional considerations contained within it.
2. To present the Medium Term Financial Strategy (MTFS).

Recommendation

3. The Police and Crime Panel is asked to:
 - a. Note the information presented in this report, including:
 - the total 2017/18 net budget requirement of £171.639m, including
 - a council tax requirement for 2017/18 of £58.089m.
 - b. Support the proposal to increase the 2017/18 Precept by 1.99% (£3.65 per annum) for police purposes to £187.2302 for a Band D property.
 - c. Note the future risks, challenges, uncertainties and opportunities included in the precept proposal, together with the financial and operational mitigations and additional considerations identified.
 - d. Note that any changes required, either by Government grant alterations notified through the final settlement or through amended council tax base and surplus/deficit notifications received from the collecting authorities, may be balanced either through Force Efficiency Savings or through a transfer to or from the Budget Equalisation Reserve (BER).
 - e. Note the current MTFS, the anticipated savings required and plans to identify further solutions alongside the requirements of the Police and Crime Plan.

Executive Summary

4. This report, and the Precept proposal within it, is the culmination of several months' work by the Office of the Police and Crime Commissioner (OPCC), supported by Force colleagues and taking account of public and stakeholder consultation and key government announcements.
5. Following the announcement of the provisional Police Grant settlement, the PCC (Lord Bach) has considered current and future funding levels, together with the factors included within his Draft Police and Crime Plan, the consultation, the Spending Review (SR2015) and the Chancellor's 2016 Autumn Statement.
6. The PCC has also reviewed the sound track record of the Force in delivering over £31m of savings since 2013/14 (over £38m since 2009/10) as highlighted to the Panel in February 2016.
7. The PCC has been briefed on the current and emerging operational challenges, both nationally by the Home Secretary and the Home Office and locally by the Chief Constable, particularly in those areas included within the Force's Draft Strategic Assessment for 2017/18.
8. The PCC has received briefings and updates on the provisional grant settlement and acknowledges the assumption contained within it that PCCs will increase their precept locally at 1.99% each year for the period of the SR to ensure that police spending is protected in real terms.
9. The PCC has received the updated grant allocation methodology which now takes into account the previous year's actual taxbase increase rather than the 0.5% level assumed increase in the 2016/17 grant allocation. The PCC has been briefed that this approach facilitates greater reductions in grant funding whilst maintaining the "flat cash" pledge.
10. The PCC has reviewed the budget and precept in light of the significant feedback received from public consultation, his Draft Police and Crime Plan priorities and his Draft Commissioning Framework.
11. These factors, together with the provisional and anticipated grant settlements have enabled him to prioritise investment in frontline operational visibility in Neighbourhoods for 2017/18 and future years as follows:
 - An additional 8 Police Officers to be added to the current establishment and allocated to each Neighbourhood Policing Area (NPA).
 - For these posts to be added to the establishment, permanently. Together with the 10 posts incorporated into the budget during the year, this increases the establishment to 1782, as compared to 1764 budgeted for in April 2016.
 - To review the potential for relocating some uniformed Headquarters Teams to NPA stations, which would not only increase visibility but also accessibility of officers in Neighbourhood Areas, together with better utilisation of local Police Stations.

- To invest the sum of £2m in 2017/18 and a further £2m in 2018/19 from the Capital Programme to continue to implement and roll out agile IT equipment. This will enable uniformed staff to complete a greater number of tasks and activities based in the community without having to return to stations.
12. The PCC will continue to support the drive to increase active community involvement by well informed and well supported members of the public, by supporting them into roles as a Volunteer Police Cadet, Special Constable, Police Volunteer or an Independent Custody Visitor.
 13. In his integrated response to demand, the PCC will work with local partners to develop thinking towards a multi-agency call handling and resolution facility. This facility will be built around the 101 service enabling the public to seek help and support across a wider range of public service functions. To facilitate this innovative approach, the sum of £0.5m will be ring fenced from within the Budget Equalisation Reserve to help shape and support this work as it develops.
 14. The PCC has reviewed the adequacy and level of Reserves to ensure that funds are still available within the Budget Equalisation Reserve for investment to support Collaborative or Innovative solutions, in addition to meeting one off short term funding shortfalls, should this be required whilst savings plans are realised.
 15. Furthermore, whilst there was a better than anticipated SR settlement in 2015, the PCC has recognised that there are further financial challenges facing the Police over the next five years and where by 2021/22 a financial shortfall of over £10.3m is forecast.
 16. To meet this challenge, the PCC will support the Chief Constable to develop a Change Programme which includes a savings plan and which limits the impact of these savings on visible policing. The PCC has already committed to fund the resourcing of the Force Change Programme in 2017/18. A member of this team will be co-located within the OPCC to maximise partnership and stakeholder engagement and ensure cognisance with the Police and Crime Plan.
 17. The PCC has taken into account the further £100k anticipated reduction in provisional Capital Grant allocation available to him in 2017/18 and in future years and has reviewed this together with the investment requirements of the Capital Programme.
 18. The PCC has taken into account the adequacy and level of reserves and the impact of future financial challenges and opportunities in the Medium Term Financial Strategy.
 19. In considering the proposed level of precept, the PCC has conducted, and been informed by, a survey of 2,924 residents of Leicester, Leicestershire and Rutland (1,112 in 2016/17 and 863 in 2015/16). These views received have informed his final Precept proposal.
 20. After careful consideration of these factors, the PCC is proposing a precept increase of 1.99% for the 2017/18 financial year in order to build a sustainable base budget not only to maintain and safeguard policing services across the entire Force area of Leicester, Leicestershire and Rutland but also to make additional support to visibility as highlighted during the Police and Crime Plan consultation.

Precept Strategy and 2017/18 Precept Proposal

21. The 2017/18 Precept proposal is the first precept proposed by Lord Bach in his term as Police and Crime Commissioner.
22. For the past four years, there has been consultation on the precept with local residents and stakeholders.
23. As discussed at the Police and Crime Panel in December 2016, when considering his precept strategy, Lord Bach undertook extensive consultation in Leicester, Leicestershire and Rutland on the precept for 2017/18 and future years, alongside consultation of priorities to inform his Police and Crime Plan.
24. Out of the survey of 3,026 residents, 2,924 respondents expressed an opinion as to whether they supported an increase in the precept of 1.99% per year for 4 years.
25. Whilst results across Local Authority Boundaries and demographics varied, all groups were overwhelmingly supportive of an increase. **The survey results reflected public support for the PCC to increase precept by 83.3%**. This support compares favourably to the 70.7% level for 2016/17 and 56.1% for 2015/16.
26. Lord Bach has listened closely to this feedback and, both in the Draft Police and Crime Plan and this report, has outlined his intention to maximise funding raised by the precept throughout each year of his term.
27. At present, in line with the referendum principles, the maximum increase he is able to set is 1.99% and this assumption has been included throughout his Police and Crime Plan and Medium Term Financial Strategy (MTFS).

The Comprehensive Spending Review 2015 (SR2015) and the Provisional Grant Settlement 2017

28. On 25 November 2015 the Chancellor of the Exchequer announced the outcome of the SR2015. The SR2015 details the spending settlements for each government department over the four year period 2016/17 to 2019/20.
29. Contained within both the detail of the Chancellor's Autumn Statement and the provisional grant settlement is the assumption that PCCs' will increase their precept locally by 1.99% each year for the period of the SR to ensure that police spending is protected.
30. Since 2014/15, policing bodies have received their formula funding solely from the Home Office which subsumed the former DCLG grants (including previous funding from Business Rates).
31. The grant allocation continues to be calculated through the four-block model, which has been subject to limited technical and data updates but, following a pause on funding formula work in 2015, new work is currently underway on a review of the formula with a view to implementation in 2018/19.
32. It is anticipated that first iteration of the formula will be available for consultation in February/March 2017. The Panel will be updated on formula developments as they transpire.

33. As the Panel are aware, the current formula was never fully implemented, with the annual impact for Leicestershire being an underfunded level of Home Office Grant of over £5.6m. However, the last two iterations of the model have suggested reductions in overall funding for Leicestershire, rather than increases.
34. The Police and Crime Commissioners Treasurers Society (PACCTS) has scrutinised the key elements of the Police Grant Settlement which has reduced by 1.4% from 2016/17. Whilst not all of the detail is yet available, PACCTS have identified that one of the most significant impacts is the reallocations (top-slicing) of Police Grant to fund central initiatives.
35. Whilst the Home Office advise that no PCC will face a cash reduction in their total funding, this protection only applies to those who raise their council tax by the maximum possible (excluding referendums). Whilst there is a £5 flexibility for the PCCs with the lowest 10 precept rates, this does not apply to Leicestershire.
36. Additionally, actual taxbase increases for 2016/17 (2.65% for Leicestershire) have been taken into account when allocating the Grant, rather than the 0.5% assumed within the 2016/17 Grant Settlement.
37. PACCTS has advised that reallocations (top-slicing) have been simplified to enable easier year on year comparisons. In 2017/18 reallocations total £812m, 22% higher than the 2016/17 equivalent.
38. Whilst the Transformation Fund increase was foreseen and prudently included within the forecasting for 2017/18, some were additional to those anticipated.
39. The reallocations (top-slice) elements are detailed further as follows:

Top-slice	2017/18 £m
Private Finance Initiatives (PFI)	73
Police Technology Programmes (incl. ESN)	417
Arms Length Bodies	54
Strengthening the Response to Organised Crime	28
Police Transformation Fund	175
Special Grant	50
Pre-Charge Bail	15
Total	812

40. Key issues in relation to the settlement and top-slice elements include the following:
- a. Counter terrorism (CT) funding is negotiated separately to the police settlement, therefore, increases should not impact on the rest of the Police settlement. In 2017/18, the funding for CT has increased by a further £30m to £670m.
 - b. Some of the top-slice elements, may be returned to PCCs/Forces as a competitive funding pot, for example the Transformation Fund.
 - c. The Innovation Fund (of which Leicestershire has historically been a "gainer") has been incorporated within the Transformation Fund. In 2016/17 the Transformation Fund was worth £131.4m and has increased by 33.2% to £175m. Of this amount, £32m will be going to Firearms and the rest will be available for bids and/or funding already committed from 2016/17 bids (and for which the successful 2016/17 Regional NICHE bid is included).
 - d. In 2016/17, the Minister advised £1bn was included in the Police settlement (but was never separately specified) and £80m was "top-sliced" for core Emergency Services Network (ESN) costs. The Ministerial statement for 2017/18 suggests a further £100m has been top-sliced and added to Police Technology Programmes. At this stage, however, there is still some uncertainty about total ESN costs which will impact on the PCC and national timescales continue to slip.
 - e. Arms-Length Bodies include Her Majesty's Inspectorate (HMI), Gangmasters (new topslice for 2017/18) and the Independent Police Complaints Commission (IPCC).
 - f. Police Technology Programmes include ESN, existing Airwave System, Home Office Biometrics and the National Law Enforcement Database.
41. Whilst the total value of top slicing for 2017/18 is known (and it is assumed this reduction from top-sliced elements is permanent), there remains a high level of uncertainty about the impact on Police Grant of future years' top-slices (which are anticipated to increase). Therefore, the long term impact on the MTFs must be considered alongside the precept options presented in this report.
42. A summary of the provisional settlement (based the proposed 1.99% precept increase) is shown in the table below:

Funding Source	2016/17 Final (£'m)	2017/18 Provisional (£'m)
Police Grant	65.345	64.433
Business Rates & Revenue Support Grant	39.649	39.093
Precept (Proposed 1.99% increase in 2016/17)	55.714	58.089
Localised Council Tax Support (LCTS)	7.020	7.020
2011/12 & 2013/14 Council Tax Freeze Grants	1.911	1.911
Council Tax Collection Fund Surplus	1.201	1.093
Total	170.840	171.639

43. The allocations have been based on the existing police funding formula. As has been highlighted in the budget reports of previous years, Leicestershire Police is currently disadvantaged by this arrangement as it would receive about £5.6m more each year if the formula were allowed to work in full, i.e. the floor was funded from sources other than those policing bodies whose formula increases are capped.
44. The Office of the Police and Crime Commissioner (OPCC) also receive a specific grant for the Localisation of Council Tax Support (LCTS). This scheme replaced the council tax benefit scheme (CTB) in 2013/14, and is administered locally by council tax collecting authorities. As a local scheme, the grant previously given to collecting authorities to reflect actual expenditure on LCTS is distributed to collecting and precepting authorities. The sum allocated to the OPCC for Leicestershire for 2017/16 is £7.02m which is the same amount allocated in 2016/17.
45. Although PCC grants after 2017/18 have not been provided at a local level, the SR2015 provided an indication of the total grant available; albeit there is no detail of the level of top-slices (the Transformation Fund is anticipated to increase each year).
46. In line with the 2017/18 provisional grant allocations, the MTF5 now assumes a 1.4% reduction of police grant year on year for the period of the SR, rather than the 1% grant reduction year on year assumed in February 2016.
47. This change equates to a reduction in Grant of over £400k per annum and this assumption is in line with those being made across other Force areas.
48. The largest uncertainty for Leicestershire regarding Home Office Grant relates to the detail and impact of the Funding Formula Review which the Minister intends to implement for 2018/19.

Council Tax Referendum Limit

49. The Localism Act 2011 requires authorities, including Police and Crime Commissioners, to determine whether their "relevant basic amount of council tax" for a year is excessive, as such increases will trigger a council tax referendum. From 2012/13, the Secretary of State is required to set principles annually, determining what increase is deemed excessive.
50. Within the Provisional Local Government Finance Settlement: England 2017 to 2018, the document: "The Referendums Relating to Council Tax Increases (principles) (England) Report 2017/18" (draft) was issued on the 15th December 2016. This document is in line with the guidance issued by the Home Secretary, in her letter to Chief Constables and Police and Crime Commissioners on the 25th November 2015 where she advised that *"you should plan on the basis that the overall referendum limit for Police Precept will be maintained at 2% over the Spending review period for Police and Crime Commissioners in England"*.

The level of precept proposed is below this threshold.

51. The cost of a referendum for a proposal to set a Council Tax increase in excess of 1.99% is significant and this would fall to the PCC (and more importantly the residents of Leicester, Leicestershire and Rutland) thus needing to be built into the increase sought.

52. If a referendum were held to increase the Policing precept above 1.99%, on the same day as local elections in May, it would cost approximately £650k. That would rise to £1.2m if held on an alternative day.
53. Furthermore, if a "no" vote was returned in such a referendum, there could be a further cost of £1 million to re-issue council tax bills to every home. This would increase the total potential cost to between £1.650m and £2.2m if the referendum were unsuccessful.
54. The PCC has decided not to propose a precept which will trigger a referendum.
55. Whilst all provisional information has been received in respect of tax base and collection Fund levels from the District and Borough Councils, should there be any subsequent revisions which affect the above calculation, either Force efficiency savings or the Budget Equalisation Reserve will be used to balance the impact of any changes.

The Financial Challenge – Future Risks, Challenges, Uncertainties and Opportunities

56. The Panel in February 2016 were advised that savings of over £31m were achieved over the full term of the previous Police and Crime Plan 2013/17, some of which were reinvested.
57. The MTFS shows that, for SR2015, this challenge is far from over. It is anticipated that further savings will need to be sought over the period of the Draft Police and Crime Plan and savings of over £10.3m will need to be sought over the period of the MTFS.
58. The PCC and his office will continue to work with the Force to ensure that their excellent track record in identifying and implementing changes will continue to enable the PCC and the Force to meet this financial challenge.
59. The PCC will support the Chief Constable in developing a Change Programme which includes a savings plan and which limits the impact of these savings on visible policing.
60. In doing so, the PCC has committed to fund the resourcing of the Force Change Programme in 2017/18. A member of this team will be co-located within the OPCC to maximise partnership and stakeholder engagement and ensure cognisance with the Police and Crime Plan.
61. Some further financial and operational risks and challenges are as follows:
 - a. The unknown impact of the Funding Formula Review (anticipated to be implemented in 2018/19) on Future Funding Settlements. All options in the earlier review have shown a detrimental impact for Leicestershire.
 - b. Following the £100k reduction in 2016/17, Capital Grant has reduced by a further £100K in 2017/18 and this level of reduction is anticipated for future years.
 - c. The impact of a different grant assumption to that estimated in the MTFS for the years after 2017/18. Of note, every 0.5% reduction in grant equates to just over £0.5m less available revenue per year.
 - d. In 2014, the previous PCC supported the Force commitment to undertake a job evaluation of its police staff posts. This work continues and based on the experience of other employers a provision of 3% of the police staff pay bill has

been included for pay drift. This has been allowed for 9 months assuming that any changes to salaries will be implemented from July 2017 - £1.04m (the full year effect is £1.39m). This will be closely monitored and remains a financial risk until the pay assimilation is completed and the actual costs are confirmed.

- e. During May 2017 the Force and OPCC will be required to auto enrol all of their employees who do not currently contribute to a pension into the relevant scheme as part of the government's initiative to encourage individuals to save for a pension. This is the first time the auto enrolment process will be run. It will then occur every 3 years. As this is the first auto enrolment for the PCC and the Force, it is not yet known how many of the officers and staff will make the decision to remain in the pension schemes. This is a financial risk because if everyone eligible to join the pension scheme decides to continue to pay into the pension the additional employer's contributions for officers and staff would be £537k and £707k respectively.
 - f. The full impact of costs and funding arrangements for the new Emergency Services Network (ESN) are still unknown. Although the £1bn cost across all Emergency Services is included within their settlements, the top-slice has increased significantly in 2017/18 and is anticipated for future years. Additionally, slippage in timescales delays the assumed national financial benefits which are due to accrue in later years, in line with the cost profile of the national arrangements.
 - g. The operational and financial impact of the new, emerging and increasing areas of threat, including the locally reflected national concern and increasing demands of Child Sexual Exploitation, Adult and Child Sexual and Violent crimes, and increasing Cybercrime and Extremism. From initial work on the Force's Strategic Assessment for 2017/18, which is in keeping with the national themes, it is clear that these areas of operational threat require more targeted investment and resources - some are one off and some ongoing requirements.
 - h. The capital programme requirements and the investment required to take any collaborative or Tri-Force work forward in advance of the timings of savings. Whilst these may attract Transformation Funding, these would still need match funding and financing.
 - i. Under current assumptions, if no action is taken, it is envisaged that by 2021/22 there will be a shortfall of over £10.3m on the MTFS.
62. However, these risks, challenges and uncertainties are under regular review and the steps already in train to help mitigate these include:
- a. Outcome Based Budgeting (OBB) commenced in 2015/16. This has continued in 2016/17 and will continue moving forwards. The PCC and CC have also agreed that OBB will be undertaken in the Force Communications Department and the DPCC will attend the Output Based Budgeting Review Panel.
 - b. PCC and OPCC oversight to ensure continued rigour and commitment takes place in meeting and identifying savings and efficiencies, at a regional and local level. This oversight includes attendance by the PCC at the Force Change Board to ensure scrutiny, challenge and full consideration of change and savings proposals.
 - c. Regular review and scrutiny of the Capital Programme and the Treasury Management Strategy.

- d. Reviewing potential opportunities for Collaboration with other PCCs and Chief Constables in the Region. It is anticipated that Business Cases will be presented and decisions taken in regard to potential Tri-Force opportunities with Leicestershire, Nottinghamshire and Northamptonshire.
- e. Regular review of the Reserves Strategy to ensure sufficient earmarked reserves are in place and utilised appropriately, to ensure that the General Reserve is sufficient and that a suitable level of reserves is contained within the Budget Equalisation Reserve (BER) to enable targeted investment and the smoothing of additional costs before longer term realisation of savings.

2017/18 – Base Budget preparation, approach and scrutiny

- 63. In 2008/09 the Force introduced a risk-based approach to budget setting which sought to align the budget process with identified strategic operational priorities and risks.
- 64. The Force continues to consider key corporate risks when setting the budget. Essentially these risks are operational and organisational around managing people, infrastructure assets, information etc. The Force has maintained and kept up to date its Corporate Risk Register that sets out how it intends to control and mitigate these risks.
- 65. The Force continues to identify its Strategic Operational Risks as part of the National Intelligence Model (NIM). This has been used to inform resourcing strategies at both Directorate and Departmental level.
- 66. Each year, the Force undertakes a major exercise to review its operational risks which are set out within the “Force Strategic Policing Assessment”. This work was also informed by the work of the Regional Collaboration Project Team looking at the extent of collaborative opportunities across the East Midlands.
- 67. The purpose of the Force Strategic Assessment is to identify those areas of greatest risk. Essentially a high risk area is where only limited resources had been allocated to address a substantial risk i.e. this creates a significant risk gap.
- 68. The revised five-year financial forecast and, in particular, the 2017/18 budget contained within this report aligns the Force and PCC’s financial resources to risk and therefore is fundamental to the Force’s performance management regime.
- 69. The budget also takes into account the fact that the Force has delivered over £38m in cashable efficiency savings since 2009/10 in response to Home Office funding reductions arising from the Government’s austerity measures.
- 70. The CFO has worked closely with the Force finance team throughout the year during the budget monitoring process and in the preparation of the budget for 2017/18. In respect of the budget, this has included (but was not limited to), the identification and agreement of assumptions and methodology and challenge and scrutiny of the budget workings. In addition, where the CFO has sought clarification, or changes, these have been discussed and amendments made where appropriate.
- 71. The PCC, together with the CFO and his team have held regular discussions with the CC and his Chief Officers throughout the year, particularly prior to and throughout the budget preparation process and the announcement and interpretation of the settlement.

72. These discussions have culminated in a number of full and robust discussions of the budget requirement, the national and local operational and financial challenges, the precept options available and a review of the MTFS and associated risks.
73. Furthermore, there has been a significant degree of scrutiny and challenge undertaken by the PCC and his team, prior to, during and post the Strategic Assurance Board on the 10th January 2017, culminating in final discussions and agreement of the Force budget between the PCC and the Chief Constable on the 17th January 2017.

2017/18 Revenue Budget

74. The base budget for 2017/18 has been built based upon the 'budget rules' which are consistent with previous years and the risk based approach outlined earlier in the report.
75. In line with this approach, the Panel is advised that the total net budget requirement in 2017/18 is £171.639m. This equates to an increase of £0.799m (0.47%) from the 2016/17 net budget requirement level of £170.840m. The budget requirement is detailed in Appendix 1.
76. There are a number of areas where it may be helpful to highlight significant aspects of the budget in line with the Police and Crime Plan priorities as follows.
- **Police Officers** – In addition to the 10 Police Officer posts which were incorporated into the establishment after the budget was set for 2016/17, the PCC's first budget and precept increases the Police Officer Establishment by a further 8 Police Officers, equivalent to one per Neighbourhood Policing Area (NPA). This has increased the Police Officer establishment to 1,782 (an increase of 18 since taking up office) and has been assumed throughout the period of the MTFS.
 - **Police Community Support Officers (PCSOs)** – These have been assumed at a level of 251 throughout the MTFS, with the PCSO reserve being utilised until 2020/21
 - **Support Staff** – The budget is based on 1,134 FTE and includes the impact of Hay job evaluation and the triennial actuarial review of the Local Government Pension Scheme which has resulted in an increase of 1% each year.
 - **Apprenticeship Levy** – this has been built into the costs and equates to over £0.5m per annum.
 - **Premises** – it has now been confirmed that premises costs have increased by over £0.250m per annum due to business rates revaluations undertaken by the Valuation Agency on PCC buildings.
 - **Regional Collaboration** – Regional budgets are based on operational priorities recommended by the Regional Chief Constables and the budget relates to Leicestershire's share of collaborative arrangements including a share of 220 shared Police Officer posts.

Office of the Police & Crime Commissioner (OPCC)

77. A report on the budget and costs of the Office of the Police and Crime Commissioner was considered by the Police and Crime Panel in December 2016. As advised at that meeting, the Deputy Police and Crime Commissioner (DPCC) is reviewing the structure of the office on behalf of the PCC and an updated report will be presented to the Panel once a structure has been finalised.
78. In the meantime, the 2017/18 budget is based on the current structure of the OPCC incorporating the DPCC and Advisor roles discussed at the December meeting.
79. In addition to the OPCC and Commissioning budgets, there is an OPCC Transition Reserve which has been used to fund the necessary set up and transitional arrangements for both the first Police and Crime Commissioner, Sir Clive Loader and Lord Bach. It is envisaged that this reserve will be fully utilised in 2017/18 and will have been used towards set-up costs and new initiatives, together with the costs of recruitment and significant structural changes.

Commissioning

80. The Draft Commissioning Framework for 2017/18 is tabled on today's agenda and aligns to the priorities contained within the Police and Crime Plan. The Draft Framework provides a budget for Commissioning in 2017/18 of £4.668m.
81. The 2017/18 Commissioning Budget includes the proposed implementation of a PCC Grants Process. This will include the allocation of funds received from the Police Property Act.
82. During 2017/18, a Draft Framework will be completed to align to the remaining term of the Police and Crime Plan.
83. The Draft Framework is currently out for consultation and assumes £0.376m will be drawn from the Commissioning Reserve for the year.
84. The Ministry of Justice (MoJ) Victims and Witnesses Grant has been confirmed for 2017/18 and although there have been no reductions in cash terms, the MoJ have indicated that this grant could reduce in further years.

Collaboration

85. At a meeting of PCCs and Chief Constables in June 2016, work was agreed to develop Business Cases for specific areas for the three Forces of Leicestershire, Northamptonshire and Nottinghamshire.
86. These Business Cases will be available for PCCs and CCs to review in early March 2017 and it is anticipated that this meeting will determine whether the Business Cases should be progressed, whether further work is required or whether to concentrate on other Collaborative opportunities within the Region.
87. Given these timescales, and that some investment is also funded from Transformation Bids, it is not possible to include this information within the three PCC Budgets or Precept reports for 2017/18. Therefore, in respect of Leicestershire, costs for Tri-Force work if approved will be met initially from the BER. It is intended that an update will be provided to a future Police and Crime Panel meeting.

88. The Panel are advised that the three PCC precept reports across the three Force areas will all include a similar narrative for the Tri-Force collaboration work.
89. Where possible, Leicestershire, Northamptonshire and Nottinghamshire continue to work closely and all three budgets have been prepared on common assumptions for Pay Awards, and inflation, creating a common baseline. Discussions continue nationally with the Home Office, PACCTS, Regional colleagues and the three Forces/PCCs finance teams to determine common grant assumptions.

Capital Programme 2016/17 to 2018/19 and Treasury Management – Investment Strategy

90. The Capital Programme is set out in Appendix 2. The revenue consequences of the proposed programme have been taken into account in the development of the revenue budget, and the required prudential indicators are set out in a separate report on this agenda.
91. This Capital Programme was considered by both the OPCC and the Force at the Strategic Assurance Board on the 10th January 2017. The Programme includes investment on operational areas of premises, IT and vehicle fleet, together with assumptions for Capital Receipts and timings of work. The OPCC provided scrutiny and challenge and in line with the PCC's visibility priority, premises will continue to be reviewed closely in the Programme.
92. The Treasury Management report is set out at Appendix 3. This is required by the Code of Treasury Management published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and explains the Investment Strategy in relation to reserves and balances.
93. The Treasury Management Strategy was considered by both the OPCC and the Force at the Strategic Assurance Board on the 10th January 2017 and noted the intention of the Chief Finance Officer (CFO) and the Assistant Chief Officer (ACO Resources) to review the Strategy further during 2017/18.

Medium Term Financial Strategy (MTFS)

94. It is a requirement that the Police and Crime Plan must cover the period until the end of the financial year of the next election for PCCs. Elections are due to be held in May 2020. Thus the relevant date is 31 March 2021.
95. It is appropriate that the MTFS covers not just the same period but extends this to 2021/22 to provide a longer term view which will enable informed decision making to take place for the period of the Plan. This is not without its challenges, given that there is only a firm Government announcement of funding for 2017/18, together with the risks, challenges and uncertainties highlighted earlier within this report.
96. Due to the proactive work undertaken in Leicestershire in line with the previous MTFS, a large number of savings had already been identified and implemented in the base budget for 2017/18 and future years.
97. In 2017/18, the PCC has allocated 96% of the net budget requirement to the Chief Constable for use on local policing and regional collaborations. In 2016/17, the allocation was 95.6%.
98. The PCC has set the Chief Constable the sum of £451,860 (0.27% of the Force budget requirement) for efficiency savings in 2017/18.

99. Key assumptions that have been included in seeking to outline the financial challenge for the medium term are:
- a. That the council tax base grows at 1.75% per annum (source: professional prudent estimate based on the local position over the last five years). This is in excess of the 0.5% assumed by the Home Office nationally;
 - b. There is no new council tax freeze grant from 2016/17 onwards (source: as detailed within the SR2015);
 - c. All existing council tax freeze grants continue up to and including 2021/22 (source: as detailed within the SR2015 and provisional police settlement);
 - d. Government funding reductions are 1.4% each and every year from 2017/18 onwards (source: in line with 2017/18 actual reductions and regional and national CFO estimates);
 - e. The collecting authorities' LCTS schemes deliver a cash neutral position when combined with the council tax support grant from the Government;
 - f. Pay increases are assumed at 1% until 2020/21 and 2% thereafter and prices at realistic levels (source: Pay increases of 1% were announced in the SR2015 and price increases are consistent with other PCCs regionally and locally).
- It is recognised that Public Sector Pay increases have been held at 1% for some years and are budgeted at this level throughout the SR2015. However, using a 2% Pay Assumption in 2021/22 does have an impact on the net budget requirement and funding gap and this will be closely monitored;
- g. At this stage (until early exemplifications have been provided), there are no significant impacts on grant funding incorporated into the MTFs from the Funding Formula Review;
 - h. No additional, unfunded responsibilities are given to the PCC; and
 - i. The BER can fund any invest to save projects.
 - j. Further borrowing beyond the capital programme is not required.
100. Taking into account the above assumptions, following the detail of the provisional grant settlement, the MTFs has been reviewed and the year 2021/22 added to the Plan and the position is as follows:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Net Budget Requirement	171.639	176.326	178.361	181.581	184.983
Total Funding	171.639	172.164	172.887	173.718	174.659
Funding Gap	-	4.162	5.474	7.863	10.324

101. The MTFS highlights that whilst 2017/18 will be balanced with minimal efficiency savings there is a significant shortfall in 2018/19. Whilst there are sufficient reserves within the BER available to offset the shortfall in 2018/19, there may also be investment opportunities which would also require funding. It is evident that ongoing savings will need to be sought to balance the budget in the longer term.

Use of Reserves and Balances

102. In considering the budget, the MTFS and level of precept options, it is important to look closely at the size, level and type of reserves held by the PCC to ensure that they are adequate to cover the purposes for which they are held and to provide some safeguards against the future risks identified within the budget.
103. Three types of Reserve are held and these are explained further below:

a. General Reserve

There is a General Reserve held at £6m. This represents 3.5% of the net budget requirement for 2017/18 and is within recommended external audit and CIPFA levels of 3-5%. It is prudent to have such a reserve at this level to enable the organisation to withstand unexpected events which may have financial implications. There is no planned use of this reserve during 2017/18.

b. Earmarked Reserves

The PCC currently holds twelve Earmarked Reserves which at 31/3/16 amounted to £20.5m and those to note are as follows:

OPCC Commissioning and Strategic Partnership Fund (SPDF) Reserve £3.9m – it is forecast that this will be fully utilised by 31/3/20 in line with the Draft Commissioning Framework and SPDF plans.

PCSO Reserve £2.2m – this reserve will be applied to support expenditure on PCSO's and will be fully exhausted by 2020/21.

Carry Forwards £1.8m – This reserve includes funds committed at year end to finance specific expenditure in future years.

Jointly Controlled Operations £0.9m – this relates to regional activities where the financial arrangements are managed by Leicestershire.

Civil Claims £0.7m – This reserve holds funds set aside where considered prudent for Civil Claims (Public and Employer liability) in line with professional advice.

Capital Reserve £0.4m – to support future Capital expenditure.

Proceeds of Crime Act - £0.5m – reserve funded from proceeds of crime, used to support Force's capability in specific investigative areas.

c. Budget Equalisation Reserve

Over recent years, due to the impact of effective efficiency programmes and through financial prudence, a Budget Equalisation Reserve (BER) has been created. This reserve is currently estimated to be £9.7m at 31/3/16, and its purpose when established in line with the Reserves Strategy was twofold:

1. To fund invest to save and other new initiatives and investments.
 2. To recognise that some savings would take time to implement (particularly in respect of Police Officers where attrition is at a lower level than reductions required) and to smooth the impact of these changes
104. Furthermore, as highlighted earlier in this paper, the PCC will ring fence the sum of £0.5m from the BER which will be used to facilitate early work and support development of the PCC's priorities and the early and integrated response to demand. It is anticipated that investment plans will be prepared as this early thinking develops over the time of the Police and Crime Plan.
105. As at 31/3/18, it is anticipated that there will be an estimated balance on the reserve of £8m which may be utilised towards investment or Transformational costs associated with Collaborative work, Transformation bids or support the revenue budget whilst ongoing savings are achieved.
106. The OPCC receives regular updates on the level and use of Reserves, together with the Capital Programme and Treasury Management Strategy as part of the budget monitoring process during the year at the Strategic Assurance Board.

Funding Comparisons

107. Other factors which are worth noting in relation to Funding levels (Source: HMIC VFM indicators 2016) for Leicestershire are as follows:
- In terms of Central funding, Leicestershire received £113.7 per head of population, significantly lower than the £121.3 nationally but slightly higher than the £111.4m for the most similar groups (MSG).
 - At £183.58 in 2016/17, Leicestershire's Council Tax level for a Band D property was higher than both the national average at £178.4 and the MSG average of £160.90.
 - Regionally, Council Tax levels for Band D properties in 2016/17 are:
 - £177.07 (Derbyshire)
 - £179.91 (Nottinghamshire)
 - £183.58 (Leicestershire)
 - £201.51 (Lincolnshire)
 - £204.96 (Northamptonshire)
 - Leicestershire PCC receives a lower level of Precept per head of population at £53.9, compared to national levels of £58.5 but slightly higher than the most similar group of £52.6.

Precept proposal

108. After careful consideration of all the factors highlighted within this report, the PCC is proposing a 1.99% Precept increase to maximise resources for operational policing and seek to mitigate some of the impact of forecast financial reductions.
109. In making this proposal, the PCC is extraordinarily grateful to those who took part in the Precept surveys which showed the willingness of the public in Leicester, Leicestershire and Rutland to pay more in order to safeguard and develop policing in their neighbourhoods.
110. Additionally, in making this proposal, the PCC is satisfied that in doing so he is maximising the resources available to Leicestershire Police to deliver the priorities outlined in his Police and Crime Plan.

Statement of the Chief Constable

111. In proposing the precept and associated conditions, the PCC has sought views from the Chief Constable and his statement on the PCC's precept proposal for 2017/18 is as follows:

"It is my responsibility as described in the Policing Protocol Order 2011 to provide professional advice and recommendations to the PCC in relation to his receipt of all funding, including the Government Grant and precept and other sources of income related to policing and crime reduction. Under the terms of the Order I am responsible for the delivery of efficient and effective policing, the management of resources and expenditure by the Force. I must also support the PCC in the delivery of the strategy and objectives set out in the Police and Crime Plan, assist in the planning of the Force's budgets, have regard to the strategic policing requirements in respect of national and international policing responsibilities, and have day to day responsibility for financial management of the Force within the framework of the agreed budget allocation and levels of authorisation issued by the PCC.

My preferred option is an increase in the Precept of 1.99% as this best enables the Force to deliver the Police and Crime Plan, and meet the requirements of the Strategic Policing Requirement going forward.

This is a challenging budget, with a real terms reduction which follows the reduction of £38M in preceding years. The society that we police faces new issues; CSE, cybercrime and digital forensics have gone from being occasionally reported, to being part of everyday business. This requires new skills and abilities, and the capacity to prevent crime in places that are both real, and virtual.

We live in an age where the desire for a visible policing presence remains key to ensuring community confidence, yet whilst officers visibly patrol the streets the greatest threat may be coming into your house through the internet. To meet this challenge we will be innovative, seeking to protect the vulnerable whilst targeting offenders.

We remain an efficient Force rated by the H.M.I.C. as "Good" for our use of resources and with very low costs for back office functions. The pressures on our budget, significant population growth and civilianisation of roles means that we now have a

Police Officer for every 599 citizens; a decade ago that figures was one Officer for every 430 citizens. This means that we have to do our work differently; that is reflected in our use of technology, such as body worn video and mobile data, our collaborations, which lead the way nationally, and our commitment to local communities, manifest in our network of Neighbourhood Teams, supporting our investigators and responders.

We continue to enjoy great support from local communities. The Panel's support as we manage risk, and work with Community Safety Partnerships is key going forwards.

Robustness of the Budget –Statement of the PCC Chief Finance Officer

112. The Local Government Act 2003, Part 2, Section 25, as amended by the Police Reform and Social Responsibility Act 2011, requires the PCC's Chief Finance Officer to report on the robustness of the estimates used for the budget and the adequacy of the proposed financial reserves. The PCC is required to have regard to the report of the Chief Finance Officer and the report must be given to the Police and Crime Panel. The CFO statement is as follows:

"At the Strategic Assurance Board on the 10th January 2017, both the ACO (Resources) and myself attended to provide assurance to the Board that these factors have been considered. Since that date, dialogue, scrutiny and challenge has continued where new factors or information have been highlighted and discussed.

In the sections above, titled "2017/18 – Base Budget – preparation, approach and scrutiny" and "2017/18 Base Revenue Budget", a description of the development of this budget is given. During the preparation of the budget I have been given full access to the budget model and have been consulted on the assumptions being made in order to develop the model. I have received timely and detailed responses to queries and/or points of clarification. In the majority of cases I have agreed with the assumptions being made, and where I have sought changes then they have been incorporated.

Furthermore, I have worked with the ACO (Resources) to agree consistent assumptions and methodologies and where possible with CFO colleagues in Northamptonshire and Nottinghamshire which has assured that these have been benchmarked with peers.

Together with the ACO, the Chief Officer Team, OPCC Deputy Chief Executive and the PCC, I have reviewed, scrutinised and challenged the Business Cases for operational investment. This has included reviewing the operational and financial risks of the investment and highlighting the impact on the MTFS.

I am assured that there is work underway to take forward the Change Programme and savings plan and the continuation of the Outcome Based Budgeting process which will assist in identifying savings to meet the 2017/18 efficiencies and future years' shortfalls in the MTFS.

As in previous years, I have confidence that the budget monitoring process will identify any variations of expenditure or income from that budgeted so that early action can be taken and this is regularly reviewed, discussed and scrutinised at the Strategic Assurance Board.

I have also reviewed the detailed calculations in arriving at the budget requirement and council tax precept and options and find these to be robust. I also have, together with other precepting partners, sought authorisations from billing authorities in relation to taxbase and council tax surplus/deficits.

The Chief Constable has discussed the revenue and capital operational and Police and Crime Plan requirements for 2017/18 and future years and together we have been able to develop a budget that supports the delivery of the priorities set out in the Police and Crime Plan.

There is an operational contingency available to the Chief Constable, and sufficient general reserves available should operational demands require access to these. Earmarked reserves are also in place for specific requirements such as pensions and insurance.

In coming to my conclusion on the robustness of the budget I have also reviewed the separate papers on Capital Expenditure (Appendix 2) and Treasury Management (Appendix 3).

The sections in this report on "Future Risks, Challenges, Uncertainties and Opportunities" and the "MTFS" highlight significant unknown issues moving forwards in the medium term for both operational and financial areas.

Whilst this report does reveal that 2017/18 shows a balanced budget with an achievable Force efficiency savings requirement, the MTFS, however, reflects that after 2017/18, there are financial shortfalls. In response to this challenge, the PCC has tasked the Chief Constable with the delivery of a Change Programme and savings plan and has funded this team for the year 2017/18.

I conclude that the budget for 2017/18 has been prepared on a robust basis and that although the financial position in the longer term is challenging and shortfalls have been identified for 2018/19 and thereafter, the Force have put in place arrangements to develop plans to address these shortfalls.

Beyond 2017/18, there is a high level of uncertainty as to how the finance settlement and the formula might look. Following the headlines identified in the Chancellor's Autumn Statement, the SR2015 showed a better than anticipated settlement for the Police, both at a national and a local level. However, it is reasonable to assume that the operational and financial challenges will continue and these are reflected as best estimates in the MTFS to 2021/22.

I conclude, therefore, that the budget for 2017/18:

- 1. Has been prepared on a robust basis, and*
- 2. Includes investment into visibility in line with the PCC's Police and Crime Plan priority.*
- 3. In the short term, the budget is stable and reserves are sufficient.*
- 4. However, the financial landscape after 2017/18 is challenging and the MTFS identifies savings which need to be found. The uncertainty and challenges have been identified within this report and the MTFS will be under regular review as savings plans progress. "*

Implications

Financial:	This report for the Police and Crime Panel to note the precept proposal, the financial position, uncertainties and timescales.
Legal:	The PCC is required to set a precept and this complies with those requirements.
Equality - Impact Assessment:	The budget and proposed precept forms part of the Police and Crime Plan which has a full impact assessment. Furthermore, the additional resources provided support the key priorities of the Police and Crime Plan. Additionally, the survey is comprised of a representative sample of Leicester, Leicestershire and Rutland.
Risks and – Impact:	Risks have been identified within the report.
Link to Police and Crime Plan:	The budget and precept support the delivery of the Police and Crime Plan.

List of Appendices

Appendix 1 Budget and Precept 2017/18 to 2021/22
 Appendix 2 Capital Programme 2017/18 to 2019/20
 Appendix 3 Treasury Management – Investment Strategy

Background Papers

Provisional Police Grant Report – 15 December 2016
 Council Tax Referendum Principles – 15 December 2016
 Leicestershire Police and Crime Commissioner Survey

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		Precept Increase	1.99%	1.99%	1.99%	1.99%	1.99%
2016/17			2017/18	2018/19	2019/20	2020/21	2021/22
Approved Budget			Revenue Budget	Revenue Budget	Revenue Budget	Revenue Budget	Revenue Budget
£			£	£	£	£	£
91,526,724	Police Pay & Allowances		90,909,637	92,572,277	92,546,056	93,058,238	93,605,392
36,300,795	Staff Pay & Allowances		38,446,797	39,642,986	40,294,508	41,423,703	42,745,512
7,247,809	PCSO Pay & Allowances		7,764,375	8,195,068	8,410,301	8,678,829	8,989,418
135,075,328			137,120,809	140,410,331	141,250,865	143,160,770	145,340,321
9,084,690	Regional Collaboration		10,153,121	10,323,829	10,422,792	10,615,682	10,818,856
4,187,866	Police Pensions		3,521,524	3,565,227	3,623,361	3,680,366	3,738,512
25,945,015	Non-Pay Expenditure		26,540,969	29,257,795	30,147,459	30,853,306	31,726,011
1,931,603	Inflation Contingency		3,440,425	280,000	280,000	280,000	280,000
(11,678,115)	Income		(11,350,406)	(11,309,770)	(11,433,659)	(11,583,969)	(11,896,007)
29,471,059			32,305,633	32,117,081	33,039,952	33,845,385	34,667,371
164,546,387	Force Budget Requirement (excl. OPCC)		169,426,442	172,527,412	174,290,818	177,006,155	180,007,692
1,061,330	OPCC		1,150,987	1,183,166	1,206,506	1,235,876	1,269,994
4,611,000	Commissioning		4,668,359	4,292,475	4,292,475	4,292,475	4,292,475
5,672,330			5,819,346	5,475,641	5,498,981	5,528,351	5,562,469
170,218,717	Gross Budget Requirement		175,245,788	178,003,053	179,789,799	182,534,506	185,570,160
(1,101,702)	Specific Grant - Victims and Witnesses		(1,237,845)	(1,237,845)	(1,237,845)	(1,237,845)	(1,237,845)
2,880,409	Re-investment		115,206	261,039	275,152	292,353	322,064
814,989	Revenue contribution to capital		-	-	-	-	-
(598,724)	Efficiency Savings		(451,860)	-	-	-	-
(1,373,529)	Transfers to/from Earmarked Reserves		(2,032,176)	(700,146)	(466,292)	(8,045)	328,548
170,840,160	Net Budget Requirement		171,639,113	176,326,101	178,360,814	181,580,969	184,982,927
	- Surplus / (Funding Gap)			(4,162,184)	(5,473,732)	(7,863,100)	(10,323,678)
170,840,160	Net Revenue Budget		171,639,113	172,163,917	172,887,081	173,717,869	174,659,249
	Funding						
65,345,458	Police Grant		64,432,578	63,405,489	62,392,779	61,394,247	60,409,695
39,648,721	Business Rates		39,093,198	38,545,893	38,006,251	37,474,163	36,949,525
7,020,391	Council Tax Support Grant		7,020,391	7,020,391	7,020,391	7,020,391	7,020,391
1,910,530	Council Tax Freeze Grant		1,910,530	1,910,530	1,910,530	1,910,530	1,910,530
1,201,443	Collection Fund Surplus		1,093,561	1,000,000	1,000,000	1,000,000	1,000,000
55,713,617	Precept		58,088,855	60,281,613	62,557,130	64,918,537	67,369,108
170,840,160			171,639,113	172,163,917	172,887,081	173,717,869	174,659,249

£	Precept by Billing Authority	Tax Bases	£	£	£	£	£
5,794,902	Blaby	32,448.66	6,075,369	6,304,704	6,542,695	6,789,669	7,045,968
9,828,492	Charnwood	54,583.50	10,219,680	10,605,456	11,005,792	11,421,238	11,852,372
6,019,031	Harborough	33,482.00	6,268,842	6,505,480	6,751,050	7,005,888	7,270,349
6,681,946	Hinckley & Bosworth	37,362.00	6,995,295	7,259,356	7,533,383	7,817,753	8,112,860
12,704,630	Leicester City	70,825.00	13,260,579	13,761,144	14,280,601	14,819,665	15,379,084
3,302,587	Melton	18,110.20	3,390,776	3,518,773	3,651,600	3,789,440	3,932,486
5,565,871	North West Leicestershire	31,262.00	5,853,191	6,074,139	6,303,426	6,541,368	6,788,294
3,110,565	Oadby & Wigston	17,155.70	3,212,065	3,333,315	3,459,142	3,589,717	3,725,223
2,705,593	Rutland	15,024.60	2,813,059	2,919,247	3,029,443	3,143,799	3,262,472
55,713,617		310,253.66	58,088,855	60,281,613	62,557,130	64,918,537	67,369,108

£	Precept by Band	Apportionment	£	£	£	£	£
122.3847	Band A	6/9	124.8201	127.3041	129.8374	132.4211	135.0563
142.7821	Band B	7/9	145.6235	148.5214	151.4770	154.4913	157.5657
163.1796	Band C	8/9	166.4268	169.7388	173.1165	176.5615	180.0751
183.5770	Band D	9/9	187.2302	190.9561	194.7561	198.6317	202.5845
224.3719	Band E	11/9	228.8369	233.3908	238.0352	242.7721	247.6033
265.1668	Band F	13/9	270.4436	275.8255	281.3144	286.9125	292.6221
305.9617	Band G	15/9	312.0503	318.2602	324.5935	331.0528	337.6408
367.1540	Band H	18/9	374.4604	381.9122	389.5122	397.2634	405.1690

£183.5770	Band D Council Tax	£187.2302	£190.9561	£194.7561	£198.6317	£202.5845
1.99%	% Increase	1.99%	1.99%	1.99%	1.99%	1.99%
3.58p	£ Increase	3.65	3.73	3.80	3.88	3.95
6.9p	Increase per week in Pence	7.0p	7.2p	7.3p	7.5p	7.6p

CAPITAL PROGRAMME 2017/18 TO 2019/20

Background

1. The Government support for capital spending includes the capital grant which directly supports the capital programme. Since 2004 the Prudential Code has given the police authority and now the PCC the freedom to set its own borrowing limit subject to compliance with the Code.

Prudential Code

2. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice.
3. The Prudential Indicators required by the Code are designed to support and record local decision making. They are not designed to be comparative performance indicators.
4. The main objective in consideration of the affordability of the capital programme is to ensure that total capital investment remains within sustainable limits, and in particular to consider its impact on the council tax.
5. In assessing affordability the Office of the Police and Crime Commissioner (OPCC) has to take into account all the resources currently available to the organisation and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the coming year and the following 2 years.
6. In relation to being prudent there is a need to ensure that, over the medium term, net borrowing will only be used for capital purposes. It is also prudent to ensure that treasury management is carried out in compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and limits are set on fixed and variable interest rate exposures, and on the maturity structure of borrowing.
7. The decisions on capital investment need to take into account option appraisal, asset management planning, strategic planning for both the OPCC and Force and the achievability of the forward plan.

Prudential Indicators

8. The actual 2015/16 capital expenditure and the estimated capital expenditure for the current year and future years are:-

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Total	5.5	6.6	11.7	4.1	1.6

9. The estimates of the ratio of financing costs to the net revenue stream for 2015/16 and for the current and future years are:-

2015/16	2016/17	2017/18	2018/19	2019/20
Actual	Estimate	Estimate	Estimate	Estimate
%	%	%	%	%
1.30	1.31	1.46	2.17	2.15

10. The actual capital financing requirement at 31 March 2015 and the estimates for the current and future years are:-

	31.3.16	31.3.17	31.3.18	31.3.19	31.3.20
	£m	£m	£m	£m	£m
Total	21.8	23.0	29.4	29.1	27.1

11. The capital financing requirement (CFR) measures the OPCC's need to borrow for capital purposes. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the OPCC has to ensure that net external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus estimates of any additional CFR for the current and next two years. The OPCC met this requirement in 2015/16, and is expected to do so in future years.
12. In respect of external debt, the recommended authorised limits for total external debt, gross of investments, for the next three financial years are shown below:-

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Borrowing	20.4	24.4	27.0	27.8
Long Term Liabilities	1.9	1.4	1.0	0.6
Total	22.3	25.8	28.0	28.4

13. These authorised limits are consistent with the OPCC's current commitments, existing plans, and IT Strategic Alliance proposals for capital expenditure and its financing, and the approved treasury management policy. The authorised limit for 2017/18 is the statutory limit determined under section 3(1) of the Local Government Act 2003.
14. There is a need to have an approved operational boundary for external debt which is based on the same estimates as the authorised limit (para 12). The operational boundary reflects an estimate of the most likely level of debt. It does not include the additional headroom within the authorised limit that allows for unusual cash movements.

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Borrowing	19.4	23.4	26.0	26.8
Long Term Liabilities	1.4	0.9	0.5	0.1
Total	20.8	24.3	26.5	26.9

15. The OPCC's actual external debt at 31 March 2016 was £13.8m. The amount is split between the Public Works Loans Board (PWLB) figure of £12.4m and Leicestershire County Council £1.4m (transferred debt from 1995 regarding the formation of police authorities as per the Police and Magistrates Courts Act 1994. This has now transferred to the OPCC).

It is planned that the 2016/17 'borrowing requirement' of £2.8m will be met by external borrowing however, the final decision will be made in March 2017.

16. The estimate of the incremental impact of capital investments proposed in this report for Band D Council Tax per week are:

2017/18	2018/19	2019/20
0p	8p	2p

17. A monitoring system is in place and reports on progress against the indicators are taken to the OPCC.

Proposed Capital Programme

18. The capital programme has been prepared in consultation with budget holders on the basis of operational need and risk. The Estates programme reflects the previously approved Estates Strategy. The IT programme reflects significant investment in additional mobile devices, local IT infrastructure and Contact centre telephony. The Force's share of the £12.4m investment in the Tri-Force IT enabling work stream is also included.
19. A summary of the proposed Capital Programme for 2017/18 is shown in the table below. The PCC has reviewed and scrutinised a more detailed programme relating to the financial years 2016/17 to 2019/20.

<i>Proposed Capital Programme 2017/18</i>			
Expenditure	£000	Funding	£000
Property	2,969	Capital Grant (provisional)	700
Information Technology	7,118	Borrowing Requirement	8,222
Emergency Services Network	600	Capital Receipts	700
Vehicle Fleet	1,039	Home Office Grants (TBC)	2,004
		Revenue Contributions	100
Total	11,726	Total	11,726

20. The Programme includes property schemes relating to the co-location of Coalville police station with the Fire Service providing for a smaller efficient building, the continuation of major refurbishments at Beaumont leys and Admin 2 (following the recent flood damage), the remodelling of the Command Suite at Force HQ and a provisional sum to create a fit for purpose 'property' storage facility at Keyham Lane which will be subject to further review and scrutiny with the PCC.

The information technology expenditure includes significant investment to complete the roll out of mobile devices across the Force including frontline officers, The Force's share of the Tri-Force IT enabling work stream business case approved by the Tri – Force Collaboration Board on the 11/10/2016, provision for the costs associated with the implementation of the Emergency Service Network as advised by the Home Office and future investments in the Contact Centre telephony. Planned replacements for the existing vehicle fleet are also included.

Funding Arrangements

21. The provisional 2017/18 capital grant is £0.7m a reduction of £0.1m compared to the previous year. After the utilisation of receipts arising from the sale of properties as part of the Strategic Estates Strategy, anticipated Home Office grants (transformation fund for IT) and the application of revenue contributions to capital schemes, the borrowing requirement is **£8.222m** for 2017/18.
22. The Capital Programme assumes that the 17/18 borrowing requirement of £8.222m is financed through maturity loans from the PWLB at an indicative interest rates of 3.07% for 25 years (£3m), 2.50% for 10 years (£0.9m) and 1.75% for 5 year loans (£4.3m). Revenue resources are set a side over the same loan period to repay the principal on maturity.

Minimum Revenue Provision Policy (2017/18)

All expenditure incurred by the Police and Crime Commissioner must be charged to the revenue account in the year it is incurred, with the exception of items which can be capitalised in accordance with proper accounting practice – usually items which have an expected life of more than one year.

Capital expenditure items such as land, buildings, IT, vehicles and equipment can be financed in a number of ways. In the case of capital grant, capital receipts, 3rd Party contributions and contributions from the revenue budget, the expenditure is effectively financed and paid for as it is incurred by the application of those resources.

Where the commissioner finances capital expenditure through borrowing (debt) resources must be set aside to repay that debt from the revenue account. The amount charged to revenue account for the repayment of borrowing is known as the Minimum Revenue Provision (MRP). The Statutory Guidance issued by the DCLG sets out the 4 options for calculating the annual provision.

The Guidance requires an annual statement of the policy adopted in calculating the MRP to be agreed each financial year.

The intention of the Guidance is to ensure that the repayment to revenue is made over a period bearing some relation to that over which the asset continues to provide a service.

The recommended MRP policy is:

- For capital expenditure incurred before the 1st April 2008 (which was supported capital expenditure) the policy will be based on 4% of the Capital Financing requirement
- From the 1st April 2008 for all unsupported borrowing the MRP policy will be the Asset Life Method (Equal instalment approach) – the MRP will be based on the estimated life of the assets.

The commissioner's policy is to finance shorter life assets from capital receipts, grants and revenue contributions with borrowing reserved generally for Land and Buildings with an expected life of 25 years and significant IT projects.

Background Papers

Home Office Settlement Notification via the Home Office website

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TREASURY MANAGEMENT – INVESTMENT STRATEGY

Background

1. The 'Code of Treasury Management' published by the Chartered Institute of Public Finance and Accountancy (CIPFA), and recommended by the Home Office, has been adopted by the Office of the Police and Crime Commissioner for Leicestershire ("the OPCC").
2. The Treasury Management Strategy is approved annually to run from 1st April to the following 31st March.
3. The Strategy has evolved in recent years in response to the relative instability within the banking sector. This saw the removal of all European/foreign banks and all but one Building Society (Nationwide) from the authorised lending list.
4. The Local Government Act 2003 included capital regulations that applied from 1st April 2004. These regulations allow the OPCC freedom to borrow to fund capital expenditure provided it has plans that are affordable, prudent and sustainable. The requirements are covered in the Prudential Code.

Treasury Management Strategy

5. The core aim is to generate additional income for the OPCC but by balancing risk against return. The avoidance of risk to the principal cash amounts takes precedence over maximising returns.
 - i. Managing daily cash balances and investing surpluses

In order that the OPCC can maximise income earned from investments, the target for the uninvested overnight balance in the current account is a maximum of £15k.

At any one time, the OPCC has between £7m and £25m (depending on the cash flow) available to invest. The current lending list is as follows:-

<u>Institution</u>	<u>Maximum Loan</u> £m	<u>Maximum Period of</u> <u>Loan</u>	<u>Short-Term Credit</u> <u>Ratings **</u>
Royal Bank of Scotland plc	10.0	364 days	F2 / A-2 / P-2
Lloyds Bank plc	10.0	364 days	F1 / A-1 / P-1
Barclays Bank plc	10.0	364 days	F1 / A-2 / P-1
HSBC Bank plc	10.0	364 days	F1+ / A-1+ / P-1
Nationwide Building Society	10.0	364 days	F1 / A-1 / P-1
Debt Management Office	*	364 days	n/a

* No limit is set. The DMO tends to pay a low rate of return and hence are used only when funds can not be placed with other approved institutions.

** Short-term credit ratings (valid as at 05/01/2017) are as supplied by the OPCC's brokers - Tullet Prebon (Europe) Ltd. The highest potential ratings are F1+ (Fitch), A-1+ (Standard & Poor's) and P-1 (Moody's) respectively.

ii. Borrowing

Funds are only borrowed to finance part of the Capital programme. External borrowing is from the Public Works Loan Board (PWLB) at below commercial rates. The critical factor in determining the length of such loans is the view on the future movement of interest rates.

Borrowing may be made from internal cash resources where it is considered appropriate by the OPCC having assessed its merits against the external alternative.

Any borrowing, whether internal or external, will be timed such that the impact on the OPCC is as advantageous as possible.

Latest Position regarding Treasury Management

6. The banking sector continues to show signs of instability alongside the wider economy. In this context it is not yet advisable to consider a return to placing investments with the majority of Building Societies or European/Foreign banks. This is in keeping with the OPCC's stated aim of protecting the principal (cash) amount.
7. Funds are placed with institutions based on (a) available headroom and (b) rate of return – this is a daily decision-making process. A balance is struck between the desired level of return and the need to provide liquid funds to meet the OPCC's obligations i.e. supplier payments, payroll costs and tax liabilities.
8. Continued monitoring of the ratings agencies' assessment of institutions takes place and is reported to SAB throughout the year via the "Treasury Management Performance" report.
9. The Bank of England Base Rate has been at 0.25% since 4th August 2016.

<u>Financial Year</u>	<u>Interest Income</u>	<u>Comments</u>
2008/09	£1.48m	Actual
2009/10	£0.18m	Actual
2010/11	£0.12m	Actual
2011/12	£0.10m	Actual
2012/13	£0.25m	Actual
2013/14	£0.14m	Actual
2014/15	£0.12m	Actual
2015/16	£0.09m	Actual
2016/17	£0.06m	Forecasted
2017/18	£0.05m	Proposed Budget

10. Given the reduction in the interest rates in August 2016 and continued uncertainty in the economy a full review of the Treasury Management Strategy will be undertaken during 2017/18 to review whether there are other investment options available.

External Advice

11. External advisers have not been used over the last year. However they may be used on an ad-hoc basis if required.

Borrowing Limits

12. In accordance with the Prudential Code it is a requirement that the OPCC set borrowing limits for the next 3 years. These limits are intended to reduce risk. It is proposed that the limits should be as follows:

		2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
(i)	Total authorised borrowing limit*	20.4	24.4	27.0	27.8
(ii)	Long term liabilities	1.9	1.4	1.0	0.6
(iii)	Interest payable limit on borrowing at variable rates	0.2	0.2	0.3	0.3
(iv)	Interest payable limit on borrowing at fixed rates	0.6	0.6	0.8	0.8

* includes headroom for short term borrowing - £1m for each year and potential future IT strategic Alliance proposals.

13. The OPCC has an obligation to repay transferred debt to Leicestershire County Council, to finance capital spending prior to 1st April 1995. The amount outstanding at 31st December 2016 was £0.917m and is subject to interest charged at variable "pool" rates.
14. The Prudential Code also recommends that the Police and Crime Commissioner sets upper and lower limits for the maturity structure of its fixed rate borrowing. The following limits are proposed:-

	Upper Limit	Lower Limit
Under 12 months	20%	0%
Between 12 months and 24 months	20%	0%
Between 24 months and 5 years	20%	0%
Between 5 years and 10 years	50%	0%
Over 10 years	100%	25%

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