



Police & Crime Commissioner for Cleveland
Cleveland Police Headquarters
Ladgate Lane
Middlesbrough
TS8 9EH

Email: pcc@cleveland.pnn.police.uk
 Website: <http://www.cleveland.pcc.police.uk>

Police and Crime Commissioner:
 Chief Executive & Monitoring Officer:

Barry Coppinger
 Simon Dennis BA, Solicitor

Tel: 01642 301653
 Tel: 01642 301653

PCC Scrutiny, Delivery & Performance Meeting

Date: Wednesday, 28 February 2018

Time: 1000-1300

Venue: PCC Conference Room

Agenda

		Presented by
1.	Apologies For Absence	
2.	Declaration of conflict of interest/disclosable pecuniary interest	
3.	Notes of the previous meeting - 20 December 2017	
4.	<ul style="list-style-type: none"> a) Cleveland Police – Corporate Financial Monitoring Report to 31st January 2018 b) PCC Budget Monitoring Report to 31st January 2018 c) Robustness of Estimates and Adequacy of Financial Reserves – Report of PCC CFO d) PCCs Long Term Financial Plan (LTFP) 2018/19 to 2021/22 and Capital Plans 2018/19 to 2021/22 e) Cleveland Police Long Term Financial Plan (LTFP) 2018/19 to 2021/22 f) Treasury Management and Prudential Indicators Report g) Minimum Revenue Provision Strategy 	Cleveland Police and OPCC
5.	Everyone Matters – Update	Cleveland Police
6.	Police Use of Overt Surveillance Camera Systems in Public Places	Cleveland Police

7.	Force Management Statements – Discussion	
8.	PCC Scrutiny questions	Cleveland Police
9.	Any Other Business	
10.	Date of next meeting – 11 April 2018	



Scrutiny, Delivery & Performance Meeting

Wednesday 20 December 2017

10.00pm

PCC Conference Room, Police Headquarters, Ladgate Lane

Present

John Armstrong– Consultant
Barry Coppinger - Police and Crime Commissioner
Joanne Hodgkinson – Assistant Chief Executive, OPCC
John Lyons – Head of Standards and Ethics
Simon Nickless –T/ Chief Constable, Cleveland Police
Elise Pout - Standards and Scrutiny Manager, OPCC

1. **Apologies for absence**
Simon Dennis – Chief Executive, OPCC
2. **Declarations of Conflict of Interest/Disclosable Pecuniary Interest.**
None declared.
3. **Notes of the Previous Meeting**
The notes of the following meeting were approved for publication.
 - i. 29 November 2017

Strategic Direction

4. At the Scrutiny, Delivery and Performance meeting on 20 December an update was provided on work that had taken place in the Force that had arisen from the strategic direction set in response to litigation. The direction set out clear expectations for Cleveland Police based on issues highlighted in the judgement, including ensuring how tolerance and fairness within the Force would be underpinned by the national police Code of Ethics. Huge progress had been made but it was considered timely and appropriate to revisit the work that had taken place since that direction was set. The presentation included information on the following:
 - Support and Welfare;
 - Legal Issues;
 - Conduct and Discipline;
 - Professional Standards;
 - Organisational Development; and
 - Communications.

Support and Welfare

5. The Force was asked about the initiatives that had been put in place to improve staff wellbeing and how successful those initiatives had been.
6. Details were given about the initiatives put in place, including the Employee Assistance Programme and its take up. Evaluation work was taking place to understand the take-up and awareness of the scheme.
7. Mention was made of the Blue Light Programme which aimed to remove the stigma about mental health. The scheme had been well publicised and other appropriate forums were being sought to support the ongoing

promotion of the scheme. There had been 50 individuals/advocates trained to be able to spot signs in colleagues and to initiate supportive conversations with them. The Force had focussed specifically on where an increase in demand around mental health wellbeing had been seen, awareness had been raised and further work would take place to understand levels of take up of the scheme.

8. The vision for the future was one of an 'invest to save' basis, providing access to in-house support services, for which a business case was being developed.

Legal Issues

9. The Force was asked to provide examples of appropriate forms of Alternative Dispute Resolution (ADR) that had brought timely and lasting solutions.
10. Examples of appropriate forms of ADR were provided. They included: ACAS early conciliation; judicial mediation; informal mediation between legal representatives; negotiations; internal grievance and mediation. It was noted that the Force aimed to try and resolve the issue with the individual, balanced with the legal advice that was given. The work should be seen in conjunction with the Everyone Matters Programme which aimed to ensure that there was a positive working environment for all staff.
11. The new People Intelligence Board considered how patterns correlated with conduct matters and information was available to assist with picking up trends and linking it to the work of Everyone Matters.
12. It was noted that the Force had a number of successes over the last 3 years. From 2015 onwards these were 24 new claims which were settled either through settlement agreement, mediation, or early negotiation resulting in withdrawal. There were 31 new ET cases overall for those 3 years, some of which were group actions (2) and national test cases involving multiple claimants. 2 cases had more than 3 joint claimants. Setting aside the 24 successfully resolved cases, of the remaining 7, there were currently 2 live cases which the force sought to settle, 3 were stayed pending national test cases, 2 were likely to proceed but work was on-going.

Conduct and Discipline

13. The Force was asked how it dealt with conduct from litigation and how it complied with IPCC discrimination guidance. As a result of the transformation of PSD, a robust system had been put in place to ensure that once notification was received and considered by the civil litigation team within the Force it was referred to the Appropriate Authority to assess and then undertake a conduct assessment based on paragraphs 10 and 11 of schedule 3 of the Police Reform Act.
14. It was noted that it had increased the workload in the Directorate of Standards and Ethics but ensured that legal services didn't have to act in isolation. AA meetings had been reinstated and matters of concern and emerging trends were discussed alongside current cases to prevent a 'silo' approach.
15. A downward trend in the number of discrimination conduct/complaint allegations was reported and it was noted that the Force was found to be good by HMICFRS in identifying and reporting on discrimination. In addition additional scrutiny was undertaken by the joint audit committee who undertook on-going independent checks of the files.

Professional Standards

16. The Force was asked to provide information on how the new Directorate of Standards and Ethics (DSE) would be different and what improvements had been put in place.
17. It was noted that the over-arching principles that had driven the transformation work were:
 - Organisational effectiveness;
 - Embedding a culture of integrity, fairness and impartiality; and
 - Constructive and positive stakeholder engagement.

18. The work had involved engagement with stakeholders, particularly the staff associations and throughout the work those 3 key areas had been the focus. A review of the legacy cases highlighted how things could have been done differently, and there were only a small number of cases where there had been a failure to act in a proper manner. There was no evidence of people misconducting themselves but a lack of strong leadership, training and compliance with the regulations.
19. For the future, it was outlined that the department would benefit from external scrutiny, and what that scrutiny would consist of post reference group, be it involving the ethics or audit committee and how the reference group could support the new Head of the Directorate.
20. The Force were now confident in its internal scrutiny process, the Directorate continually reflected on whether they'd got the correct balance of approach and in taking the Directorate forward external scrutiny would ensure that the DSE maintained its balanced approach.
21. The key components of the restructured DSE were:
 - Stable and occupationally competent DSE leadership;
 - Assessment and administration hub with dedicated and trained police staff office manager, caseworkers and administrative support;
 - Trained and operationally competent detectives investigating within the complaint and conduct framework and taking wider responsibility for operational reviews and operational learning;
 - An internally and externally focussed Counter Corruption Unit with a remit for promoting organisational ethical standards; and
 - Retained links to Police Community Vetting and information Security.
22. Key milestones were listed as:
 - Head of DSE recruitment and selection;
 - Assessment and administration hub consultation;
 - Standard operating practice development;
 - Embedding the move to Hartlepool Police Station;
 - Consultation with OPCC on complaint handling options;
 - Refinement of investigative structure;
 - On-going coaching, mentoring and professional development;
 - Mainstreaming organisational learning and standards; and
 - Consultation with Programme Board and Reference Group.
23. The PCC was updated on the numbers of misconduct proceedings which showed an improvement in proportionality.

Organisational Development

24. The Force was asked to provide details of how Everyone Matters had made a difference to officers and staff particularly around how it ensured that individuals felt supported within the organisation.
25. The Everyone Matters Programme was a visible commitment to equality, diversity and fairness within the organisation, covered in a clear communication strategy, which was embedded in supervisor sessions and training, ensuring a sustained and strong visible presence.
26. Training had involved 'Everyone Matters in practice workshops', which had been challenging and had encouraged people to understand the impact of bias and challenge attitudes. Work was ongoing to engage staff and to ask them what they would like to see next as part of the programme, which had produced some thoughtful questions and challenged understanding. The long term approach was to develop an inclusive workforce with Everyone Matters being just one aspect and the work around cultural awareness would continue.

27. Other work highlighted involved:

- A mentoring programme;
- Development of a new talent management approach;
- Working forward campaign – a national scheme which aimed to retain experience in policing;
- A diversity and equality dashboard – to assess if the work was making a difference; and
- Developing staff networks – encouraging networks on top of current staff associations and trade unions to offer advice and guidance.

Communications

28. The Force was asked to provide information on how the transparency policy would be carried through into the Directorate of Standards and Ethics.

29. The Force outlined that the ability to understand and communicate why decisions that had been made which had affected people's lives was very important and staff association feedback had said that the new approach had helped officers.

30. In order to ensure that the DSE was transparent, both internally and externally, it was outlined how more information was now available, for example the counter corruption strategy was available on the Force's intranet. It was acknowledged that more support could be given to staff, and the Force sought best practice, for example using Durham's work on the provision of advice to staff about the use of social media.

31. The PCC asked if there were any areas of concern that had yet to be addressed through Everyone Matters. One of the biggest concerns had been the defensive nature of the workforce around grievances; however the Force noted that the position had improved in that area and how the Leadership and People Board overlapped with wellbeing and workforce planning to ensure that Everyone Matters sat across all the different initiatives in order to avoid any omissions and duplication.

32. In order to measure success, the staff survey was used as one way to assess improvement in staff morale and to provide qualitative information about how staff felt as well as using other diagnostic measures, such as investigation time, grievance numbers and timescales and the number of appeals upheld by the IPCC.

33. Action – the PCC was invited to attend a meeting of the People Intelligence Board

Final

Report of the Chief Finance Officer to the Chief Constable

16th February 2018



Corporate Financial Monitoring Report to 31st January 2018

Introduction

This report provides assurance that the revenue and capital plans for 2017/18 are being delivered, that financial risks to the plan are being monitored and managed, and that remedial action is being taken where necessary.

Summary Headlines

The tables below set out the forecast outturn position as at 31st January 2018. The forecast incorporates the impact of actions agreed to deliver financial targets.

Budget Monitoring Summaries to 31st January 2018

The overall year-end forecast is an overspend of £350k.

Revenue	Annual Budget	Forecast Outturn		Previous Forecast	Change
	£000s	£000s	%	£000s	£000s
Pay Budgets					
Police Pay & Allowances	68,286	380	0.6%	310	70
PCSO Pay & Allowances	4,147	(35)	(0.8%)	(35)	0
Staff Pay & Allowances	9,850	(180)	(1.8%)	(165)	(15)
Total Pay & Allowances	82,282	165	0.2%	110	55
Total Non-Pay Budgets	37,421	185	0.5%	290	(105)
Total Expenditure	119,704	350	0.3%	400	(50)

The pressure on Police pay and allowances relates to both the cost of the extra 1% bonus payment to Police Officers that was approved by the Home Office in September along with the overtime costs associated with reassurance patrols, Operation Cotton and general and bank holiday overtime pressures within commands. The 2017/18 cost of the Police Officer bonus is approximately £320k. This cannot be absorbed within the current spending and is therefore shown as an overspend against the Police Pay and Allowances budget. The overspend on the bonus has been partially mitigated against savings made on Police Officer pay due in the main to early retirements and the move of officers into collaborative roles.

The forecasted saving against staff pay has increased from that of the previous reporting period from an underspend of £165k to £180k due to additional resignations in January and the timing of filling vacant roles created by staff leaving in year.

The Forecasted underspend of £35k against PCSO pay has remained stable from that of the previous reporting period as a result of the timing of the additional leavers against the original profile.

The in-year pressures on Sopra Steria and Insurance have remained as per previous months reports (£100k & £200k). The pressure on the Professional Fees Budget line has increased by £15k to £290k due to additional costs associated with the Evidence Based Practice working groups. This has been offset with further savings identified in month under Transport and Communications (£45k & £40K).

Capital Monitoring Statement to 31st Jan 2018

Capital	Annual Budget	Forecast Outturn		Previous Forecast	Change
	£000s	£000s	%	£000s	£000s
Estates Schemes	12,079	(9)	(0.1%)	(9)	0
Equipment Replacement	295	0	0.0%	0	0
ICT Schemes	2,508	14	0.6%	(18)	32
Fleet Replacement	1,996	0	0.0%	0	0
Innovation Fund Schemes	0	0	0.0%	0	0
Provision for Business Cases	0	0	0.0%	0	0
Total Capital	16,878	5	0.0%	(27)	32

As can be seen from the table above the forecast as at the end of January is showing a small overspend of £5k. Further work is underway between ICT and Procurement to enable the remaining schemes to be completed by the financial year end.

At present there are 10 schemes totalling £720k which have been identified as being deferrable and will be re-provided for in 2018/19 through a revised business case and a further £400k of saving identified against the IL4 Confidential Network, Control Room Fallback, the Fleet programme, Oracle Upgrade and Kinesense that do not need to be re-provided.

2017/18 Capital amendments	£000s
CORE VET	(40)
Stockton HQ Rewire	(40)
Billingham Station Rewire	(40)
Livelinks (CJS)	(20)
Investigative Analytical Software	(40)
ICCS	(200)
VM Ware	(50)
Grangetown LDC	(45)
Mobile Device Replacement	(220)
Thin Client Improvement	(25)
Total Deferred Schemes	(720)
IL4 Confidential Network	(205)

Control Room Fallback	(50)
Fleet Replacement Savings	(30)
Kinesense	(15)
Oracle Upgrade	(100)
Total savings	(400)
Grand Total	(1,120)

The PCC has approved an additional £20k capital scheme for 2017/18 to provide additional functionality to the Experian system.

Revenue Budget

On 27th February 2017, the PCC allocated the Force a revenue budget of £119,835k for 2017/18. Changes to the budget are set out at Appendix 1 resulting in a revised budget of £119,704k. A detailed analysis of expenditure for the year is given at Appendix 2.

Key Risks

The key risks to the delivery of a balanced revenue budget were set out in the LTFP and are restated at Appendix 3. These risks will be monitored at least monthly through the year. The major risks are:

- The Chief Constable of Cleveland currently has 93 claims lodged against him with the Central London Employment Tribunal in respect of the challenge to the Police Pension Scheme 2015. The claims are in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015. The Tribunal is unlikely to consider the substance of the claims until later in 2018.
- The number and cost of historic case reviews in any one year is unpredictable.
- The Employment Tribunal ruling that the use of Regulation A19 was discriminatory was successfully upheld by the Court of Appeals. However, the Staff Side have applied to the Supreme Court for leave to appeal the ruling.
- The additional revenue costs should pay awards be higher than those assumed within the LTFP.

Police Pay & Allowances

The forecast year-end position against the police pay budget is for an overspend of £120k (excluding the £260k attributed to overtime), a decrease of £60k from Period 9 as a result of 2 further early retirements, 2 resignations and 2 officers moving to collaborative units.

The budget was set on the basis of having an average of 1,274 FTE police officers throughout the year with a changing number each month in accordance with the leaver and recruitment profiles. Further funding has been confirmed from the PCC for an additional 6 posts to bring the total budget to 1280 FTE. The split including the PCC funded posts is 1120 FTE in Core Policing and 160 in collaborations. As at the 31st January the total number of officers in post is 1,255 FTE with 1106 FTE in Core Policing, 138 FTE in collaborations and 11 on secondments.

Core Police Officer Attrition	As At 31/01/18	Forecast to March	As At 31/03/18 Total	To 31/03/18 LTFP	Variance to LTFP
LTFP at 1st April	1130		1130	1120	10
Retirements	-48	-10	-58	-50	-8
Medical Retirements	-5	-3	-8	-8	0
Other Leavers	-10	-3	-13	-12	-1
Recruitment	39	22	61	70	-9
Total	1106	6	1112	1120	-8

The current variance against Police Officer overtime is £503k over budget to date, with a forecasted year end position of £260k overspend. This is partly due to the extra patrols linked with the Manchester & London incidents. It has been confirmed that the costs of extra patrols which accounts for approximately £75k will not be recovered from the Government. There has been an increase in the overtime forecast from P9 of £130k primarily due to further costs being identified against Operations Cotton – a joint operation with Cleveland and South Yorkshire Police as well as the Immigration Service and National Crime Agency to tackle those involved in Modern Day Slavery and Human Trafficking (£45k) and Bank holiday overtime (£50k). This will continue to be monitored closely as it is a volatile area and a risk to the forecast.

Police Community Support Officers Pay & Allowances

The forecast year-end position against the PCSO pay budget is for an underspend of £35k (unchanged from period 9) as a result of leavers being identified during the year and the reduction in recruitment numbers.

The budget was set on the basis of having an average of 132 FTE PCSOs (plus an additional 15 FTE funded by the PCC) throughout the year with a changing number each month in accordance with the leaver and recruitment profiles. The actual number of PCSOs in post as at 31st January was 143 FTE.

The PCC holds funding for an additional 15 FTE roles that have been agreed to enhance neighbourhood policing. This funding is being called down as the October Cohort is now in post.

PCSO Attrition	As At 31/01/18	Forecast to March	As At 31/03/18 Total	01/04/17 to 31/03/18 LTFP	Variance to LTFP
LTFP at 1st April	125		125	122	3
Leavers	-12	0	-12	-12	0
Recruitment	30	0	30	48	-18
Total	143	0	143	158	-15

Police Staff

The forecast year-end position against the police staff pay budget is for an underspend of £180k an increase on the saving of £15k from Period 9 as a result of additional resignations in January and delays in recruitment to the vacant posts.

The staff pay budget was set based on having 285 FTE police staff in post at the 1st April (plus an additional 22 FTE funded by the PCC). As at the 31st January actual FTE in post were 280. This includes 21 additional posts that the PCC holds funding for to enhance neighbourhood policing. The funding for these posts are being called down from the PCC.

The recruitment for the other vacant posts identified in the budget, for other vacancies that have arisen during the year and additional posts that have been agreed at the Towards 2020 board as part of workforce modernisation are underway with forecasted start dates throughout the remainder of the year.

Non-Pay Budgets

The forecast year-end position against the non-pay budget is an overall overspending of £185k.

The major variances are set out below:

Sopra Steria - £100k overspend

The forecasted year-end position is an overspend of £100k due to post implementation inflationary factors identified as part of the strategic contract that was brought in during the 2016/17 financial year.

Premises, Fuel, Light and Power - £75k underspend

The forecasted year-end position is an underspend of £75k, a further saving of £10k from period 9. The £75k underspend are savings identified by the Estates Team due to capacity issues whilst they prioritise the work associated with bringing the CCSH on line within the timeframes required. The remaining resources will be used to address day-to-day repairs and maintenance issues, should any significant issues arise this forecast saving may have to be revisited.

Custody - £25k overspend

The forecasted year-end position is for an overspend of £25k due to the new contract price for the outsourced medical services.

Other Police Pension Costs - £90k overspend

The forecasted year-end position is for an overspend of £90k due to several large backdated Injury on Duty pension claims charged in this financial year. This is an increase of £20k from period 9 as a result of further backdated pension claims and associated charges.

Transport - £115k underspend

The forecasted year-end position has seen an increase in the underspend of £45k from period 9 to £115k due to additional savings being identified against vehicle repairs and maintenance and car allowances on top of the underspend already identified against petrol and vehicle hire. ■

External Support - £5k underspend

The forecasted year-end position for External Support is for an underspend of £5k as a result of reduced charges for North East Fingerprint Bureau Automatic Fingerprint Recognition and South Tees CHUB offsetting forecasted overspend for the Tactical Training centre. This is a small decrease of £5k from period 9 due to an increase in overtime and equipment costs within the North East Fingerprint Bureau.

National IT Charges - £36k underspend

The forecasted year-end position for National IT charges is for an underspend of £36k as a result of reduced Home Office charges for ACPO Criminal Records Office (ACRO) and Prison Recalls & Licences.

Insurance - £200k overspend

The forecasted year-end position for insurance is an overspend of £200k. This is due to the increase in the renewal premiums as a result of the Ogden ruling that took effect from the end of March 2017 and has had a major impact on our insurance premiums in regards to our public and employer liability premiums.

Communications - £80k underspend

The forecasted year-end position for Communications is for an underspend of £80k as a result of a credit for the mobile telecommunications line rental charges. The underspend has increased by £40k from period 9 due to further savings identified with Mobile and Landline telephone charges.

Forensics - £10k underspend

There is a small £10k underspend forecast against forensics charges due to the reduced year to date requirement.

Maintenance Agreements - £45k overspend

There is £45k overspend forecasted against Maintenance Agreements a change from period 9 of £55k. The ICCS project has identified the need for a further £55k to be spent on licences this period but this is partially offset by the 2016/17 Home Office charge for IBM i2 analyst software not now materialising.

Computing - £75k underspend

The forecasted year-end position for Computing is for an underspend of £75k. This is a decrease on the underspend from period 9 of £15k due to anticipated licensing cost for the IL4 confidential network to be charged before the year end. This is offset by savings identified within ICT against I2 Analytical services & PNN2/PNN3 connections on top of the reduction in the number of IT Health checks to be carried out this year.

Professional Fees - £290k overspend

The forecasted year-end position for professional fees is for an overspend of £290k as a result of further legal advice and associated barristers fees. This is an increase of £15k from period 9 due to additional costs associated with the introduction of the Evidence Based Practice working groups.

Other Equipment & Furniture - £70k underspend

The forecasted year-end position for other equipment & furniture is for an underspend of £70k (unchanged from P9) due to savings identified against the equipment refresh programme.

External Training, Seminars - £55k overspend

The forecasted year-end position for External Training is for an overspend of £55k (a £5k increase from P9) as a result of additional requests for courses due to the reorganisation of the commands and succession requirements following retirements of key Police Officers.

Office Equipment & Expenses - £20k underspend

The forecasted year end position for Office Equipment & Expenses is for an underspend of £20k as a result of savings identified against stationary (£19k) and photocopier charges (£17k), offsetting an overspend on external storage charges (£16k).

Agency Staff - £20k overspend

The forecasted year-end position for Agency staff is for an overspend of £20k (unchanged from P9) as a result of agency staff being used to cover resource shortfalls in Executive and Legal departments.

Other - £65k underspend

The forecasted year-end position for other costs is for an underspend of £65k, a £45k change from period 9, as a result of a reduced requirement for the Development Fund, Interpreters and the Drug referral scheme initiative.

Uniform - £15k underspend

The forecasted year-end position for Uniforms is for an underspend of £15k (a small increase of £5k from P9), linked with the reduction in recruitment numbers.

Collaborations

A detailed analysis of the expenditure split for the collaborations in the year is given at Appendix 6.

Cleveland, Durham and North Yorkshire Dogs Unit (CDNYDU)

The Cleveland budget for the joint unit was £862k. The forecasted year-end position is to breakeven.

Cleveland Durham Specialist Operations Unit (CDSOU)

The Cleveland budget for the joint unit is £5,069k. The forecasted year-end position is for breakeven although this is being reviewed in the light of vacant posts.

Cleveland and North Yorkshire Major Incident Team (CNYMIT)

The Cleveland budget for the joint unit was £1,760k. The forecasted year-end position is to breakeven.

North East Region Specialist Operations Unit (NERSOU)

The Cleveland budget for NERSOU was set at £1,833k. The forecasted year-end position for NERSOU is to breakeven.

NERSOU is forecasting a large underspend in 2017/18 due to the part year Police Transformation Fund bids being approved. The regional board are reviewing how this underspend will be used or whether it will be returned to Forces. This will be reported as soon as this is agreed.

National Police Air Services (NPAS)

The Cleveland budget for NPAS was set at £826k. The forecasted year-end position for NPAS is to breakeven.

Capital Budget

On 27th February 2017, the PCC allocated the Force a capital budget of £14,615k for 2017/18. Two Schemes totalling £429k were utilised from this budget in 2016/17. In addition, schemes totalling £3,792k were brought forward from 2016/17 bringing the approved 2017/18 budget to £17,978k. Changes approved by the PCC (or the Chief Constable's CFO under delegated authority) in year resulting in a revised capital budget of £16,878k are set out at Appendix 4, with a full breakdown of schemes shown at Appendix 5.

Key Risk

The key risk to delivery of the capital programme has been slippage against the delivery plan. Although funding is earmarked for each scheme and can be re-provided the following year, the resources required to deliver the schemes in the new financial year places a greater burden on the delivery teams. £1.8m of ICT capital budget was brought forward from 2016/17 across 3 schemes that were not fully completed in 2016/17.

ICT are currently working with Procurement across two schemes; Microsoft Licensing and Desktop Refresh, with the aim to be raising purchase orders by the end of February in order for delivery within this financial year.

ICT have reviewed their remaining capital schemes and due to capacity issues within the team and the timescales involved in procuring and delivery of the projects, a decision has been reached to defer the VMware (£50k), Mobile Device Replacement (£220k) and Thin Client Improvement (£25k) until 2018/19.

Update on Key Schemes

Points to note are:

Cleveland Community Safety Hub (CCSH) – Total budget of £11.4m

Building works for the CCSH commenced in March and the building is planned to be operational in September/October 2018. The budget is closely monitored by the Project Board and expenditure follows contractual obligations which have now been re-phased to mirror the changes in the scope of the scheme. The majority of this year's budget is linked to the construction and IT infrastructure, with current spending mirroring the re-phased budget.

Other Estates Schemes

Learning & Development Centre – Budget £420k

A total of £369k of charges and purchase orders has been raised for the work on the refurbishment programme, with further work already scheduled for the next 2 months. The full remaining £51k of the capital budget will be spent by the end of the financial year and the centre will be available for use by March 2018. £45k has been deferred into the next financial year to undertake the refurbishment of the lecture theatre and toilets.

Force Armoury – Budget £35k

The work on the relocation of the Force Armoury has now been completed with £26k spent to date leaving an underspend of £9k as a result of negotiated reduction in costs.

Thornaby Fire Station – Budget £155k

Work is on-going with the Thornaby Fire station, with the internal decoration started in November and the procurement of the Furniture & Fittings in December, with a view to a completion by February 2018.

Equipment Schemes

ANPR Equipment – Budget £140k

There has been £94k spent year to date, with £20k in commitments. The project manager in liaison with TSU are to raise £25k of further orders for additional cameras and auxiliary equipment in February, with the full budget expected to be spent by the end of the financial year.

Key Management System – Budget £80k

There has been £70k spent year to date. A further options paper is being taken to the Towards 2020 board in February due to implementation issues and the cabinets requiring some modification to allow the system to be fully usable.

ICT schemes

As in previous years the complexities involved with the CCSH and the ICT requirements will have an effect on the delivery of the key ICT schemes.

ICCS – Budget £195k

A revised option paper was presented to the Towards 2020 board to assess the cost and risk involved with this scheme. The recommended option of installing the ICCS system in the CSH would result in a delay in the implementation of the scheme and an overall forecasted overspend of £85k, with a proportion of the costs to be deferred into the next financial year. 40% of the charges have been paid on award of the contract with the remainder split over the rest of the contract which will slip into 2018/19. The additional licencing costs that have been captured by the ICT team are to be picked up out of existing revenue budgets. There is no plans for any additional spend in this financial year, resulting in the remaining balance of this year's budget being carried forward to 2018/19 to finance the residual milestone payments as part of the 2018/19 capital programme.

LAN Refresh (Non HQ) – Budget £465k

This scheme is now completed with a total spend of £470k against the budget of £465k leaving a small overspend of £5k in this financial year as a result of additional resource costs.

Cloud Based Data Centre – Budget £967k

Work on the cloud based data centre is progressing with the successful migration of the test applications completed in November. This is in line with the CCSH development and forecast to be delivered during 2017/18. The Cloud service is in the final stage of delivery and will be handed over shortly to the ICT team to operate as business as usual. Any underspend on the budget will be moved into the wider CSH scheme.

Blade Architecture – Budget £260k

The remaining kit required to complete the scheme has been delivered, resulting in a minor overspend of £2k. The ICT team have begun the build & test phase for the M8 servers, with the build of the CSH servers linked to the CSH Datacentre migration plan.

Oracle Upgrade – Budget £50k

A health check of the Oracle system to ascertain the requirements and associated risks needed to maintain or upgrade the system has now been completed, with the review highlighting a risk with a server at the Disaster Recovery site which has been repaired. An Oracle business consultant has been procured to provide a strategic view of the Oracle system and some further servers are to be ordered. Due to capacity issues within the ICT team in accommodating the full planned upgrade work, it has been confirmed that £100k of this Capital project can be relinquished back to the OPCC.

ESMCP – Budget £50k

Current costs of £12k have been incurred on regional ESMCP resources, with a further £70k purchase order raised for links required at Kirkleatham and the CSH. £36k of the purchase order is for rental charges which can be reclaimed from the national program.

Mobile Device replacement – Budget £0k

The purchase of the tablets that were forecast to arrive in March 2018 has been postponed until the new financial year to allow a further review of all required mobile equipment throughout the Force. The £220k budget will be carried forward into 2018/19.

Interview Training Equipment - £10k

The Training team have been in contact with suppliers over their requirements and quotes are due by the end of February, with the aim of delivery by mid-March.

Microsoft Licensing – Budget £100k

A total of £44k of charges and purchase orders has been raised this year for additional SQL licenses. ICT are in discussions with the supplier with a view of raising further orders for the remaining £56k by the end of February to ensure delivery before the end of the financial year.

Intelligent Call Handling – Budget £95k

A revised business case was submitted and approved by the Management Board to amend this capital scheme to an Intelligent Call Handling & Call-back system. The forecasted costs from the business case are £111k and a procurement exercise was carried out in November. The evaluation of returned tenders took place in December with the award of contract made as swiftly as possible after the exercise. The purchase order was raised in January with delivery expected by the end of the financial year. The expected overspend will be offset by a revenue contribution to capital on completion of the project.

National Image Transfer Project – Budget £15k

This scheme has now been completed with a small underspend of £3k as a result of less expensive equipment found during the procurement process.

E-Recruitment – Budget £20k

The e-recruitment system went live in January with dual running of the new and old system to ensure that everything is running smoothly before the current system is disabled. The cost of the system is approximately £12k, providing a saving of £8k due to the development of an in-house careers site.

DSE Audit Capability – Budget £50k

A small overspend of £6k is forecasted. The procurement of the system is progressing with a direct award to the supplier being confirmed. This is still on track to be purchased, delivered and implemented by the end of the financial year.

VMware – Budget £50k & Thin Client Improvement – Budget £25k

ICT have confirmed that these schemes are to be deferred until 2018/19 due to the on-going capacity issues within the team and the timescale pressure involved in procurement.

Fleet Replacement – Budget £1,572K

Of the 2017/18 fleet programme, all of the vehicles have been ordered. Fifty-Nine have now been received and the three remaining are currently undergoing conversion to become operational vehicles.

Joanne Gleeson
Chief Finance Officer
16th February 2018

Appendix 1

Changes to Revenue Funding	Month Added	Change
		£000s
Initial Funding Allocation		119,835
Camera Safety Partnership	Apr-17	63
Custody Contract	May-17	(415)
Mutual Aid - Football & Operations Newtown & Custodian	Sep-17	45
Neighbourhood - Police Services	Jan-18	20
Mutual Aid - Football & Operations Grasabbey & Teal	Jan-18	73
Revenue Contribution to BWV Capital scheme	Jan-18	(14)
Mutual Aid - Football & BVI	Jan-18	97
Funding allocation at Month 10		119,704

Budget Monitoring Statement to 31st Jan 2018

	Annual Budget	Budget to Date	Actual to date	Variance to Date	Forecast Outturn
	£000s	£000s	£000s	£000s	£000s
Pay Budgets					
Police Pay & Allowances	66,687	55,793	56,110	317	120
Police Overtime	1,599	1,373	1,876	503	260
Total Police Pay & Allowances	68,286	57,166	57,986	820	380
PCSO Pay & Allowances	4,142	3,452	3,476	24	(35)
PCSO Overtime	5	4	1	(3)	0
Total PCSO Pay & Allowances	4,147	3,456	3,477	21	(35)
Staff Pay & Allowances	9,780	8,150	8,396	246	(180)
Staff Overtime	70	58	69	11	0
Total Staff Pay & Allowances	9,850	8,208	8,465	257	(180)
Total Pay & Allowances	82,283	68,830	69,928	1,098	165
Non Pay Budgets					
Sterial Charges	17,162	14,302	14,297	(5)	100
Premises	3,531	2,948	2,811	(137)	(75)
Custody	2,543	2,119	2,179	60	25
Other Police Pension Costs	2,470	2,058	2,181	123	90
Transport	1,504	1,253	1,135	(118)	(115)
External Support	1,434	1,195	1,162	(33)	(5)
National IT Charges	872	727	701	(26)	(36)
Insurance	990	824	1,351	527	200
Change & Contingency	460	383	244	(139)	(74)
Communications	834	695	562	(133)	(80)
National Police Air Service	391	326	326	0	0
Forensics	817	681	649	(32)	(10)
Maintenance Agreements	289	241	238	(3)	45
Computing	847	706	555	(151)	(75)
Surgeons & Medical Costs	291	242	271	29	0
Professional Fees	647	539	657	118	290
Other Equipment & Furniture	573	478	417	(61)	(70)
External Training, Seminars	764	637	594	(43)	55
Office Equipment & Expenses	237	197	165	(32)	(20)
Agency Staff	21	18	27	9	20
Other	441	368	271	(97)	(65)
Savings Programme	0	0	0	0	0
Uniform	303	253	229	(24)	(15)
Total Non-Pay	37,421	31,190	31,022	(168)	185
Total Expenditure	119,704	100,020	100,950	930	350
Memo Information					
CDNYDU	862	721	679	(42)	0
CDSOU	5,069	4,246	4,212	(34)	0
CNYMIT	1,760	1,402	1,270	(132)	0
NERSOU	1,833	1,535	1,717	182	0
NPAS	826	691	705	14	0

Long Term Financial Plan (LTFP) 2017/18 to 2020/21 – Assessment of Risks

Risk	Detail	Mitigation
<p>Future year's funding cuts assumed in the LTFP are too low.</p>	<p>The Police settlement was one year only so no certainty about future funding at Force level has been received.</p>	<p>More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.</p>
<p>Changes to the future funding formulas for Police Forces.</p>	<p>The Policing Minister is committed to reforming the police funding formula and will bring forward proposals for public consultation.</p> <p>The current assumptions do not factor in any adverse impact as a result of a revised formula.</p> <p>Based on what is currently known of the proposals, this is a prudent assumption; however, it does present a potential risk.</p> <p>Current indications are that no changes will be made before the new CSR which is due in 2020</p>	<p>More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.</p>
<p>Pay awards are higher than those assumed in the LTFP.</p>	<p>The LTFP assumes that pay will rise by 1% from September 2017.</p> <p>A movement of 1% would have a whole year impact on pay and contracts of approximately £1M</p>	<p>The Emergency Budget in 2015 announced that public sector pay increases would be capped at 1% for the following four years.</p> <p>Unison has proposed a 5% pay award for Police Staff to be applicable from September 2017. This would result in a total extra cost to the Force of approximately £600k in 2017/18 and £1,100k in 2018/19 onwards.</p> <p>The Home Office have confirmed that there will be a 1% pay raise for Police Officers and included an additional 1% bonus to be taken from existing budgets. The 1% pay cap will also be lifted for future years. Any in year pressure will be subsidised by the OPCC via the use of reserves and underspends.</p> <p>More radical options will be developed including further reductions in officer, PCSO and</p>

Risk	Detail	Mitigation
		staff numbers, inter-force collaboration and blue light collaboration should this pay award be accepted without the requisite additional government grant to cover these future costs.
The costs of Job Evaluation is in excess of the budget and earmarked reserve.	An earmarked reserve has been set up to cover the cost of implementation.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
A higher than forecast level of costly major incidents.	The number and cost of major incidents in any one year is unpredictable.	There is sufficient flexibility in the plan to absorb some additional costs depending on the magnitude and the time of year the issue becomes known. The Joint CNYMIT has introduced additional resilience into the system. The PCC may absorb any additional costs in total or part through the use of reserves or other income.
The continued acceleration of Police Officer and PCSO leavers above the planned profile outstripping our ability to recruit.	Pay budgets have been set based on assumptions in respect of officers and staff leaving and additional recruits being brought in. Should the number of leavers outstrip our ability to recruit this could result in capacity gaps and generate a material under spending.	Should a capacity gap emerge, service levels will be delivered through targeted overtime and the continued employment of police staff investigators.
National mandation.	In recent years there has been national mandation of systems e.g. Pentip, resulting in unplanned costs to the Force.	There is sufficient flexibility in the plan to absorb some additional costs depending on the magnitude and the time of year the issue becomes known. The PCC may absorb any additional costs in total or part through the use of reserves or other income.
Police Pension Scheme 2015	National test case on new pension scheme with risk due to Gender/Race inequality	Cleveland has contributed to the NPCC legal defence of this case. Cleveland has at present 93 claims from Police Officers. This case is not likely to be heard until later in 2018.
Employment Tribunals	An earmarked reserve has been set up to cover the cost of implementation.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force

Risk	Detail	Mitigation
		collaboration and blue light collaboration.
Allard V the Chief Constable of Cornwall	A recent court determination in the case of Allard v the Chief Constable of Cornwall in respect of historic on-call payments for specific staff groups has the potential to create a significant financial pressure for forces nationally.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Historic Case Reviews	Further work will be take place in regards to historic case reviews following the establishment of the Cold Case Unit within the CNYMIT.	More radical options will be developed including further reductions in officers, PCSO and staff numbers and the use of further inter-force collaborations.
Employment Tribunal ruling that A19 retirements are unlawful due to age discrimination.	Cleveland has 49 appeals by ex-officers that are currently stayed pending the appeal hearing. Any damages awarded by the Tribunal may be of sufficient magnitude to result in the General fund support to revenue not being available and future allocations being reduced. Although, the recent Court of Appeals Tribunal upheld that the use of regulation A19 was lawful, the Staff Side has applied to the Supreme Court for leave to appeal the ruling.	<p>The Force has achieved its target officer numbers, is recruiting again and no longer needs to use A19.</p> <p>The circumstances in Cleveland were different to those forces involved in the test case.</p> <p>Negotiate with the Home Office for additional funding should appeal be lost.</p> <p>More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.</p>

Appendix 4

Changes to Capital Funding	Month Added	Change
		£000s
Funding Allocation in LTFP		14,615
Schemes bfwd from 2016/17		3,792
Schemes allocated to 2016/17 from 2017/18 Budget		(429)
Total Capital funding		17,978
CORE VET	Apr-17	(40)
Stockton HQ Rewire	May-17	(40)
Fleet Replacement	May-17	(30)
Livelinks (CJS)	Jun-17	(20)
IL4 Confidential Network	Jun-17	(205)
Experian - Date of Birth Appendage	Aug-17	20
Billingham Station Rewire	Aug-17	(40)
Control Room Fallback	Sep-17	(50)
Investigative Analytical Software	Nov-17	(40)
Kinesense	Dec-17	(15)
Oracle Upgrade	Dec-17	(100)
ICCS	Dec-17	(200)
VM Ware	Jan-18	(50)
Thin Client Improvement	Jan-18	(25)
Grangetown LDC	Jan-18	(45)
Mobile Device Replacement	Jan-18	(220)
Funding allocation at Month 10		16,878

Capital Monitoring Statement to 31st Jan 2018					
	Annual Budget	Budget to Date	Actual to Date	Variance to Date	Forecast Outturn
	£000s	£000s	£000s	£000s	£000s
Estates Schemes					
Cleveland Community Safety Hub	11,423	8,724	8,409	(315)	0
Grangetown LDC	420	330	337	7	0
Armoury Relocation	35	35	26	(9)	(9)
NERSOU Accomodation	46	46	46	0	0
Thornaby Fire Station	155	0	0	0	0
Total Estates Schemes	12,079	9,135	8,818	(317)	(9)
Equipment Replacement					
TSU Equipment - NERSOU	25	19	13	(6)	0
ANPR	140	140	94	(46)	0
Body Worn Video Replacement	50	50	64	14	0
Key Management System	80	0	70	70	0
Total Equipment Schemes	295	209	241	32	0
ICT Schemes					
Telephony Refresh	0	0	9	9	10
ICCS Replacement	195	195	195	0	0
LAN Refresh (Non HQ)	465	465	470	5	5
iMap Development	1	1	1	(0)	0
Cloud Based Data Centre	967	627	398	(229)	0
Blade Architecture	260	260	262	2	2
Oracle Upgrade	50	0	18	18	0
EMSCP	50	50	12	(38)	0
Mobile Device Replacement	0	220	2	(218)	2
Interview Training Equipment	10	10	0	(10)	0
2017/18 Desk Top Replacement Programme	125	100	81	(19)	0
Microsoft Licensing	100	100	26	(74)	0
Smartworks Mobile Applications	55	43	47	4	0
LIMA (Scientific Support)	30	30	28	(2)	0
Intelligent Call Handling	95	0	0	0	0
National Image Transfer Project	15	9	12	3	(3)
E-Recruitment	20	0	8	8	(8)
DSE Audit Capability	50	0	0	0	6
Experian - Date of Birth Appendage	20	0	0	0	0
Total ICT Schemes	2,508	2,110	1,569	(542)	14
Fleet Replacement					
Write off / Uneconomical Repairs	256	117	103	(14)	0
Black Box Replacement	168	44	30	(14)	0
Fleet Replacement	1,572	1,520	1,457	(63)	0
Fleet Replacement - CSP	0	0	32	32	0
Total Fleet Replacement	1,996	1,681	1,622	(59)	0
Provision for Business Cases	0	0	0	0	0
TOTAL CAPITAL	16,878	13,135	12,250	(885)	5

Appendix 6

Budget Monitoring Statement to 31st Jan 2018					
	Annual Budget	Budget to Date	Actual to date	Variance to Date	Forecast Outturn
	£000s	£000s	£000s	£000s	£000s
Core					
Pay Budgets					
Total Police Pay	60,353	50,585	51,303	718	380
Total PCSO Pay	4,147	3,456	3,477	21	(35)
Total Staff Pay	8,827	7,356	7,689	333	(180)
Total Pay & Allowances	73,327	61,397	62,469	1,072	165
Non Pay Budgets					
Total Non-Pay	36,027	30,028	29,898	(130)	185
Total Core Expenditure	109,354	91,425	92,367	942	350
CDNYDU					
Pay Budgets					
Total Police Pay	782	654	637	(17)	0
Non Pay Budgets					
Total Non-Pay	80	67	42	(25)	0
Total CDNYDU Expenditure	862	721	679	(42)	0
CDSOU					
Pay Budgets					
Total Police Pay	4,449	3,730	3,723	(7)	0
Total Staff Pay	171	142	130	(12)	0
	4,620	3,872	3,853	(19)	0
Non Pay Budgets					
Total Non-Pay	449	374	359	(15)	0
Total CDSOU Expenditure	5,069	4,246	4,212	(34)	0
CNYMIT					
Pay Budgets					
Total Police Pay	790	594	731	137	0
Total Staff Pay	521	434	370	(64)	0
	1,311	1,028	1,101	73	0
Non Pay Budgets					
Total Non-Pay	449	374	169	(205)	0
Total CNYMIT Expenditure	1,760	1,402	1,270	(132)	0
NERSOU					
Pay Budgets					
Total Police Pay	1,477	1,237	1,217	(20)	0
Total Staff Pay	331	277	276	(1)	0
	1,808	1,514	1,493	(21)	0
Non Pay Budgets					
Total Non-Pay	25	21	224	203	0
Total NERSOU Expenditure	1,833	1,535	1,717	182	0
NPAS					
Pay Budgets					
Total Police Pay	435	365	375	10	0
Non Pay Budgets					
Total Non-Pay	391	326	330	4	0
Total Expenditure	826	691	705	14	0
Total Collaboration					
Pay Budgets	8,956	7,433	7,459	26	0
Non Pay Budgets	1,394	1,162	1,124	(38)	0
Total Expenditure	10,350	8,595	8,583	(12)	0
Grand Total	119,704	100,020	100,950	930	350



Report of the Chief Finance Officer of the PCC To the Police and Crime Commissioner for Cleveland

28th February 2018

Status: For Information

2017/18 Budget Monitoring – Report to the end of January 2018

1. Executive Summary

1.1 Purpose of the Report

On the 27th February 2017 the PCC agreed the revenue Budget for 2017/18 which was based on the receipt of income totalling £131,705k. This report is to provide the PCC with an update on all areas of the budget, including forecasts of how much income will actually be received during the year, the progress against the budget to date and forecasts on the expenditure for the remainder of the financial year.

2. Recommendations

The PCC is asked to note:

- 2.1 The Office of the PCC's budget of £850k is expected to spend all funds allocated to it during 2017/18.
- 2.2 The Corporate Services budget of £8,950k is expected to underspend slightly, by £85k, at this point of the financial year.
- 2.3 The £3,245k to support PCC Initiatives and Victims and Witnesses Services, including £1,250k to invest in Neighbourhood Policing is forecast to underspend by £400k predominantly due to it take longer than expected to recruit and fill these new Neighbourhood Policing posts.
- 2.4 It is currently forecast that the income received by the PCC will be £340k more than the original budget.
- 2.5 The Force is currently forecasting to overspend by £350k, with around £320k of this resulting from the 1% non-consolidated unfunded bonus awarded to Police Officers, by the Government, from September 2017. Plans continue to be put in place to contain all others areas within the original budget provided to the Force, by the PCC, however the £320k cannot be contained within the Force budget.

- 2.6 The total forecast outturn after 10 months of the financial year is that there will be a small overall underspend of £475k. It is important to recognise that this doesn't include the impact of the Staff Pay award which has yet to be agreed and there are however a number of pressures that are currently being risk managed that could change this position over the remainder of the financial year.

3. Reasons

- 3.1 When setting the budget for the financial year 2017/18 the PCC allocated the income forecast to be received during the year, of £131,705k, into the following areas:

- £850k to run the Office of the PCC
- £8,950k for Corporate Services
- £3,245k to support PCC Initiatives and Victims and Witnesses Services, including £1,250k to invest in Neighbourhood Policing.
- £119,835k to the Police Force
- £750k to the Capital Programme

This will be supported by £1,925k from Reserves

The following sections will look at the above areas in more detail and provide updates and forecasts for each area, including any changes that have been made since the original budget was approved and set.

3.2 Income and Funding

The PCC set the budget based on receiving income and funding of £131,705k during 2017/18 from the areas summarised in the table below, the in-year changes, the actual levels of income forecast to be received and variances are shown below. In addition to current year figures the comparator figures for 2016/17 is also shown.

2016/17 Budget	In Year Changes	2016/17 Revised Budget	2016/17 Outturn	Variance	Summary of Income to be Received by the PCC	2017/18 Budget	In Year Changes	2017/18 Revised Budget	2017/18 Forecast Outturn	Variance
£000s	£000s	£000s	£000s	£000s	Funding	£000s	£000s	£000s	£000s	£000s
(46,152)	0	(46,152)	(46,152)	0	Police Grant	(46,973)	1,466	(45,508)	(45,508)	0
(38,532)	0	(38,532)	(38,532)	0	RSG/National Non Domestic Rate	(36,526)	(1,466)	(37,992)	(37,992)	0
(84,684)	0	(84,684)	(84,684)	0	Government Grants	(83,500)	0	(83,500)	(83,500)	0
(31,642)	0	(31,642)	(31,641)	1	Precept	(32,656)	0	(32,656)	(32,656)	0
(800)	0	(800)	(800)	0	Council Tax Freeze Grant	(800)	0	(800)	(800)	0
(6,868)	0	(6,868)	(6,868)	0	Council Tax Support Grant	(6,868)	0	(6,868)	(6,868)	0
(39,310)	0	(39,310)	(39,310)	1	Precept related funding	(40,324)	0	(40,324)	(40,324)	0
(6,506)	(373)	(6,879)	(6,675)	204	Specific Grants	(5,217)	0	(5,217)	(5,347)	(130)
(2,760)	(2,376)	(5,136)	(5,625)	(489)	Partnership Income/Fees and Charges/Misc Income	(2,664)	(298)	(2,962)	(3,172)	(210)
(9,266)	(2,749)	(12,015)	(12,300)	(285)	Other Funding	(7,881)	(298)	(8,179)	(8,519)	(340)
(133,260)	(2,749)	(136,009)	(136,294)	(285)	Total	(131,705)	(298)	(132,003)	(132,343)	(340)

3.3 In Year Changes

Only minor changes, totalling £298k, have been made to the income budget, at this stage, resulting primarily from an increase of £63k, relating to the Driver Training Income to set the non-pay budget for this area of work and income received for Mutual Aid £215k.

3.4 Income Forecasts

As you would expect, the vast majority of the income the PCC will receive during 2017/18 has already been agreed and little or no variances will be expected against the originally budgeted figures for Government Grant funding or Precept related funding.

3.5 The areas where variances may occur will predominantly be in relation to Partnership Funding, Fees and Charges and Miscellaneous Income with some minor variances possible against Specific Grants. These variances have reduced significantly in recent years and it is currently expected that overall there will be limited variances on these budgets at this stage.

3.6 The small forecast over recovery of income of £340k relates to higher than usual receipts of Proceed of Crime Act income, and a number of sundry higher income receipts such as Criminal Records Bureau Income and Legal Fees Income.

3.7 The PCC was notified in December 2017 of a successful application for Special Grant. Discussion have recently been held with the Home Office about the timing of the payment of this Grant and it is likely that some element of the Grant will relate to expenditure that has already been incurred in 2017/18 and/or will be incurred over the final couple of months. The receipt of income to cover these costs will lead to income being higher than currently forecast and will lead to a higher underspend than currently forecast, although the exact details are not yet available.

3.8 The Office of the PCC

The 2017-18 budget of £850k for the Office of the PCC is split into the following areas:

Original 2016/17 Budget	Budget YTD	Actual Outturn	2016-17 Actual Over/(Under)	PCC Budget	Original 2017/18 Budget	Budget YTD	Spend YTD	Over/ (Under) spend YTD	2017-18 Forecast Outturn	2017-18 Forecast Over/(Under)
£000	£000	£000	£000	Category of Spend	£000	£000	£000	£000	£000	£000
620	620	657	37	Staff Pay and Allowances (Incl. NI and Pension)	645	538	535	(2)	645	0
5	5	18	13	Other Pay and Training	5	4	8	4	9	4
0	0	0	0	Premises	0	0	0	0	0	0
262	262	238	(23)	Supplies and Services	239	199	141	(58)	238	(1)
11	11	13	2	Transport	11	9	6	(4)	9	(3)
(48)	(73)	(89)	(16)	Miscellaneous Income	(50)	(45)	(48)	(2)	(50)	0
850	825	838	13	Total Budget	850	705	642	(63)	850	0

3.9 Position as at the end of January 2018

The table at 3.7 above shows the forecast position for 2017-18. Forecasts show that expenditure for 2017-18 is expected to be in line with the budget of £850k and therefore there is a current forecast outturn of breakeven.

3.10 The budget is increasingly tight having reduced by £350k (or 30% in cash terms) over the last 5 years. Staff pay increases in both the current year and future years will make it more difficult to contain expenditure within the current budget.

3.11 Corporate Services

Corporate Services budgets include the costs of the PFI contracts, strategic contract management, asset management costs, treasury management and planning.

3.12 The Corporate Services budget for 2017/18 was set at £8,950k, as per the table below and also shows the forecast spend and outturn at this stage of the year.

Original 2016/17 Budget	Revised 2016/17 Budget	Budget YTD	2016/17 Outturn	2016-17 Over/ (Under)	Corporate Services Budget	Original 2017/18 Budget	Revised 2017/18 Budget	Budget YTD	Spend YTD	Over/ (Under) spend YTD	2017/18 Forecast Outturn	2017-18 Forecast Over/ (Under)
£000s	£000s	£000s	£000s	£000s	Category of Spend	£000s	£000s	£000s	£000s	£000s	£000s	£000s
295	253	253	241	(12)	Staff Pay and Allowances (Incl. NI and Pension)	330	330	275	292	17	330	0
39	39	39	195	156	Supplies and Services	99	99	83	90	8	93	(7)
1	1	1	1	(0)	Transport	1	1	1	5	4	6	5
1,770	555	555	552	(3)	PFI - Urlay Nook	1,770	1,770	1,475	1,456	(19)	1,748	(22)
5,120	1,787	1,787	1,614	(173)	PFI - Action Stations	5,145	5,145	4,288	4,312	25	5,159	14
1,625	5,268	5,268	5,252	(16)	Asset Management	1,605	1,584	1,320	1,228	(92)	1,509	(75)
8,850	7,903	7,903	7,855	(48)	Total Budget	8,950	8,929	7,441	7,384	(57)	8,844	(85)

3.13 A small underspend of £85k is currently forecast in this area as a result of taking out loans to fund the capital programme later in the year than initially planned when setting the 2017/18, leading to lower interest payable, and

some minor variances on the PFI contracts based on small differences between actual inflation levels and those forecast when setting the budgets.

3.14 Given that the PFI contracts are linked to national inflation indexes the costs in these area will grow at a quicker rate than previously forecast and are likely to create an additional pressure in future years budgets.

3.15 PCC Initiatives and Victims and Witnesses Services

The PCC has allocated a budget of £3,245k to support Community Safety and PCC Initiatives, deliver Victims and Witnesses services and also invest in Neighbourhood Policing during 2017/18. £1,156k was allocated to the Community Safety and PCC Initiatives budget, £839k to Victims and Witnesses Services and £1,250k to invest in Neighbourhood Policing. The position as at the end of June is as per the below table:

PCC Initiatives and Victims and Witnesses	Original 2017/18 Budget	Current 2017/18 Budget	Budget YTD	Spend YTD	Over/ (Under) spend YTD	2017/18 Forecast Outturn	2017-18 Forecast Over/ (Under)
Category of Spend	£000s	£000s	£000s	£000s	£000s	£000s	£000s
PCC Initiatives	1,156	1,156	964	598	(365)	1,065	(91)
Investment in Neighbourhood Policing	1,250	1,250	1,042	395	(647)	987	(263)
Victims and Witnesses Services	839	839	699	530	(169)	792	(46)
Community Safety Fund	0	0	0	98	98	0	0
Total Budget	3,245	3,245	2,704	1,621	(1,083)	2,845	(400)

3.16 In addition to the original allocations to this area the PCC has a Community Safety Fund Earmarked Reserve of £450k. The intention is to release £150k per annum from this reserve over the next 3 years.

3.17 Plans, including Grant agreements, where appropriate, are in place to deliver most of PCC Initiatives for 2017/18. In terms of the investment of £1,250k into Neighbourhood Policing for 2017/18 this will result in the recruitment of 21 additional people into 'staff' roles, 16 additional PCSOs and 6 additional Police Officers.

3.18 Based on the timing of the recruitment into these posts, which is covered in more detail with the budget monitoring report from the Force, it is expected that this budget will underspend by £262k however this will depend on actual recruitment dates and starting salaries.

4. Police Force

4.1 The vast majority of the funding available to the PCC has been provided to the Police Force. The Force was initially allocated a budget of £119,835k for 2017/18; this has then reduced by £415k as the savings from the recent procurement for Custody has been set aside to replenish reserves that were unexpectedly used in 2016/17. There has then been an increase of £284k, to £119,704k. This is as a result of setting the expenditure budget for costs associated with the Driving Training scheme, Mutual Aid funding and other

small amounts of income received. The summary of how this is forecast to be spent, including forecast outturns are included in the table below:

Police Force Financial Summary	Original 2017/18 Budget	Revised 2017/18 Budget	Forecast Spend in 2017/18	2017/18 Forecast (Under)/ Overspend
Police Force Planned Expenditure	£000s	£000s	£000s	£000s
Pay				
Police Pay	66,740	66,687	66,807	120
Police Overtime	1,375	1,599	1,859	260
Staff Pay	9,755	9,780	9,600	(180)
Police Community Support Officer Pay	4,255	4,142	4,107	(35)
Pay Total	82,125	82,208	82,373	165
Major Contracts				
Outsourcing Contract	17,139	17,162	17,262	100
Custody and Medical Contract	2,938	2,523	2,548	25
Major Contracts Total	20,077	19,685	19,810	125
Non-Pay Budgets				
Other Pay and Training	380	839	914	75
Injury and Medical Police Pensions	2,435	2,433	2,523	90
Premises	3,620	3,531	3,456	(75)
Supplies and Services	7,035	6,841	6,967	126
Transport	1,576	1,504	1,389	(115)
External Support	2,587	2,662	2,621	(41)
Non-Pay Total	17,633	17,811	17,871	60
Total Planned Force Expenditure	119,835	119,704	120,054	350

- 4.2 To meet the financial targets set by the PCC in setting the 2017/18 budget, the Force's budget included a requirement to deliver savings of £500k to balance.
- 4.3 These savings have predominantly been delivered with the forecast overspend now being predominantly driven by the unexpected higher pay award for Police Officers which are included in the forecast outturn which the PCC has agreed to fund. Further details on how the Force are managing their finances are included elsewhere on today's agenda along with details of their financial performance against their plans for 2017/18.
- 4.4 Reserves
The 2017/18 budget was to be supported by £1,925k from Reserves. This is made up of the following transactions:
- £75k to the PFI Reserve.
 - £2,000k from the General Fund.
- 4.5 In addition to this £750k was to be used to support the Capital Programme during 2017/18.
- 4.6 In 2016/17 £2,635k was set aside to fund provisions as referred to in the Force's outturn report. To be able to fund these provisions it was not possible to transfer the budgeted £2,225k into the Capital Programme in 2016/17. It has therefore been agreed that the savings from the revised Custody Contract

will re-imburse the Capital Programme over the coming years. The first tranche of this will be in 2017/18 and the Force's budget has therefore been reduced by £415k to reflect this. This £415k will be transferred into the capital programme to support the initial plans.

- 4.7 These transactions will occur as a matter of course during the 2017/18 financial year. Current forecast for movements on Earmarked and General Reserves to the end of 2017/18 are included within the table below:

	Balance at 31 March 2017 £000	Tranfers In 2017/18 £000	Tranfers Out 2017/18 £000	Balance at 31 March 2018 £000
Insurance Fund	0			0
Direct Revenue Funding of Capital	(3,241)	(1,165)	3,820	(586)
Injury Pension Reserve	(320)		320	0
PFI Sinking Fund	(138)	(75)		(213)
Incentivisation Grant	(271)	(80)	173	(178)
Urley Nook TTC	(81)			(81)
NERSOU	(153)			(153)
Job Evaluation Reserve	(550)			(550)
Police Property Act Fund	(43)			(43)
Community Safety Initiatives Fund	(450)		150	(300)
Road Safety Initiatives Fund	(629)		150	(479)
Collaboration Reserve	(389)			(389)
Revenue Grants Unapplied	(137)		137	(0)
Total Earmarked Reserves	(6,401)	(1,320)	4,750	(2,971)
General Reserves	(8,015)	0	2,000	(6,015)
Total Usable Reserves	(14,416)			(8,986)

5. Overall Budget Summary

- 5.1 At the end of January 2018 the follow table summarises the finances of the PCC, including forecasts of the expected outturn in each area.

	Original 2017/18 Budget	Revised 2017/18 Budget	Forecast Spend in 2017/18	2017/18 Forecast (Under)/ Overspend
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Government Grant	(83,500)	(83,500)	(83,500)	0
Council Tax Precept	(32,656)	(32,656)	(32,656)	0
Council Tax Freeze Grant	(800)	(800)	(800)	0
Council Tax Support Grant	(6,868)	(6,868)	(6,868)	0
Funding for Net Budget Requirement	(123,824)	(123,824)	(123,824)	0
Specific Grants	(5,217)	(5,217)	(5,347)	(130)
Partnership Income/Fees and Charges	(2,664)	(2,962)	(3,172)	(210)
Total Funding	(131,705)	(132,003)	(132,343)	(340)
Office of the PCC Planned Expenditure	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Staff Pay	645	645	645	0
Non Pay Expenditure	205	200	201	0
Total Planned Expenditure	850	845	846	0
PCC Initiatives/Victims and Witness	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
PCC Initiatives	2,406	2,406	2,053	(354)
Victims and Witnesses Services	839	839	792	(46)
Total Planned Expenditure	3,245	3,245	2,845	(400)
Corporate Costs	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Staff Pay	330	330	330	0
Non Pay Expenditure	100	100	98	(2)
PFI's	6,915	6,915	6,907	(8)
Asset Management	1,605	1,584	1,509	(75)
Total Corporate Costs	8,950	8,929	8,844	(85)
Police Force Planned Expenditure	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Police Pay	66,740	66,687	66,807	120
Police Overtime	1,375	1,599	1,859	260
Staff Pay	9,755	9,780	9,600	(180)
Police Community Support Officer Pay	4,255	4,142	4,107	(35)
Pay Total	82,125	82,208	82,373	165
Major Contracts Total	20,077	19,685	19,810	125
Non-Pay Budgets				
Other Pay and Training	380	839	914	75
Injury and Medical Police Pensions	2,435	2,433	2,523	90
Premises	3,620	3,531	3,456	(75)
Supplies and Services	7,035	6,841	6,967	126
Transport	1,576	1,504	1,389	(115)
External Support	2,587	2,662	2,621	(41)
Non-Pay	17,633	17,811	17,871	60
Total Planned Force Expenditure	119,835	119,704	120,054	350
(Surplus)/Deficit	<u>£000s</u> 1,175	<u>£000s</u> 720	<u>£000s</u> 246	<u>£000s</u> (475)
Planned Transfers to/(from) General Fund	(2,000)	(2,000)	(2,000)	0
Contribution to Capital Programme	750	1,205	1,205	0
Planned Transfers to/(from) Earmarked Reserves	75	75	75	0
Net (Surplus)/Deficit After Reserves	0	0	(475)	(475)

6. Implications

6.1 Finance

There are no financial implications other than those mentioned above.

6.2 Diversity & Equal Opportunities

There are no issues arising from this report to bring to the attention of the PCC.

6.3 Human Rights Act

There are no Human Rights Act implications arising from this report.

6.4 Sustainability

This report is part of the process to establish sustainable annual and medium term financial plans and maintain prudent financial management.

6.5 Risk

At this stage of the financial year budgets are very tight and are being actively managed to deliver against the priorities and plans whilst staying within budget. The capacity to absorb unexpected costs and pressures is therefore very limited.

7. Conclusion

7.1 The proposed 2017/18 budget underpins the PCC's objectives of:

- Investing in Our Police
- A Better Deal for Victims and Witnesses
- Tackling Re-offending
- Working together to make Cleveland safer
- Securing the future of our Communities

As you would hope and expect the finances of the organisation are very tight, with the best service possible trying to be delivered within the budgetary constraints.

At this stage of the financial year a small under spend position is projected for the organisation overall, however there are a number of areas which are already under pressure and these will need to be closely monitored as the year progresses. In addition to these the Staff Pay award has not yet been concluded and is expected to result in an additional pressure for the organisation. The current proposal from the Employer's side, if agreed, is expected to create a pressure of £150k in 2017/18 and a further £110k in 2018/19.

Michael Porter
PCC Chief Finance Officer



Report of the Chief Finance Officer of the PCC to the Police and Crime Commissioner

28th February 2018

Executive Officer: Michael Porter, CFO

Status: For Approval

Robustness of Estimates and Adequacy of Financial Reserves

1. Purpose of the Report

- 1.1 The Local Government Act 2003 requires the Chief Financial Officer (CFO) of the Police and Crime Commissioner (PCC) to report formally on the robustness of the budget for consideration immediately prior to setting the Budget. This report aims to ensure that the PCC is aware of the opinion of the CFO of the PCC regarding the robustness of the budget as proposed, including the longer term revenue and capital plans, the affordability of the capital programme when determining prudential indicators and the adequacy of general balances and reserves. The PCC is required to take account of this report when determining its budget.

2. Recommendations

The PCC is asked to:

- 2.1 Note the contents of this report and take them into account when setting the 2018/19 Revenue and Capital Budgets, and when considering the Long Term Financial and Capital Plans.
- 2.2 Approve the Reserves Strategy as set out in Appendix A.

3. Background

- 3.1 There is a requirement for the PCC's CFO to report formally and specifically on the robustness of estimates and the adequacy of the level of reserves contained within any budget proposals being considered by the PCC.

4. Robustness of Estimates

4.1 Financial Strategy

- 4.2 The PCC has established a framework, whereby the Long Term Financial Plan (LTFP) regime seeks to provide stability and confidence in supporting the achievement of the PCC's priorities and objectives. These are set out in the Police and Crime Plan. The LTFP looks in detail at the forthcoming year and projects forward over the following three years.

4.1.1 Available Funding

The £134,644k of funding forecast to be available to the PCC in 2018-19, to support expenditure, is expected from the following sources, and is shown in comparison to the 2017/18 budgeted figure of £131,705k:

	Actual	Actual	Movement
	2018/19	2017/18	Year on Year
Funding	£000s	£000s	£000s
Government Grant	(83,500)	(83,500)	0
Council Tax Precept	(34,583)	(32,656)	(1,927)
Council Tax Freeze Grant	(800)	(800)	0
Council Tax Support Grant	(6,868)	(6,868)	0
Funding for Net Budget Requirement	(125,751)	(123,824)	(1,927)
%age change in Net Budget Requirement	1.6%		
Specific Grants	(4,911)	(4,558)	(353)
Witness and Victims Funding	(1,246)	(659)	(587)
Partnership Income/Fees and Charges	(2,737)	(2,664)	(73)
Total Funding	(134,644)	(131,705)	(2,940)
%age change in Total Funding	2.2%		

4.1.2 The Government Grant, Council Tax Freeze Grants, Council Tax Support Grant and Specific Grants are based predominantly on national settlement figures and therefore the risks to these sources of funding are minimal. There are a number of specific grants for which allocations have yet to be announced, such as the Counter Terrorism grant and therefore this could be less than assumed.

4.1.3 The Specific Grants budget is £350k more than 2017/18, this is predominantly as a result of the timing and level of payment for the Capital Financing Grant, which relates to debt taken out pre-1990. All of this debt will come to an end by 2021/22 which will result in some large variance in the level of grant over the next few years however all of these are factored into the financial plans.

4.1.4 As a precepting Authority the PCC receives a proportion of the Council Tax paid within Cleveland based on the Band levels that were proposed and agreed with the Police and Crime Panel. These receipts have generally been a very secure source of income and this shouldn't change for 2018/19. Any shortfall due to lower than expected collection rates or from reductions in the number of properties within Cleveland would not impact on the finances for 2018-19 but would have to be taken into account in 2019-20.

4.1.5 Over the last 13 years there have been no instances where Council Tax receipts over the 4 councils collectively have been less than forecast. Now that the changes resulting from the Localisation of Council Tax support have been embedded it is unlikely that any issues will arise that change this position.

4.1.6 The £2,737k of income that is factored into the 2018-19 budget for Partnership Income and Fees and Charges, is in line with 2017-18 and as has been seen throughout 2017/18 the receipt of income within this area is in line with this budget. This area includes secondment income, special services income and interest received on cash invested. While there are likely to be variances against the budgeted amounts, at a specific level, the risk that the income received by the PCC in total from these and other sources being lower than budgeted is low.

- 4.1.7 The total funding that the 2018/19 budget is based upon can therefore be described as very secure and the PCC can take a high level of assurance that the budget is based on robust income assumptions.
- 4.1.8 Government Funding for 2019/20 and beyond
- 4.1.9 Beyond 2018-19 there is more information about future levels of government grant settlements than there has been in previous years. While allocations have not been provided for individual PCC's a reasonable amount of information has been provided to allow reasonable grant forecasts.
- 4.1.10 In announcing the final settlement figures for 2018/19 the government also stated that **'If the police deliver clear and substantial progress against agreed milestones on productivity and efficiency in 2018, as well improve transparency about reserves, then the Government intends to maintain the protection of a broadly flat police grant in 2019/20 and repeat the same flexibility of the precept.'**
- 4.1.11 Given this, there is a clearer indication on the level of future grant levels than there has been in many of the last 8 years and therefore in theory the future grant forecasts should be less variable than in previous years.
- 4.1.12 The LTFP therefore assumes that the level of Government Grant remains at the same level in 2019/20 as it will be in 2018/19 and was in 2017/18. This is a realistic assumption given the correspondence from the Government.
- 4.1.13 Beyond 2019/20 the LTFP assumes that Government Grants will begin to increase in line with inflation of 2%. There is clearly a risk that this might not happen as by 2020/21 it will have been almost a decade since Government Grant funding for Policing last saw any increase.
- 4.1.14 The 2% increase in 2020/21 is worth £1.6-£1.7m therefore if this doesn't happen the current plans would need to be re-visited. This is clearly an area that will be kept under review as the LTFP is developed for future years.
- 4.1.15 Precept
Despite the difficult economic situation, and the changes to the levels of Council Tax Support given to individuals, the Councils have collectively managed to collect more Council tax than they had assumed for at least the last 15 years.
- 4.1.16 The average collection surplus payable to the 'Police' in relation to the amounts that the 4 councils managed to collect in excess of their forecasts has been £373k over the last 15 years. The LTFP has assumed that this collection surplus will be £250k each year. As such this is a reasonable estimate given that the average is inflated by very higher surpluses experienced in the 4 years prior to 2018/19 and that in 2018/19 the surplus has returned to a more normal level of £327k.
- 4.1.17 In addition to incorporating an annual collection surplus the precept plans also incorporate annual growth in the underlying tax base of 1.0% per annum. This is in line with forecast from the Local Councils. Average tax base growth over the last 15 years has been 1.1% however this has, in a similar way to the collection surplus information, been inflated by significant growth in the last 4 years prior to the current year. The 1.0% growth per annum is however a reasonable assumption although could prove to be a prudent estimate if housebuilding continues to develop at its current pace.
- 4.1.18 Future Precept Plans

The government have stated that the precept flexibility provided to PCC's in 2018/19 will be provided to them in 2019/20 subject to previously discussed need to deliver on efficiency, productivity and transparency.

4.1.19 The planning assumption within the LTFP is based on an assumption that the level of precept charged to each household will increase £12 next year before reverting to a limit of 1.99% per annum. This is however an annual decision for the PCC.

4.1.20 These are reasonable assumptions based on current information, with the forecast increases beyond 2019/20 likely to be on the prudent side given current policy.

4.1.21 Expenditure Plans

Preparation of the budget, including decisions on key assumptions, while based on the most up to date information and forecasts will always have a degree of uncertainty and risk. This risk is managed by having a robust budget process and having balances and reserves that are set to take into account the financial and operational uncertainty that exists.

4.1.22 There are a number of key estimates within the 2018/19 budget and LTFP, these are set out below along with the potential risks where applicable:

4.1.23 Police Pay Awards and Levels of Police Officers

The LTFP assumes that Police Pay will increase by 2% in September 2018 and that the current non-consolidate bonus awarded to Police Officers for the period September 2017 to August 2018 will not be consolidated when the pay award is made in September 2018. The LTFP then assumes a 2% increase each September thereafter.

4.1.24 There is a risk that it may not be possible for national negotiations to contain Police Officer pay within these limits, as has been the case in 2017/18 when Pay Awards to Police Officers were in excess of previously indicated Government caps. These increases were unfunded from the Government and therefore the additional costs had to be met by the PCC and Police Force.

4.1.25 While the assumption within the LTFP is in line with the 'Employers' side offer this is significantly below the 'Employees' side request.

4.1.26 The Employees side have put forward proposals to have the 1% non-consolidated payment from 2017/18 consolidated as at the 1st September 2018 and then for a further 3.4% increase thereafter.

4.1.27 To provide an indication of the potential pressure that could develop from pay awards that are beyond those factored into the financial plans then each 0.5% increase over the 2% budgeted within 2018/19 would cost around £175k during 2017/18 and £350k per annum thereafter.

4.1.28 Should the Employees side proposal be accepted then the impact would be a pressure of £420k in 2018/19 and a recurring pressure of £840k per annum thereafter.

4.1.29 As it 2017/18 both general inflation and wage inflation are increasing at levels above a 2% increase in pay. The Consumer Price Index level of inflation was 2.7% in January 2018, the Retail Price Index measure of inflation was 4.0% and UK wage inflation was measured as increasing by 2.5% per annum in January 2018.

4.1.30 The Force have a stable resource requirement based on demand analysis factored into their financial plans, and while this will change over time the current expectation is that there will be a requirement for 1,236 FTE Police Officers to deliver against the

Police and Crime Plan objectives. The last 2 financial years were the first year since 2012/13 where significant underspends have not developed against Police Pay budgets. This has been possible due to being able to provide more surety around finances which has enabled recruitment of Police Officers within a more stable planning environment.

4.1.31 Based on the plans in place there is no reason to expect that an underspend will develop in this area in 2018/19 or that the resources won't be available to the Police Force to deliver against the Police and Crime Plan.

4.1.32 The final area to consider in relation to Police Pay is the average pay costs that are factored into the LTFP, these are currently projected to be:

- 2018/19 - £52,474
- 2019/20 - £53,017
- 2020/21 - £53,672
- 2021/22 - £54,660

4.1.33 It would be reasonable to assume that given 2% pay awards that average pay would increase by around £1,000 per annum. However the organisation is forecasting to recruit significantly over the next 4 years, in line with current retirement profiles, the majority of which will be taken on initially as student Police Officers and whose initial pay costs are around £20k per annum lower than the average. This is currently projected to keep the average pay costs lower than would otherwise be expected.

4.1.34 The assumptions that underpin these calculations are reasonable but will need to be kept under review. Should the organisation recruit less student police officers, due to fewer leavers than expected and/or take on more transferees than planned then this could have an impact on the average pay levels and ultimately the overall pay costs.

4.1.35 For example taking 20 more transferees than planned could cost the organisation around £400k per annum, in the short term, more than currently budgeted.

4.1.36 PCSO and Staff Pay Awards and FTE's

The number of staff and PCSO's factored into the financial plans are as per the table below.

Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
PCSOs	148	147	147	147	147
Police Staff - Police Force	285	318	318	318	318
PCC/Corporate Staff	14	14	14	14	14

4.1.37 As at 31st January 2018 there were 143 FTE PCSOs employed by the Force and therefore the Force will start 2018/19 quite close to full establishment in this area and therefore significant underspends should not materialise in this area based on FTE's

4.1.38 The assumptions in relation to the Pay Award for staff and PCSOs are the same as for Police Officers, in that there is an assumption that there will be an annual increase of 2% each year in September. The risk is the same as for Police Officer pay in that national negotiations may settle at a higher level which is something that the PCC and CC have little to no control over and should this occur then the current budgets will come under some pressure. Each 0.5% increase in pay beyond the 2% factored into Staff and PCSO budgets would cost the organisation around £35k in 2018/19 and £70k per annum thereafter.

4.1.39 Unlike Police Officer pay, the 2017/18 pay negotiations have not yet concluded which provides for an additional risk to the budget for 2018/19 and beyond. The 2018/19

budget assumes, for planning purposes, that a 2% pay award will be agreed for September 2017.

4.1.40 Inflation

The 2018/19 budget allows for specific allocations of inflation where necessary in line with either contractual arrangements or estimates however inflation in general is higher than the increases in funding that have been possible this year and if inflation does not begin to plateau or reduce then this could provide for additional pressures during 2018/19.

4.1.41 From an income perspective inflation has been applied on fees and receivables for 2018/19 onwards, subject to known variances. Specific grants have no inflation assumed unless notified by the payer, while any anticipated reductions have been accounted for.

4.1.42 Inflation has increased quite significantly over the last couple of years, CPI was 0.3% in January 2016 – now it is 2.7% and RPI was 1.3% in January 2016 – now it is 4.0% and therefore there has been a requirement to factor in higher levels of inflation into future years of the LTFP.

4.1.43 Savings Requirements

The plans and savings proposals included in the budget for 2018/19 and the LTFP in general seem robust.

4.1.44 To deliver against the 2018/19 budget the Force will need to deliver £250k of, as of yet, unidentified savings within the year. Beyond 2018/19 this increases to £0.3m across the remainder of the plan.

4.1.45 These are relatively small amounts based on the size of the overall budget and therefore shouldn't prove an issue and updates will be provided on the delivery of these savings over the course of the budget monitoring process in 2018/19.

4.1.46 The PCC will see from the Budget and LTFP report that based on the current funding assumptions, as set out in this report, that the budget for 2018/19 will balance providing the above savings plans are delivered. There are little risks from these savings plans and the financial estimates are robust. The risks are as outlined within this report.

4.1.47 The current LTFP is showing a balanced budget across the next 4 financial years based on current plans and assumptions however, as indicated within this report when discussing pay there are significant areas of the budget that may increase beyond the assumptions within the budget that neither the PCC nor Chief Constable have any real control over.

4.1.48 It is also vital to appreciate that the Government have been very clear in providing the additional Precept flexibility to PCC's that *'A number of you (PCC's) have raised the costs of the 2017 police officer pay settlement. Today's police funding settlement enables PCCs to increase funding by over a quarter of a billion pounds in 2018/19 and identifies opportunities for efficiencies, which should enable you to make appropriate provision for likely cost increases next year within your financial plans. This includes both the remaining costs of additional 1% non-consolidated element of the 2017 pay award and the likely costs of the 2018 pay award. It is for police leaders to make proposals in relation to the 2018 pay award, reflecting what is affordable and fair to officers and taxpayers, based on robust evidence about the state of the workforce.'* Therefore if pay awards are agreed at a level that is beyond the assumptions within this plan that they will have to be found from within the funding available and that no additional funds will be provided by Government to pay for these.

4.1.49 The organisation has a secure and stable financial platform from which to deliver against the Police and Crime Plan for both next year and beyond. This is a stronger position than the one reported a year ago however there continue to be a number of significant areas that will need to be closely monitored over the coming months and years.

4.1.50 Capital Expenditure and Financing

The capital programme to 2021/22 is based on spending just under £14m over the next 4 years.

4.1.51 In terms of the funding of this investment and expenditure, the £14m will be funded as follows:

- Government Grants -£2.1m (up from £2.0m a year ago)
- Capital Receipts - £9.6m (up from £6.5m a year ago)
- Contributions from Revenue - £7.1m (up from £6.3m a year ago)
- We will look to re-pay Borrowing of £4.3m

4.1.52 Prior to 2014/15 I highlighted that there was a recurring and ultimately unsustainable need to borrow to fund capital given the very small amount of Capital Grant that the PCC now receives each year – it will be £0.5m in 2018/19. This was addressed from 2014/15 onwards which put the financing of capital expenditure on a more sustainable footing.

4.1.53 It is vital that this is not lost otherwise significant amounts of reducing revenue funding will then need to be set aside to fund interest on loans and to set aside for minimum revenue provision.

4.1.54 In terms of the robustness of these funding sources the Government Grant for Capital purposes seems to have reduced as far as it will and only provides the PCC with £515k per annum. While no future reductions are factored into the plans there is now so little left of the Capital Grant that any future changes are likely to be marginal.

4.1.55 The level and timing of Capital Receipts is all predominantly covered by a contract for the sale of Ladgate Lane and therefore can be viewed as a robust source of funding.

4.1.56 The contributions from revenue are factored into the balanced LTFP. These contributions are therefore as robust as the overall revenue plans which has been discussed in detail within this paper.

4.1.57 The financial implications of borrowing are factored into the revenue plans, decisions as to whether to borrow will be made at the most appropriate time and in line with cash flow needs. The PCC has access to the Public Works Loans Board (PWLB) for borrowing and therefore the availability of the finances needed to fund the plans will not cause any issues.

4.1.58 Capital Reserves is discussed further in section 5 of this report.

5. Adequacy of Financial Provisions, Reserves and Balances

5.1 The adequacy of financial reserves is the second requirement on which the CFO must have confidence. In reality, there is no real difference between the factors that determine both the level of reserves and the estimates themselves. Reserves are simply longer term planning mechanisms to set aside resources for a future use. As such, the section above dealing with robustness of estimates can be fully applied to arriving at a confident statement that reserves are adequate in nature i.e. the Financial Strategy and processes and procedures within the overall budget strategy

all culminate in determining the level of reserves required to support the Long Term Financial Plan.

5.2 Reserves & Provisions

The PCC maintains a number of reserves with the main ones discussed below.

5.2.1 General Fund

At the 31st March 2016, the General Fund stood at £8,627k. Based on the LTFP for 2018/19 to 2021/22 the level of General Fund is expected to reduce to £4,216k by 2019/20. By 2021/22 the General Fund would then equate to the equivalent of 3.0% of the overall funding expected to be available to the PCC in 2021/22 and 3.2% of the forecast Net Budget Requirement for that same year.

5.2.2 Both the amount and percentage are slightly lower than those projected last year and result from a more robust financial position than the one projected a year ago. These levels and percentages are as low as I would recommend that the organisation plans to have and it is therefore vital that should any pressures materialise either during 2018/19 and/or over the planning period that they are addressed within the current resources. There is no capacity within reserves to absorb any further costs without the reserves then being replaced.

5.2.3 In terms of the general reserve of the PCC, it is both adequate and robust for the current projected financial position over the next 4 years based on the current risks and the potential risks as referenced within this report.

5.2.4 Capital Reserves and Capital Receipts

At the 31st March 2016 the PCC held Capital Reserves that totalled £3.6m; this is expected to reduce to £1.2m by 2021/22.

5.2.5 There are undoubtedly areas of investment that the organisation will need, or want, to make that are currently unknown and there will also be changes to the timing and amounts of the funding estimated within the plans, however these plans will need to be assessed and prioritised against those already planned.

5.2.6 The current plans seem to require much less investment in 2021/22 and 2022/23 than has been the experience and expectation over the 5 years prior to these timeframes. These will need to be carefully considered and planned as any increases in these years will have an impact elsewhere in terms of either borrowing, and the costs associated with that, or through reducing the funding available for revenue expenditure.

5.2.7 Further Earmarked Reserves

The PCC has additional earmarked reserves that are detailed within Appendix A along with the projected movements over the LTFP period.

Useable Reserves

5.2.8 These reserves are collectively known as 'Useable' Reserves. The definition being reserves that 'can be used to fund expenditure or reduce local taxation'. As at the 31st March 2017 the Audited Statement of Accounts for the PCC showed that the organisation had Total Useable Reserves of £14.4m and based on the current plans I expect this to reduce significantly to a balance of £5.8m by the end of 2019/20.

5.2.9 While £5.8m may still seem like a significant amount of money I would not recommend that the PCC seeks to reduce this significantly below this level.

6. Statement of the PCC's Chief Finance Officer

- 6.1 As CFO to the PCC it is my duty to specifically comment on the robustness of the estimates put forward for the PCC's consideration. For the reasons set out in this report and from my own review of the estimates process I am satisfied that the proposed spending plan for 2018/19 is sound and robust. There are however a number of areas of savings that will need to be delivered from a revenue perspective in 2018/19 to deliver a balanced financial position. The likely risk from a financial perspective, however, in terms of revenue spending is likely to be similar to 2017/18 where the biggest risk will be in relation to the levels of pay awards agreed during the year, beyond this area small underspends might develop elsewhere but in general the finances of both the PCC and Force will continue to be very tight and will need to be very well managed.
- 6.2 It will be vital to continue to closely monitor the financial position throughout 2017/18 to ensure that the finances support the delivery and achievement of the Police and Crime Plan objectives.
- 6.3 The funding available to deliver the Capital plans of the organisation are robust and the focus will continue to be on delivering the schemes and the benefits that are expected from those scheme.
- 6.4 A review has been undertaken of the PCC's reserves and general balances. The PCC's general balances and reserves are an important part of the PCC's risk management strategy giving the financial flexibility to deal with unforeseen costs or liabilities. Assuming the approval of the plan set out in the budget report, I am satisfied that the PCC would have adequate levels of financial reserves and general balances through 2018/19 provided that service restructuring is delivered and future growth, if any, is managed and funded from sustainable savings.
- 6.5 In 2019/20 and beyond there is less risk around future levels of funding than there has been for most of the last 7 years and as such, in the same way as last year, I recommend that the level of general reserves can reduce to around 3% of the Total Funding Available to the PCC. This is reflected in the reserves strategy that is attached at Appendix A.

7. Implications

Finance

- 7.1 Other than the references made above there are no specific financial or staffing implications in respect of this report.

Risk

- 7.2 There will always be an element of risk that estimates are not fully robust or accurate which may lead to unfunded budget pressures becoming apparent during the year. This report sets out the process and basis for ensuring robustness and minimising the risk of unforeseen problems. As outlined in the report the PCC should ensure that it sets aside sufficient balances to ensure that any problems and liabilities can be dealt with.

8. Conclusion

- 8.1 The PCC's budget setting process has been designed to ensure that estimates brought forward for approval are sound and robust. This report confirms that approach.

- 8.2 Similarly, the PCC's policy is to ensure that it has sufficient levels of reserves and balances to provide for known, anticipated and unforeseen costs and liabilities. I am satisfied that the proposals emerging from the 2018/19 budget process are clear, soundly based and deliverable, and that the approach to reserves and balances contained therein are appropriate.
- 8.3 In setting a budget for 2018/19 the PCC will need to continue to have regard to the underlying level of available resources. The budget report requires the PCC to take a robust approach to this issue by agreeing a long term financial plan aimed at maintaining a sustainable position through the Plan period.
- 8.4 While the financial position for 2018/19 is relatively challenging, the estimates they are based on are robust. This is also the same for the remaining period covered by the LTFFP.

Reserves Strategy

As part of the 2018/19 financial settlement PCC's have been informed by the Government that "If the police deliver clear and substantial progress against agreed milestones on productivity and efficiency in 2018, as well improve transparency about reserves, then the Government intends to maintain the protection of a broadly flat police grant in 2019/20 and repeat the same flexibility of the precept."

The Government has gone on to say that "As part of our commitment to work with the police on these reforms, today the Government is taking steps to improve transparency around financial reserves. It is necessary for police to hold financial reserves, including for emergencies and major change costs. As at March 2017 police forces held usable resource reserves of over £1.6 billion, compared to £1.4 billion in 2011. This is public money and the public are entitled to high quality and easily accessible information about reserves."

As part of these steps to improve transparency:

- Each PCC should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).
- Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the PCC's medium term financial plan.

The strategy should be set out in a way that is clear and understandable for members of the public, and should include:

- how the level of the general reserve has been set;
- justification for holding a general reserve larger than five percent of budget;
- details of the activities or items to be funded from each earmarked reserve, and how these support the PCC and Chief Constable's strategy to deliver a good quality service to the public.
- Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

The information on each reserve should make clear how much of the funding falls into 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 or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).

Reserves Policy

The PCC has had a Reserves Policy in place throughout his time in office, which has been updated annually as part of the Budget Setting Process. The principles that underpin this area are as follows:

1. Reserves will only be established in accordance with legislation or codes of practice, for defined purposes and only with the approval of the Police and Crime Commissioner's Chief Finance Officer. When reviewing the long term financial plan and preparing the annual budget, the PCC shall consider the establishment and maintenance of reserves.
2. These can be held for three main purposes:
 - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of general reserves.
 - A contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves.
 - A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.
3. The PCC's general reserve will act as a safety net against the risks of:
 - a) reductions in grant,
 - b) in-year reductions in budgeted funding
 - c) work force modernisation costs
 - d) delays in delivery of savings plans
 - e) and unforeseen circumstances such as:
 - Expenditure on major incidents that significantly exceed the budgeted provision for such incidents.
 - Levels of inflation that significantly exceed the budgeted provision.
 - Expenditure on "demand-led" lines that significantly exceed the budgeted provision.
4. The appropriate level of the general reserve will be assessed each year when the budget is set. The assessment will have regard to the circumstances and budget for that year, to prospects for future years' budgets, and to any Home Office policy on special grant. The minimum level of the general reserve shall be 3% of the Total Funding available to the PCC.
5. The application of the general reserve will require the specific approval of the PCC as advised by the PCC's CFO. In the normal course of events decisions will be made on the principle that a one-off contribution from the general reserve should be made to support one-off and not continuing expenditure.
6. The position on the general reserve will be monitored in-year by the PCCs CFO as part of the budgetary control process, and proposals brought to deal with any significant adverse movements compared with the budgeted position. The presumption will be that any net underspending on the revenue budget shall flow to the general reserve unless there is an in year decision to utilise this to address performance matters.

Reserves Forecast

The following schedule sets out the forecast movements on reserves over the life of the current long term financial plan, it is important to recognise that whilst the schedule sets out the expected use of the current reserves circumstances will change and all reserves will be reviewed at least annually. It is also important to recognise that there will undoubtedly be a need to create new reserves, in future years, to deal with risks that are currently unknown; therefore while the current schedule shows that the overall level of risks will reduce significantly, the likelihood is that they will not reduce in overall financial terms as exactly planned and that while current reserves are spent new reserves are likely to be needed to manage future risks.

	Balance	Tranfers	Tranfers	Balance	Tranfers	Tranfers	Balance	Tranfers	Tranfers	Balance	Tranfers	Tranfers	Balance	Tranfers	Tranfers	Balance
	at 31 March	In	Out	at 31 March	In	Out	at 31 March	In	Out	at 31 March	In	Out	at 31 March	In	Out	at 31 March
	2017	2017/18	2017/18	2018	2018/19	2018/19	2019	2019/20	2019/20	2020	2020/21	2020/21	2021	2021/22	2021/22	2022
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Insurance Fund	0			0	(75)		(75)	(75)		(150)	(75)		(225)	(75)		(300)
Direct Revenue Funding of Capital	(3,241)	(1,165)	3,820	(586)	(1,400)	518	(1,468)	(885)	2,266	(87)	(2,410)	2,072	(425)	(2,390)	1,570	(1,245)
Injury Pension Reserve	(320)		320	0			0			0			0			0
PFI Sinking Fund	(138)	(75)		(213)	(75)		(288)	(75)		(363)	(75)		(438)	(75)		(513)
Incentivisation Grant	(271)	(80)	173	(178)	(80)	80	(178)	(80)	80	(178)	(80)	80	(178)	(80)	80	(178)
Uray Nook TTC	(81)			(81)			(81)			(81)			(81)			(81)
NERSOU	(153)			(153)			(153)			(153)			(153)			(153)
Job Evaluation Reserve	(550)			(550)		250	(300)		300	0			0			0
Police Property Act Fund	(43)			(43)			(43)			(43)			(43)			(43)
Community Safety Initiatives Fund	(450)		150	(300)		150	(150)		150	0		0	0		0	0
Road Safety Initiatives Fund	(629)		150	(479)		150	(329)		150	(179)		150	(29)		150	121
Collaboration Reserve	(389)			(389)			(389)			(389)			(389)			(389)
Revenue Grants Unapplied	(137)		137	(0)			(0)			(0)			(0)			(0)
Total Earmarked Reserves	(6,401)	(1,320)	4,750	(2,971)	(1,630)	1,148	(3,453)	(1,115)	2,946	(1,622)	(2,640)	2,302	(1,960)	(2,620)	1,800	(2,780)
General Reserves	(8,015)	0	2,000	(6,015)	0	950	(5,065)	0	850	(4,215)	0	0	(4,215)	0	0	(4,215)
Total Usable Reserves	(14,416)			(8,986)			(8,518)			(5,837)			(6,175)			(6,995)

Why have these Reserves been established and what will they used for?

Insurance Reserve (General Contingency Reserve)

The PCC maintains an internal Insurance Fund that carries virtually all insurable risks with a limited amount of external cover for special risk incidents and to cover accumulated losses exceeding an agreed amount depending on risk. The fund receives income from the income and expenditure account to cover the cost of external insurance premiums and internal insurable risks.

The settlement of claims are not uniform and therefore the strain on the revenue fund in any one year can result in situations where services need to be resisted in year to fund claims that may have happened in previous years but for which a claim has only just been made.

This fund is therefore being established to manage these claims in a way that doesn't impact on services on an annual basis.

The annual contribution has been established based on a review of claims over the last 10 years.

Direct Revenue Funding of Capital (Funding for Planned Expenditure over LTFF)

This reserve is held to meet the forecast costs of capital schemes which will enable the capital needs of the organisation to be funded in a sustainable manner, without the need to increase borrowing beyond what is determined to be a prudent level and to also provide some contingency to fund unknown investments whether these be from local changes or national initiatives.

Injury Pension Reserve (General Contingency Reserve)

This reserve was to provide funding for the variable nature of future injury/medical retirements of Police Officers and the capital equivalent charges incurred. This reserve will have been fully used by the end of 2017/18 in line with the reason it was initially established.

Action Stations PFI Sinking Fund (Funding for Planned Expenditure over LTFF)

As with any building the upkeep and maintenance of the PFI buildings happen in an uneven manner dependent of the lifecycle of the maintenance needed. These variations in lifecycle give rise to variable amounts of charges across the life of the building. This fund will be used to manage the uneven changes to that charge across the remaining life of the contract so that significant costs are not incurred in any one year. The level of contribution and use of reserve are determined by the forecast payments over the life of the PFI contracts.

Incentivisation Grant

This reserve relates to Cleveland's share of seized cash provided by the Government and will be spent on eligible schemes in future years. The funding is ringfenced and variable in nature and the funding will be spent in line with the terms of the funding. The PCC has no control over the level of this reserve and it cannot be used to meet everyday expenditure.

Tactical Training Centre (General Contingency Reserve)

The Tactical Training Centre is run on a Collaborative basis between Cleveland and Durham and has reserves that total £162k to meet any variable costs/needs of the unit, these reserves are held by the PCC for Durham, PCC's share of these reserves total £81k and will be used as needed.

NERSOU (General Contingency Reserve)

The North East Regional Special Operations Unit (NERSO) is a collaboration between Northumbria, Durham and Cleveland Forces to address organised and serious crime. At the 31st March 2017 Northumbria on behalf of the unit held reserves of £691k, to meet any variable costs/needs of the unit, of which Cleveland's share is £153k. These reserves are review annual as part of the Collaboration.

Job Evaluation Reserve (General Contingency Reserve)

This reserve has been set up in 2013/14 in order to cover any future costs from the Job Evaluation project which is still on-going.

Police Property Act Fund

The Police Property Act Fund comprises monies received by the PCC from property confiscated by order of court and then sold. The PCC administers the fund and considers applications from voluntary organisations and community groups within the Cleveland area. The main aim of the fund is to support local projects undertaken by voluntary/charitable organisations that benefit the communities of Cleveland, especially those which have a positive impact in reducing crime and disorder at a local level. Funding is allocated from this Fund on a quarterly basis in line with bids that meet the requirement of the fund.

Community Safety Fund (General Contingency Reserve)

The PCC has established the reserve to support local community safety initiatives over the period of his term in Office. £150k per annum has been set aside to support this initiative.

Road Safety Initiative Reserve (General Contingency Reserve)

The reserve has been created to hold funding to be spent on road safety initiatives as advised by the Cleveland Road Safety Partnership.

Collaboration Reserve (General Contingency Reserve)

The reserve has been created to provide to support the work in relation to collaboration activity with other Forces and partners

Revenue Grants Unapplied (General Contingency Reserve)

These grants are those which either have no specified conditions or the conditions have been met. They will be matched to relevant expenditure as incurred.



Report of the Chief Finance Officer of the PCC to the Police and Crime Commissioner for Cleveland

28th February 2018

Status: For Information

Long Term Financial Plan (MTFP) 2018/19 to 2021/22 and Capital Plans 2018/19 to 2021/22

2. Executive Summary

1.2 Purpose of the Report

This report asks the PCC to agree the Budget proposals for 2017/18 and the Long Term Financial Plan (LTFP) for 2018/19 – 2021/22 in line with the legal requirement to set a budget prior to the 1st March each year for the following financial year. It also asks the PCC to agree the funding for the Capital Programme for 2018/19 and the indicative allocations for the period 2019/20 to 2021/22.

2. Recommendations

The PCC is asked to note:

2.1 The PCC is requested to approve the allocation of the £134,644k of revenue funding, that is forecast to be received by the PCC in 2018/19, in the following areas:

- £860k to run the Office of the PCC
- £3,939k to support PCC Initiatives and Victims and Witnesses Services
- £9,475k for Corporate Services
- £119,770k to the Police Force
- £1,400k to the Capital Programme
- £150k to Earmarked Reserves
- This will be supported by £950k from General Reserves

- 2.1 The PCC is asked to note that the 2018/19 budget is based on the approved £12 increase in the level of Band D precept for 2018/19.
- 2.2 The PCC is asked to take cognisance of the Robustness of Estimates and Adequacy of Financial Reserves Report of the PCCs CFO that was discussed prior to this report.
- 2.3 The PCC is asked to agree that quarterly updates to the LTFP forecast will be brought to the PCC in 2018/19 to provide an update on the progress of the work to develop the future plans.
- 2.4 The PCC is asked to agree that quarterly updates on the 2018/19 budget will be brought to the PCC in 2018/19 to provide updates on performance against the 2018/19 budget.
- 2.5 The PCC is asked to approve borrowing of up to £3,000k can be taken out to fund the capital expenditure in 2018/19.
- 2.6 The PCC is asked to allocate £6,554k of Capital Budgets to the Chief Constable to deliver new schemes on behalf of the PCC.

3. Planning and Funding Assumptions

3.1 National Budget

On 22 November the Chancellor of the Exchequer, Philip Hammond, made his Autumn Budget 2017 announcement in the House of Commons. This was the Chancellor's first Autumn Budget. A briefing was provided to the PCC in November.

3.2 In relation to Policing and Crime there was no specific reference to these areas, from a Budgeting/Finance perspective, that related to England.

3.3 The Budget contained the same Departmental Expenditure Limits for the Home Office for the next 2 years for both Revenue and Capital and therefore there is no overall additional funding for Policing.

3.4 Provision Police Funding Settlement 2018/19

The Provisional 2018-19 Police Finance Settlement was announced in an oral statement by the Minister for Policing and the Fire Service Nick Hurd MP on Tuesday 19 December. This was followed by a written ministerial statement shortly after. Full details of the settlement can be found on the Home Office pages of the gov.uk website.

3.5 Headlines

The main points within the provisional settlement are as follows:

- Precept flexibility to increase the level of Band D precept by up to £12 for all PCCs (or equivalents) in 2018-19
- Flat cash grant funding (i.e. the same allocations as in 2017-18 for Home Office Core Police Settlement)

- Updated assumptions around tax base growth – now using OBR figures of 1.34% in England and 0.8% in Wales
- Including these assumptions on council tax and based on the 1.5% GDP deflator, the resulting settlement, including council tax, represents a “real terms” increase for all between 2017-18 and 2018-19
- £450m additional funding for the service – includes £130m additional reallocation and approximately £147m as a result of additional council tax flexibilities.
- £50m additional counter Terrorism funding and the remaining £123m can be considered as “new money”.
- The minister’s letter to PCCs refers to this additional funding in addition to identified efficiency savings of up to £100m (procurement) to enable “appropriate provision for likely cost increases next year”.

3.6 Government Funding for 2018/19 and beyond

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

3.7 The Police Formula review is unlikely to be revisited until the next spending review and therefore the organisation continues not to include any impact from a revision to the Funding Formula in the LTFP forecasts.

3.8 This new information has been factored into the revised Government Grant assumptions as per the following table:

Assumed Government Grant Reductions			
	Feb 2017 LTFP	Nov 2017 LTFP	Feb 2018 LTFP
	%	%	%
2018/19	-1.4%	-0.9%	0.0%
2019/20	-1.4%	-0.9%	0.0%
2020/21	1.0%	2.0%	2.0%
2021/22	N/A	2.0%	2.0%

3.9 It is important to recognise that these are assumptions and as such could easily change. It is also important to recognise that the forecast for 2019/20 and the precept flexibility proposed for 2019/20 have certain conditions attached as set out in the correspondence from Nick Hurd:

3.10 The increase in 2018/19 funding to PCCs must be matched by a serious commitment from PCCs and chief constables to reform by improving productivity and efficiency to deliver a better, more transparent service to the public. Following my discussions with forces and Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS), I have three clear priorities:

- Seek and deliver further cost efficiencies. I welcome the progress forces have made against the £350m procurement savings target set at Spending Review 2015. However, there is a lot more to do. We have helped to identify £100m of potential savings in areas such as fleet, professional services and construction. Forces will need to make greater use of national procurement through lead forces to make these savings. We are providing support through the Police Transformation Fund and we will also help establish a force-led National Centre of Excellence to drive down back-office costs, and make best use of estates.
- A modern digitally enabled workforce that allows frontline officers to spend less time dealing with bureaucracy and more time preventing and fighting crime and protecting the public. If all forces could deliver the same one hour per officer per day of productivity benefits from mobile working as the best in a recent sample with eight forces, this has the potential to free up the equivalent of 11,000 extra officers nationally to provide the proactive policing that committed police officers want to deliver. We will work with policing to set up a specialist team to make sure all police forces have access to, and make use of, the best mobile working apps to enable forces to free up extra hours to spend at the frontline.
- Greater transparency in how public money is used locally. It is necessary for police to hold financial reserves, including primarily for contingencies, emergencies and major change costs. As at March 2017 police forces held usable resource reserves of over £1.6bn. This compares to £1.4bn in 2011. Current reserves held represent 15% of annual police funding to PCCs. There are wide variations between forces with Gwent for example holding 42% and Northumbria holding 6%. This is public money and the public are entitled to more information around police plans for reserves and how those plans will support more effective policing. So we will be improving transparency around reserves in the new year through enhanced guidance and through national publication of comparable reserves data. HMICFRS are also consulting on plans for Force Management Statements, which could make more information on police forces available to the public.

3.11 Discussions will be held with police leadership to agree milestones against these priorities that need to be achieved over 2018.

3.12 "I have listened to the views of PCCs and Chief Constables, who have requested greater certainty about future funding to help more efficient financial planning. If the police deliver clear and substantial progress against the agreed milestones on productivity and efficiency in 2018, then the Government intends to maintain the

protection of a broadly flat police grant in 2019/20 and repeat the same flexibility of the precept, i.e. allowing PCCs to increase their Band D precept by a further up to £12 in 2019/20.”

- 3.13 The above correspondence has since been followed up with further details, from Nick Hurd, which is set out below:
- 3.14 “We will seek to maintain the protection of a broadly flat police grant in 2019-20 – alongside a repeat of the same flexibility of the precept (allowing PCCs to increase their Band D precept by up to a further £12 in 2019-20) - if the police deliver clear and substantial progress on productivity and efficiency.
- 3.15 There are 3 areas we suggest form the core of a plan:
- Procurement and shared services;
 - Mobile working and digital;
 - Transparency about the effective use of reserves.
- 3.16 On procurement and shared services, I would like to see a delivery plan with clear milestones between now and September 2018 for achieving the National Commercial Board’s ambition of reducing procurement and shared service costs by £120m and £20m respectively. It is important that this plan (and delivery against it) demonstrates how progress will be tracked at force level as well as nationally.
- 3.17 This National Plan will need to be submitted 9 March 2018.
- 3.18 Precept
Only 27.5% of the Net Budget Requirement within Cleveland is funded by the local precept and therefore this provides less of a cushion to cuts in government grants, than in most Police Force areas.
- 3.19 The Department for Communities and Local Government has published the draft council tax referendum principles. In 2018-19 all PCCs will be allowed to increase band D bills by as much as £12. This represents increases of between 5.34% (Surrey) and 12.2% (Northumbria).
- 3.20 Consultation was undertaken in relation to whether the public supports the option of increasing the Band D ‘Police’ precept by £12 per annum for 2018/19 and the response was that 80% of the 284 people who responded to the survey supported the option to increase the Band D precept by £12.
- 3.21 As stated elsewhere the LTFP is therefore based on a £12 increase in the Band D precept for 2018/19, this equates to a 5.59% increase.
- 3.22 For the purposes of planning, the balanced plan that is set out within this paper assumes the following:
- 2019/20 – Precept Increase of £12 per annum (5.3%)
 - 2020/21 – Precept Increase of 1.99%
 - 2021/22 – Precept Increase of 1.99%

- 3.23 Over the last 5 years there have been significant increases in both the number of calculated Band D properties within Cleveland and also significant Collection Surplus' to which the PCC has benefited from. This has continued, but to a lesser extent, in 2018/19.
- 3.24 The number of Band D properties within Cleveland has increased by 2,135 (or 1.43%) to 151,211. This is the lowest increase in the last 5 years. This plan assumes that the Tax Base increases by 1% per annum going forward, which is lower than the increases that the OBR is forecasting for England as a whole at 1.34%, but in line with forecasts from the Local Councils.
- 3.25 In addition to this the Collection Surplus for 2018/19 is £327,279, which is the lowest it has been in the last 5 years. This is factored into this LTFP along with an estimated Collection Surplus of £250k per annum going forward.
- 3.26 These assumptions will be kept under review as details for future years become available and projections amended accordingly.
- 3.27 The flexibility to increase the Precept by £12 per annum for the next 2 years has had a significant impact on the projected funding that could be available to the PCC should these increases become a reality.
- 3.28 Specific Grants, Other Income and Partnership Fees and Charges
These sources of income and funding are forecast to provide between £8.0m and £9.0m across the life of the plan. This is higher than in 2017/18 as it reflects the additional funding that has been awarded to the PCC for work on Violence Against Women and Girls, £164k to be received in 2018/19 and £426k for work on Domestic Violence.
- 3.29 The entire funding therefore expected to be available to the PCC for the next 4 years, in comparison to 2017/18, is as follows:

	Actual	Forecasts			
	2017/18	2018/19	2019/20	2020/21	2021/22
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Government Grant	(83,500)	(83,500)	(83,500)	(85,170)	(86,873)
Council Tax Precept	(32,656)	(34,582)	(36,637)	(37,738)	(38,839)
Council Tax Freeze Grant	(800)	(800)	(800)	(800)	(800)
Council Tax Support Grant	(6,868)	(6,868)	(6,868)	(6,868)	(6,868)
Funding for Net Budget Requirement	(123,824)	(125,750)	(127,805)	(130,576)	(133,380)
%age change in Net Budget Requirement	-0.1%	1.6%	1.6%	2.2%	2.1%
Specific Grants	(4,558)	(4,911)	(4,436)	(5,436)	(4,336)
Witness and Victims Funding	(659)	(1,246)	(820)	(669)	(682)
Partnership Income/Fees and Charges	(2,664)	(2,737)	(2,869)	(2,923)	(2,942)
Total Funding	(131,705)	(134,644)	(135,930)	(139,604)	(141,340)
%age change in Total Funding	-1.2%	2.2%	1.0%	2.7%	1.2%
NBR Forecast - February 2017	(123,824)	(123,244)	(123,081)	(124,918)	(127,430)
Changes to NBR Funding Forecast	0	(2,506)	(4,724)	(5,658)	(5,950)

- 3.30 As a result of the Government Grant settlements being better than expected and the flexibility to increase precept by more than previously forecast, then the funding available to the PCC, at Net Budget Requirement level, is significantly higher than projected in February 2017.
- 3.31 In 2018/19 the PCC is expected to have £2.5m more income than was forecast in February 2017, £4.7m more in 2019/20 and £5.7m more than forecast in 2020/21.
- 3.32 It is important to recognise that the increase in Net Budget Requirement for 2018/19 of 1.6% is one of the lowest in the country despite all PCC's having the same precept flexibility and all PCC receiving the same grant in 2018/19 as they received in 2017/18.
- 3.33 It is expected that the largest increase in Net Budget Requirement, in percentage terms nationally, would be 3.6%.
- 3.34 This 2% difference equates to around £2.5m in income for Cleveland.
- 3.35 In addition to the above the 1.6% increase in Net Budget requirement is lower than current nationally agreed Pay Awards and general inflation which means that the additional funding raised through Precept increases provides only enough to continue current services and no scope to invest in additional services and/or deal with additional demand.
- 3.36 The forecast increase for future years of 1.6% in 2019/20, 2.2% in 2020/21 and 2.1% in 2021/22 will similarly be only just be sufficient to meet pay awards and non-pay inflation and will therefore not provide any scope for additional investment and/or services.

4. Expenditure Plans

4.8 In setting the budget for 2018-19 the PCC will need to make decisions on how the overall funding discussed in Section 3 is allocated. The PCC will need to provide funding/budgets to the areas discussed in the following sections:

4.9 Office of the PCC

The PCC has set a budget of £850k for the last 3 years, which was £350k lower than the budget inherited from the previous Police Authority. It is however not possible to continue to absorb increases in Pay and Pension Contributions and therefore a small increase in the budget for 2018-19 of £10k (or 1.2%) to £860k has been necessary. The impact of both pay inflation and general inflation will make it more difficult each year to maintain the budget at a standstill level and therefore inflationary increased have been added to the LTFP.

4.10 Further details are provided below:

2015/16 Budget	2016/17 Budget	PCC Budget	2017/18 Budget	Movement to 2018/19 Budget	2018/19 Budget
£	£	<u>Category of Spend</u>	£	£	£
585,000	620,000	Staff Pay and Allowances	645,000	35,200	680,200
5,300	5,300	Other Pay and Training	5,100	0	5,100
288,700	261,700	Supplies and Services	238,900	(24,200)	214,700
11,000	11,000	Transport	11,000	(1,000)	10,000
(40,000)	(48,000)	Miscellaneous Income	(50,000)	0	(50,000)
850,000	850,000	Total Budget	850,000	10,000	860,000

4.11 Community Safety and Victims and Witnesses Commissioning

The role and responsibilities of the PCC is wider than Policing and this has been acknowledged with the addition of responsibilities around Community Safety and Victims and Witnesses services.

4.12 The Ministry of Justice have confirmed the level of the Victims and Witnesses Grant for 2018/19, and while the overall amount allocated to PCC's has remained static at £63,150k, the grant is allocated based on population.

4.13 As the population of Cleveland is not growing as quickly as other areas of the country the amount that will be received by the PCC in 2018/19 will be £3,015 (or 0.5%) lower than the amount received in 2017/18, with the total grant being £656k.

4.14 Work continues to develop in this area and the Commissioning of services is becoming more prevalent and work is continuing to move away from a grant based system, with key contracts now in place and/or being developed for:

- Victim Referral Services, now including ASB Victims
- Sexual Assault Referral services
- IDVA and ISVA services
- Restorative Justice services

4.15 Bids for additional external funding by the PCC has been secured and agreed for 2018/19 for the following areas:

- Domestic Violence – Whole Systems approach - £426k
- Violence Against Women and Girls - £164k

4.16 In addition to the above the current plans expect that a recurring budget of circa £2.0m per annum is provided in this area across the life of the plan which is as per 2017/18.

4.17 Beyond these commissioned services the PCC has identified additional funding, of £1.5m, to support the delivery of neighbourhood policing with the specific objective of making our communities safer; helping them to be stronger.

4.18 This funding will continue to be made available to the Chief Constable, as needed, to maintain the additional police officer, PCSO and police staff posts to enhance existing or develop new capabilities across the Force with a particular focus on:

- The 'strengthen' areas of the Force
- Areas of community vulnerability - e.g. hate crime, refugee and asylum seekers
- Supporting schools in 'strengthen' areas of the Force
- Providing coordination and support for virtual communities – e.g. rural/business/students
- Enhancing Integrated Offender Management capability
- Improving the investigation of volume crime, in particular hate crime

4.19 It is expected that all of these new roles will be filled during the 2017/18 financial year.

4.20 The indicative budget for these areas are set out in the table below:

Community Safety/Victims and Witness	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Community Safety Initiatives	986	982	981	996	996
Service Improvement and Development	1,250	1,450	1,500	1,550	1,600
Victims and Witnesses Services	1,009	1,508	1,134	954	954
Total Planned Expenditure	3,245	3,939	3,615	3,500	3,550

4.21 Corporate Services

Corporate Services include the costs of the PFI contracts, strategic contract management, asset management costs, treasury management and planning.

4.22 The areas of expenditure incorporated in this area and the forecasts for the life of the plan are included in the table below:

	Actual	Forecasts			
	2017/18	2018/19	2019/20	2020/21	2021/22
Corporate Services	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Staff Pay	330	465	425	435	445
Non Pay Expenditure	100	95	100	100	100
PFI Action Stations	5,145	5,240	5,325	5,410	5,500
PFI Urlay Nook	1,770	1,820	1,855	1,915	1,945
Asset Management	1,605	1,855	2,150	1,935	1,575
Total Corporate Costs	8,950	9,475	9,855	9,795	9,565

4.23 Over £500k of cashable savings was delivered from this area over the 5 years to 2017/18. This has enabled the PCC to focus resources on front line services with the vast majority of the savings coming from the decision made by the PCC to change the way that Capital is financed within the organisation and also the conscious decision to reduce the amount of debt the organisation has.

4.24 Further savings will be difficult to deliver from this area as the lack of funding means that more borrowing than previously expected will impact on asset management costs while higher inflation will feed through to the PFI contract costs.

5. Police Force

5.1 The vast majority of the funding available to the PCC will be provided to the Chief Constable, this provides the budgetary constraints in which the PCC expects the Force to work within, in delivering against the Police and Crime Plan.

5.2 The PCC tries to provide a stable financial platform for the Force to work to and within, despite the significant level of unknowns around various areas of future funding. The aim of this approach is to support and enable good strategic planning, decision making and ultimately service delivery by the Force. In line with the above approach the table below sets out the indicative funding, and the movements over the last year or so, for the Force to work within when planning both financially and operationally.

Forecast Force Funding	Forecasts				
	2017/18	2018/19	2019/20	2020/21	2021/22
	£000s	£000s	£000s	£000s	£000s
Revised Total - Feb 2016	(119,350)	(118,050)	(118,750)	(120,000)	
Switch of funds for Cloud between Revenue and Capital	(450)	(450)	(450)	(450)	
PCC Funding for Children's Hub Coordinator Post	(35)	(35)	(35)	(35)	
Total - February 2017	(119,835)	(118,535)	(119,235)	(120,485)	(121,905)
Overspend supported in 2016/17 repaid to General Reserves	415	500	500	500	
Additional Funding to Support Higher Pay Awards, Inflation and Cost Pressures		(1,735)	(2,665)	(2,875)	(2,875)
Revised Total - February 2018	0	(119,770)	(121,400)	(122,860)	(124,780)
Increase in Funding versus Forecast in Feb 2017		1,235	2,165	2,375	2,875

5.3 These figures exclude the £1.5m for investment in Neighbourhood Policing, which the PCC will provide to the Force as these costs are incurred and around £150k of costs that the PCC has agreed to fund around Arrest Referral and Restorative Justice but similarly these funds will be provided to the Force as the costs are incurred.

5.4 Details of the Force's plans are provided on a separate report, which is also on today's agenda however a summary of the finances are included below:

Police Force Planned Expenditure	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Pay					
Police Pay	66,740	64,043	65,184	65,987	67,198
Police Overtime	1,375	1,402	1,487	1,567	1,727
Police Community Support Officer Pay	4,255	4,360	4,595	4,720	4,880
Staff Pay	9,755	10,525	11,000	11,320	11,635
Pay Total	82,125	80,330	82,266	83,594	85,440
Major Contracts					
Custody and Medical Contract	2,523	2,466	2,540	2,590	2,640
Outsourcing Contract	17,139	17,900	18,300	17,990	17,990
Major Contracts Total	19,662	20,366	20,840	20,580	20,630
Non-Pay Budgets					
Other Pay and Training	380	756	756	756	756
Injury and Medical Police Pensions	2,435	2,787	2,787	2,787	2,787
Premises	3,620	3,662	3,222	3,245	3,268
Supplies and Services	7,035	7,455	6,910	7,075	7,076
Transport	1,576	1,456	1,456	1,456	1,456
External Support	2,587	2,958	3,163	3,367	3,367
Non-Pay Total	17,633	19,074	18,294	18,686	18,710
Total Planned Force Expenditure	119,420	119,770	121,400	122,860	124,780
%age Change in Expenditure	0.0%	0.3%	1.4%	1.2%	1.6%

5.5 These plans are in line with the overall funding indications provided by the PCC to the Force and therefore enable the PCC to set out a stable, balanced financial plan for the next 4 years, based on the assumptions set out within this report.

5.6 The table in the section below shows the overall financial position and the forecast LTFP based on current assumptions and plans.

6. Overall Financial Summary

6.1 The table below shows the current projected position of the overall finances available to the PCC, however this is based on a significant number of assumptions, including that the Force can contain costs and deliver the level of services required within the financial constraints that were outlined above.

	Actual	Forecasts			
	2017/18	2018/19	2019/20	2020/21	2021/22
Funding	£000s	£000s	£000s	£000s	£000s
Total Funding	(131,705)	(134,644)	(135,930)	(139,604)	(141,340)
%age Change in Funding	-1.2%	2.2%	1.0%	2.7%	1.2%
Office of the PCC Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	850	860	875	890	905
Community Safety/Victims and Witness	£000s	£000s	£000s	£000s	£000s
Community Safety Initiatives	986	982	981	996	996
Service Improvement and Development	1,250	1,450	1,500	1,550	1,600
Victims and Witnesses Services	1,009	1,508	1,134	954	954
Total Planned Expenditure	3,245	3,939	3,615	3,500	3,550
Corporate Services	£000s	£000s	£000s	£000s	£000s
Staff Pay	330	465	425	435	445
Non Pay Expenditure	100	95	100	100	100
PFI Action Stations	5,145	5,240	5,325	5,410	5,500
PFI Uraly Nook	1,770	1,820	1,855	1,915	1,945
Asset Management	1,605	1,855	2,150	1,935	1,575
Total Corporate Costs	8,950	9,475	9,855	9,795	9,565
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay					
Police Pay	66,740	64,043	65,184	65,987	67,198
Police Overtime	1,375	1,402	1,487	1,567	1,727
Police Community Support Officer Pay	4,255	4,360	4,595	4,720	4,880
Staff Pay	9,755	10,525	11,000	11,320	11,635
Pay Total	82,125	80,330	82,266	83,594	85,440
Major Contracts					
Major Contracts Total	19,662	20,366	20,840	20,580	20,630
Non-Pay Total	17,633	19,074	18,294	18,686	18,710
Total Planned Force Expenditure	119,420	119,770	121,400	122,860	124,780
%age Change in Expenditure	0.0%	0.3%	1.4%	1.2%	1.6%
(Surplus)/ Deficit	£000s	£000s	£000s	£000s	£000s
	760	(600)	(185)	(2,560)	(2,540)
Planned Transfers to/(from) General Fund	(2,000)	(950)	(850)	0	0
Contribution to Capital Programme	1,165	1,400	885	2,410	2,390
Planned Transfers to/(from) Earmarked Reserves	75	150	150	150	150
Net (Surplus)/Deficit After Reserves	(0)	(0)	0	0	(0)
General Reserves	£000s	£000s	£000s	£000s	£000s
General Fund Balance b/f	8,016	6,016	5,066	4,216	4,216
General Fund Movements	(2,000)	(950)	(850)	0	0
General Fund Balance c/f	6,016	5,066	4,216	4,216	4,216
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,280	1,236	1,226	1,226	1,226
PCSOs	148	147	147	147	147
Police Staff - Police Force	285	318	318	318	318
PCC/Corporate Staff	14	14	14	14	14
Assumptions					
Pay Awards	1.0%	2.0%	2.0%	2.0%	2.0%
Non Pay Inflation	1.6%	2.0%	2.0%	2.0%	2.0%
RPI	3.0%	3.5%	3.0%	3.0%	3.0%
Precept Increases	2.0%	5.6%	5.3%	2.0%	2.0%
Government Grant Movements (Cash Basis)	-1.4%	0.0%	0.0%	2.0%	2.0%

- 6.2 Based on the plans and assumption outlined within this report and some use of reserves, that are discussed later in the report and in more detail in the Robustness of Estimates and Adequacy of Reserves Report, then the organisation can demonstrate a balanced budget for the next 4 years.
- 6.3 It is however vital to keep in mind that there will be challenges to this balanced plan, there are a number of risks that could impact significantly on currently forecasted balanced position and there are undoubtedly many things that the organisation will have to deal with, that are currently unknown. Therefore the constant service for savings and efficiencies will need to continue to provide future flexibility from a financial perspective.
- 6.4 As a result of the financial flexibility that the PCC has been afforded, around Precept, then the organisation is in a stronger financial position than was previously expected however this only enable the organisation to fund the current levels of service. To move beyond this, to deliver more and to address new areas of demand will require changes to service deliver in some areas to then allow resources to be redirected in to those of higher demand/need.

7. Capital Financing and Expenditure

- 7.1 The assets owned by the PCC are a vital platform for the delivery of the Police and Crime Plan, with the overall purpose of the capital plan to provide sufficient funding to renew the asset base of the organisation, informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes, business continuity requirements and invest to save expenditure. Plans have been drawn up and are being developed for capital investment which would aid the organisation in delivering against the Police and Crime Plan.
- 7.2 Significant loans will be taken out during 2017/18 and the current plan is to use the Capital Receipt from the sale of Ladgate Lane to repay these loans. The continued constraints on funding of both Revenue and Capital may however mean that these plans will have to change.
- 7.3 This will be kept under review as part of the LTFP process and decisions made in line with affordability and planning.
- 7.4 Over the next 7 years all of the current loans that the PCC has, excluding those that will be taken out in 2017/18, which underpin the capital expenditure of the organisation, and which total £18.16m and incur interest charges of £767k per annum, will gradually be due for repayment.
- 7.5 These loans will be reviewed prior to expiring and where needed new loans taken out to replace them.
- 7.6 The PCC will have sufficient funds available to support the current plans of the Police Force over the current year and the next 5 years provided that some resources can be provided to the Capital programme from the revenue budget.

7.7 The required contributions to the Capital Plan are factored into the balanced revenue position and therefore the PCC has a fully balanced Capital Plan and Revenue for the next 4 years based on current plans and assumptions.

7.8 It is important to recognise that there is no scope within the current plans for additional schemes that are currently not known about, including investment based on developments at a National Level. It will therefore be important to generate savings elsewhere to be able to invest further otherwise the need/want to invest further in this area will need to be at the expense of current plans.

7.9 The current Capital Plans, which will continue to be subject to review, development and refinement over the coming years, are set out below:

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Future Funding Levels	£000s	£000s	£000s	£000s	£000s	£000s
Earmarked Reserve/Funding b/f	3,924	586	1,468	87	425	1,245
Capital Grant	515	515	515	525	535	545
Contribution to/from Revenue	1,165	1,400	885	2,410	2,390	2,250
Capital Receipts (from Vehicle sales)	100	100	100	100	100	100
Capital Receipts (from Property sales)		2,542	575	3,109	2,988	3,109
New Prudential Borrowing	11,000	3,000		-3,272	-4,000	-4,772
Supported Capital Borrowing	760					
Projected In-year funding Available	13,540	7,556	2,075	2,872	2,014	1,232
Community Safety Hub	11,423	2,956				
IT Replacement programme/Data Centre move	967					
Police Force New Capital Schemes	4,488	3,719	3,455	2,534	1,194	1,500
Total Capital Programme	16,878	6,674	3,455	2,534	1,194	1,500
Earmarked Capital Reserve/Funding c/f	586	1,468	87	425	1,245	977

8. Reserves

8.1 As at the end of 2016/17 the PCC had Usable Reserves of £14.4m. The main reserves currently being held are for the following reasons:

- General Reserves - £8.0m
- Capital Reserves - £3.2m
- Community Safety Initiatives Reserve - £0.6m
- Job Evaluation Reserve - £0.55m

8.2 The expected movements on all reserves held by the PCC will be kept under review in line with the development of the LTFP, current projections are included within the table below:

	Balance	Tranfers	Tranfers	Balance	Tranfers	Tranfers	Balance	Tranfers	Tranfers	Balance	Tranfers	Tranfers	Balance	Tranfers	Tranfers	Balance
	at 31 March	In	Out	at 31 March	In	Out	at 31 March	In	Out	at 31 March	In	Out	at 31 March	In	Out	at 31 March
	2017	2017/18	2017/18	2018	2018/19	2018/19	2019	2019/20	2019/20	2020	2020/21	2020/21	2021	2021/22	2021/22	2022
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Insurance Fund	0			0	(75)		(75)	(75)		(150)	(75)		(225)	(75)		(300)
Direct Revenue Funding of Capital	(3,241)	(1,165)	3,820	(586)	(1,400)	518	(1,468)	(885)	2,266	(87)	(2,410)	2,072	(425)	(2,390)	1,570	(1,245)
Injury Pension Reserve	(320)		320	0			0			0			0			0
PFI Sinking Fund	(138)	(75)		(213)	(75)		(288)	(75)		(363)	(75)		(438)	(75)		(513)
Incentivisation Grant	(271)	(80)	173	(178)	(80)	80	(178)	(80)	80	(178)	(80)	80	(178)	(80)	80	(178)
Urley Nook TTC	(81)			(81)			(81)			(81)			(81)			(81)
NERSOU	(153)			(153)			(153)			(153)			(153)			(153)
Job Evaluation Reserve	(550)			(550)		250	(300)		300	0			0			0
Police Property Act Fund	(43)			(43)			(43)			(43)			(43)			(43)
Community Safety Initiatives Fund	(450)		150	(300)		150	(150)		150	0		0	0		0	0
Road Safety Initiatives Fund	(629)		150	(479)		150	(329)		150	(179)		150	(29)		150	121
Collaboration Reserve	(389)			(389)			(389)			(389)			(389)			(389)
Revenue Grants Unapplied	(137)		137	(0)			(0)			(0)			(0)			(0)
Total Earmarked Reserves	(6,401)	(1,320)	4,750	(2,971)	(1,630)	1,148	(3,453)	(1,115)	2,946	(1,622)	(2,640)	2,302	(1,960)	(2,620)	1,800	(2,780)
General Reserves	(8,015)	0	2,000	(6,015)	0	950	(5,065)	0	850	(4,215)	0	0	(4,215)	0	0	(4,215)
Total Usable Reserves	(14,416)			(8,986)			(8,518)			(5,837)			(6,175)			(6,995)

- 8.3 A full review of adequacy of reserves and the robustness of the assumptions within the LTFP is included within the Robustness of Estimates and Adequacy of Financial Reserves Report that is also on today's agenda.
- 8.4 Included within that report is also a Reserves Strategy so that the PCC meets the new requirement from the Home Office to 'publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document.'

9. Risks

- 9.1 The major risks and unknowns surrounding the figures presented here and discussed further in the Robustness of Estimates and Adequacy of Financial Reserves report, are:
- Pay Awards are higher than the assumptions within the plan
 - Any differences between the future years' actual Government Grant settlements, including Legacy Council Tax Grant and the estimated figures.
 - Variations in future years between the estimated tax base used and the actual declared tax base.
 - That the public does not support the precept increases that are factored into the current plans
 - Increasing costs of the employers Pension Contribution into the Police Pension Fund.
 - Increasing costs of the employers Pension Contributions into the Local Government Pension Scheme when the scheme is actuarially reviewed in 2 years' time.
 - Sensitivity of assumptions, including inflation and borrowing costs.
 - The ability of the Force to manage within its allocated budget
 - The ability and capacity to either absorb growth/cost pressures and/or deliver savings to enable expenditure in essential areas to continue.
 - Ability to deliver the savings included within the plans within the timeframes set and also to the level needed whilst delivering the required levels of service.

**Report to the
Scrutiny, Delivery and
Performance Meeting
28th February 2018**



Cleveland Police Long Term Financial Plan (LTFP) 2018/19 to 2021/22

Status: For Approval

Purpose of the Report

The purpose of the Long Term Financial Plan (LTFP) is to demonstrate the Force's operational plan is affordable, financial stability can be maintained, and funding is targeted to those activities that best make our communities safer and stronger.

Accordingly, this report sets out the revenue and capital spending plans that underpin delivery of the Force's Towards 2020 strategy.

It should be read in conjunction with the following reports prepared by the Police & Crime Commissioner's (PCC) Chief Financial Officer:

- Long Term Financial Plan 2018/19 to 2021/22 and Capital Plans 2018/19 to 2021/22
- Robustness of Estimates and Adequacy of Financial Reserves

Recommendation

The PCC is requested to approve the revenue and capital budget proposal for 2018/19 and the Long Term Financial Plan (LTFP) for 2019/20 – 2021/22.

Force Financial Strategy

A stable financial position is a key enabler for the Force to help our communities become safer and stronger. The Long Term Financial Plan (LTFP) demonstrates our operational plan is affordable and supports longer term planning for sustainable service delivery.

In a time of ongoing austerity our financial strategy was to maintain financial stability and protect service provision through identifying sufficient savings to secure a rolling two year balanced position in order to:

- Provide a high degree of certainty to operational commanders about the resources at their disposal in the short to medium term
- Provide time and space to work up considered savings plans for the more challenging future years.

Following the grant settlement in December 2017, although the financial pressures have eased, the Force will continue to review expenditure plans for future years so that funding can be redirected to areas of highest need to ensure that the outcomes from available funding are optimised.

Towards 2020

The Force has a clear strategic direction that is set out in the Towards 2020 document. This clearly sets out the future shape of the organisation as being the development of cost effective:

- Local Policing
- Enabling Services
- Collaboration

Towards 2020 is operationalised by the following delivery plans:

- People Plan
- Workforce Plan

These plans are underpinned by this Long Term Financial Plan.

A key priority for the Force has been the development of a sustainable service model that can effectively respond to threat, harm and risk and bring about safer and stronger communities.

This reshaping has been aligned to our Strategic Threat & Risk Assessment (STRA) and demand profile (including alternative approaches to dealing with or reducing demand) which directs focus into those areas of policing that require emphasis.

A number of significant work streams to develop the Towards 2020 operating model have been delivered during 2016/17 and into 2017/18. These include:

- Implementation of the Local Policing reviews
- Implementation of the Strategic Intent proposals
- Implementation of the major and volume crime functions
- A collaborated major investigation function with North Yorkshire
- Extension of the collaborated police dogs service to include North Yorkshire
- Further development of North East Regional Special Operations Unit
- Implementation of the Deep Dive Rapid Improvement Plans
- The rationalisation of Management Structures
- Implementation of Workforce Modernisation
- Targeted reductions in non-pay expenditure
- Development of a 3 Force Legal Service

These reforms have been necessary to deliver the grant cuts already suffered from CSRs 2010 and 2013 and have enabled the Force to review its future savings requirements. Robust financial management will have to continue to allow the Force time and space to re-evaluate new and changing demand and ensure that scarce resources are used to their best endeavours. These will include development of further collaborative opportunities through Evolve, North East Transformation, Innovation and Collaboration Programme (NETIC) and with Cleveland Fire Brigade.

REVENUE

Summary Position 2018/19 – 2021/22

The summary position is set out in the table below.

Income & Expenditure	2018/19	2019/20	2020/21	2021/22
	£000's	£000's	£000's	£000's
Funding Allocation from PCC	(119,770)	(121,400)	(122,860)	(124,780)
Police Pay & Allowances Total	65,445	66,671	67,554	68,925
PCSO Pay & Allowances Total	14,885	15,595	16,040	16,515
Pay & Allowances Total	80,330	82,266	83,594	85,440
Non Pay Expenditure Total	39,440	39,134	39,266	39,340

Total Planned Expenditure	119,770	121,400	122,860	124,780
Planned Surplus/(Deficit)	0	0	0	0

	2017/18	2018/1	2019/2	2020/2	2100/2
Funded Establishment	2017/18	9	0	1	2
Core Funded Police Officers	1,274	1,230	1,220	1,220	1,220
OPCC Neighbourhood Investment Police Officers	6	6	6	6	6
Total Police Officer Establishment	1,280	1,236	1,226	1,226	1,226
Core Funded PCSO's	132	132	132	132	132
OPCC Neighbourhood Investment PCSO's	16	15	15	15	15
Total PCSO Establishment	148	147	147	147	147
Core Funded Police Staff	285	287	287	287	287
OPCC Neighbourhood Investment Police Staff	21	22	22	22	22
Total Police Staff Establishment	306	309	309	309	309
Total Establishment	1,734	1,692	1,682	1,682	1,682

Following CSR 2015 and the 'protection' of police service funding, the Force has worked with the PCC to agree a level of funding that will sustain the Towards 2020 operating model over the lifetime of the plan.

Consequently, the Force is projecting a break-even position for each year of the plan. However, the financial plan is dependent upon continued robust financial management ensuring that all new initiatives and mandated changes can be absorbed within the given funding.

A more detailed analysis is set out at Appendix A

Allocated Funding

The national and local funding positions are set out in the PCC's Chief Financial Officer's report 'The 2018/19 Precept Proposal'.

The headlines within the settlement provided the OPCC with the flexibility to increase Precept above the 1.99% cap. PCC's can now increase the level of Band D Police Precept by up to £1 per month in 2018-19. It also provided PCC's with a flat cash grant settlement meaning that the PCC will receive the same cash grant in 2018/19 as they did in 2017/18.

Finally the settlement also updated assumptions around the tax base growth increase raising it to 1.34% in England. Taking all of these factors into consideration and using the Government's measure of inflation (GDP) at 1.5% the resulting settlement represents a "real terms" increase for all Forces from 2017/18 to 2018/19.

The settlement also referred to funding for 2019/20 stating that the Government's intention is to maintain a broadly flat Government Grant settlement with the same precept flexibility although they did state that this would be dependent on progress made against a number of efficiency milestones to be agreed in the early part of 2018.

It should be noted that the police settlement has not been adjusted to take in to account a new funding allocation formula which was due to be implemented during 2018/19. This has been delayed until the next CSR due in 2020. We did not include either a positive or negative financial impact on our future funding assumptions in regards to the funding formula and as such this delay has not impacted on our overall financial position.

The impact of the above has resulted in a better than expected Government Grant allocation, and coupled with the flexibility to increase precept income, has resulted in an increase in funding to the PCC in 2018/19 when compared with the forecasted February 2017 position.

In terms of Net Budget Requirement the PCC is expected to have £2.5m more income in 2018/19 than was anticipated in February 2017, £4.7m more in 2019/20 and £5.7m more than forecast in 2020/21.

Whilst these increases may seem significant it is also important to recognise that in percentage terms the Net Budget Requirement is expected to increase over the next 4 years by :

- 2018/19 1.6%
- 2019/20 1.6%
- 2020/21 2.2%
- 2021/22 2.2%

These increases should be seen in the context of unavoidable increases in expenditure such as pay inflation rising by at least 2% per annum and current inflation in the wider economy running at 3.0% (CPI) and 4.1% (RPI).

Taking these factors into consideration the increase in income will therefore only allow the Force to continue to fund the current level of service delivery. There will be no additional funds to increase the scope of the services currently being provided. It has however enabled the PCC to provide a stable financial platform over the lifetime of the LTFP.

Pay Budgets

The paybill is the largest single element of the overall cost base at 67% of the budget¹. It should be recognised that there is no right or wrong workforce size or mix. Through its programme of review over the last three years, the Force has continued to reshape the workforce to deliver an effective blend of skill sets and experience to meet an ever-changing demand profile.

Pay budgets have been set on the Towards 2020 operating model as it currently stands. It should be noted that further changes to the workforce over the next 12 months with the implementation of the management structures review will be undertaken and further collaborative opportunities will be explored so the overall numbers could flex based on future developments.

Points to note are:

- Pay awards have been assumed at 2% per annum from September 2018. This is due to the pay cap of 1% being lifted by the Government in September 2017 and has cost implications of approximately £1.1m per annum.
- Provision has also been made for the Apprenticeship levy which commenced in 2017/18. This will cost the Force approximately £300-350k per annum.
- It is assumed that recruitment plans will maintain the workforce numbers at the planned levels.

Police Officers

¹ Note: In 2010/11 the force entered a strategic partnership with Steria UK and 470 police staff posts were TUPE transferred, consequently the paybill represents a smaller proportion of overall expenditure than in other Forces.

Funding in this plan provides for 1,230 FTE officers during 2018/19 reducing to 1,220 FTE for the remainder of the plan. This is consistent with the numbers currently planned for in the Towards 2020 model and funded secondments. The PCC holds funding for an additional 6 FTE roles that have been agreed to enhance neighbourhood policing. This funding will be drawn down immediately as all 6 officers are already in post. This brings the overall establishment for police officers to 1,236 FTE during 2018/19 reducing to 1,226 FTE for the remainder of the plan.

Provision of £640k per annum has been made for 8 medical retirements in each year of the plan. Medical retirements have been occurring at approximately 8-10 per annum so this may prove to be insufficient. However, each retirement incurs a one-off payment of twice the average pensionable salary of the individual (approximately £80k) to the pension fund. Consequently, providing for more retirements would have a significant impact on any savings that would have to be made.

Police Community Support Officers (PCSOs)

Funding has been provided for 132 FTE PCSOs over the lifetime of the plan. This is consistent with the numbers currently planned for in the Towards 2020 model. The PCC holds funding for an additional 15 FTE roles that have been agreed to enhance neighbourhood policing. This funding will be drawn down immediately as all 15 PCSOs are already in post. It brings the establishment for PCSOs to 147 FTE.

Police Staff

Funding has been provided for:

- 256 FTE Core Police Staff roles
- 31 FTE Collaborative Unit Core Police Staff roles

Separate funding is received for the Arrest Referral team, Restorative Justice co-ordinator and two Domestic Abuse Officers.

The PCC holds funding for an additional 22 FTE roles that have been agreed to enhance neighbourhood policing. This funding will be called down immediately as all of the roles will have been filled by the start of the 2018/19 financial year. This brings the establishment for staff to 309 FTE.

Pension Schemes

Police Officer Scheme

It should be noted that the pensions discount rate used to calculate employer's contributions for public sector pensions has changed from 3.0% to 2.8%. This was expected to impact on employer's contribution rates payable towards the Police Officer pension scheme from 2019/20. However, this pressure has been removed from the LTFP at this time as it is anticipated that the extra costs will not fall on individual Forces to absorb.

Police Staff (including PCSOs) Pension Scheme

The triennial revaluation of the Local Government Pension Scheme (LGPS) which took place in March 2017 has forecast a shortfall of £1.3m. This will be made good by an increase in the employers' contribution rate of 1% per annum, rising from 13.6% in 2017/18 to 15.6% by 2019/20.

The impact of this in 2018/19 is £115k rising to £235k in 2019/20. This includes the impact of the revised rates on the Sopra Steria charge.

Non Pay Budgets

An overall inflation uplift of 2.0% has been provided each year. This will be allocated to specific budget heads in accordance with need e.g. business rates; contractual uplifts etc and has been costed at £856k in 2018/19.

All non-pay budgets have been reviewed and adjusted in respect of savings or unavoidable pressures.

The revenue consequences of the capital schemes are also factored into the budget.

Significant Pressures within the LTFP

Although the PCC has provided a stable financial platform, the impact of unavoidable cost pressures means that all expenditure will have to be scrutinised and only approved if it fits within the overall plan. The plan provides for the following significant pressures:

- Contracted Out National Insurance £1,600k from 2016/17
- Apprenticeship Levy £350k from 2017/18
- Provision for medical retirements £640k from 2018/19
- Increase in LGPS employers contributions £115k from 2018/19
- Increase in insurance premiums £200K from 2018/19
- Collaboration: NETIC £72K from 2018/19

These pressures are an unavoidable increase in our cost base of £3.0m over a four year period and are in addition to the increase in both pay and non-pay inflationary costs.

Savings Programme

In order to offset the significant pressures above the Force continues to review its Non-pay budgets and has identified the following savings which are incorporated in the LTFP:-

- Custody Contact Savings £540K from 2018/19
- Other Non-pay savings £175K from 2018/19

The additional funding provided by the PCC over the next four years and the savings identified within the LTFP has enabled the Force to absorb the increases in its cost base ie: pay inflation, general inflation and the extra pressures listed above and provide a balanced LTFP.

The increase in funding can be quantified as:-

- extra 0.88% flat cash settlement from the Government (£800k)
- the increase from a 1.99% rise in precept to a £1 per month increase on Band D equivalent properties will rise (£1.2m).

This increase in funding of £2m has in effect allowed the Force to produce a "standstill" budget. The extra funding has only served to address the inflationary pressures within the LTFP ie: Pay inflation £1.1m and Non-pay inflation of £856K.

The balanced LTFP has also been possible due to the major re-working of the Force's operating model throughout 2016-2018 which has already been discussed earlier in the report.

This means that the development of new initiatives as an example; to manage future changes in demand, collaborative networking for specialist capabilities and increasing the effectiveness of local collaboration to strengthen our most disadvantaged communities, will need to be delivered within the context of a balanced LTFP and be delivered at no additional cost; or be reliant upon the creation of savings to enable investment. These assumptions are being taken forward by the NETIC 7 Force Collaboration and will be used as a base for all known collaborative strategies.

CAPITAL

Operational assets are a vital platform for the delivery of effective policing services. The proposals put forward in the capital plan are those necessary to refresh and enhance the asset base and are set out in Appendix B and summarised in the table below.

Capital Plan 2018/19 - 2021/22				
	2018/19	2019/20	2020/21	2021/22
	£000's	£000's	£000's	£000's
Facilities Schemes	3,105	80	40	40
Equipment Replacement	385	275	125	25
ICT Schemes	2,667	2,563	1,765	190
Fleet Replacement	517	537	604	939
TOTAL CAPITAL SCHEMES	6,674	3,455	2,534	1,194

The proposals are informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes and mandatory requirements. The revenue consequences of the capital proposals are factored into the revenue budgets.

Facilities Schemes

The strategic goal for police estate is to create an effective and efficient estate that reduces cost and environmental impact and facilitates flexible working. The Estates Blueprint sets out a clear plan to drive better performance from our estate, accelerate savings, facilitate collaborative working and deliver capital receipts. It is currently being refreshed as the Ladgate Lane decommissioning plan and the Wellbeing Agenda are being finalised.

The main focus of the facilities programme for 2018/19 is delivery of the Cleveland Community Safety Hub which will become operational during the summer of 2018.

Equipment Replacement

A significant effort has been put into ensuring the completeness of both revenue and capital rolling equipment replacement programmes to:

- Ensure that funding is available when necessary
- Avoid spikes in expenditure by smoothing the replacement profile
- Inform the procurement plan to ensure timely ordering & receipt of equipment
- To inform prioritisation and decision making

ICT Schemes

The ICT programme comprises refresh, upgrade and development schemes. The plan incorporates all known ICT requirements but there are several large scale ICT work streams that are Home Office led and are scheduled to come on line over the next 4 years that are currently unquantified. These schemes include the digitisation agenda, big data and automation/artificial intelligence. These schemes are not included in the capital plan at this time but will have to be revisited over the lifetime of the LTFP.

Fleet Replacement

The Cleveland Fleet is made up of approximately 330 vehicles. The capital replacement plan is set out in the table below.

Fleet Replacement				
	2018/19	2019/20	2020/21	2021/22
Number of Vehicle's to be Replaced	14	22	26	38

The strategic goal for the fleet is to deliver an effective and efficient fleet that matches vehicle provision to operational demands, minimises cost and environmental impact and facilitates flexible working.

Implications

Finance

There are no financial implications other than those mentioned above.

Diversity & Equality

There are no diversity or equality issues arising from this report.

Human Rights Act

There are no Human Rights Act implications arising from this report.

Sustainability

This report is part of the process to establish sustainable annual and long term financial plans to underpin sustainable service delivery and maintain prudent financial management.

Risk

A risk assessment of the financial proposals is set out under Appendix C.

Conclusion

Although many items will change over the next four years, the assumptions in this LTFP, collectively provide for a stable financial position for the Force and, therefore, provides assurance that the strategic plan Towards 2020 and our core priorities of prevention, protection and intervention are both affordable and achievable.

Simon Nickless
Temporary Chief Constable
28th February 2018

APPENDIX A

	2018/19	2019/20	2020/21	2021/22
	£000's	£000's	£000's	£000's
Pay & Allowances				
Police Pay & Allowances				
Police Pay & Allowances	64,043	65,184	65,987	67,198
Police Overtime	1,402	1,487	1,567	1,727
Police Pay & Allowances Total	65,445	66,671	67,554	68,925
Staff Pay & Allowances				
Staff Pay & Allowances	10,466	10,941	11,261	11,576
Staff Overtime	59	59	59	59
Staff Pay & Allowances Total	10,525	11,000	11,320	11,635
PCSO Pay & Allowances				
PCSO Pay & Allowances	4,355	4,590	4,715	4,875
PCSO Overtime	5	5	5	5
PCSO Pay & Allowances Total	4,360	4,595	4,720	4,880
Pay & Allowances Total	80,330	82,266	83,594	85,440
Non Pay Expenditure				
Non Pay Expenditure				
Sterial Charges	17,900	18,300	17,990	17,990
Premises	3,662	3,222	3,245	3,268
Custody	2,466	2,540	2,590	2,640
Police Pensions	2,787	2,787	2,787	2,787
Transport	1,456	1,456	1,456	1,456
External Support	1,770	1,975	2,179	2,179
Insurance	1,189	1,189	1,189	1,189
Change & Contingency	1,005	368	533	534
Communications	839	839	839	839
National IT Charges	836	836	836	836
Computing	823	811	811	811
Forensics	817	817	817	817
Professional Fees	752	752	752	752
External Training Seminars etc	722	722	722	722
Other Equipment & Furniture	716	868	868	868
Other	180	131	131	131
National Police Air Service	352	352	352	352
Maintenance Agreements	349	349	349	349
Uniform	301	301	301	301
Surgeons & Medical Costs	286	286	286	286
Office Equipment & Expenses	199	199	199	199
Redundancy Costs	25	25	25	25
Agency Staff Costs	10	10	10	10
Non Pay Expenditure Total	39,440	39,134	39,266	39,340
Grand Total	119,770	121,400	122,860	124,780

Appendix B	Capital Plan 2018/19 - 2021/22			
	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £000's
Facilities				
CCSH	2,955	0	0	0
Billingham Rewire	40	40	0	0
Stockton Replacement Windows	25	0	0	0
Stockton Rewire	40	40	40	40
LDC	45	0	0	0
Total Facilities Schemes	3,105	80	40	40
Equipment Refresh				
Occupational Health Case Mgt System	40	0	0	0
X Ray Machine	20	0	0	0
Body Worn Video	100	0	0	0
Taser	75	25	25	0
NERSOU TSU	25	25	25	25
ANPR	25	225	25	0
Locard Replacement	100	0	0	0
Evolve Legal Case Management System	0	0	50	0
Total Equipment Refresh	385	275	125	25
ICT				
VM Ware	50	0	0	0
Desktop Replacement	113	103	10	10
Microsoft Licensing Roadmap	150	800	0	0
Mobile Application Development	180	180	180	180
CoreVet	40	0	0	0
Livelinks	20	0	0	0
Thin Client Improvement	50	0	0	0
Oracle DMS & Self Service	0	250	0	0
Digital Interview Recording Solution	500	0	0	0
Networked CCTV Solution	150	0	0	0
Cyber Security Improvements	60	0	0	0
National ICT Enablement	50	0	0	0
ICCS	285	0	0	0
Backup Infrastructure Expansion Shelf	30	100	0	0
Note 2 Device Replacement	550	115	110	0
Windows Server Upgrade	25	0	0	0
Control Room Solutions Improvements	50	0	0	0
ACESO Replacement	103	0	0	0
Web Based Mapping/Gazatter Service	25	0	0	0
Exchange Upgrade	100	0	0	0
ESN	50	1,000	1,215	0
Automated PDR	46	0	0	0
Investigative Analytical Software	40	0	0	0
Sharepoint Upgrade	0	15	0	0
Blade Architecture	0	0	250	0
Total ICT Schemes	2,667	2,563	1,765	190
Fleet Replacement				
Fleet Replacement Scheme	517	537	604	939
Total Fleet Replacement	517	537	604	939
Total Capital Schemes	6,674	3,455	2,534	1,194

Appendix C

LTFP 2018/19 to 2021/22 – Assessment of Risks

Risk	Detail	Mitigation
Changes to the future funding formulas for Police Forces.	<p>The Policing Minister is committed to reforming the police funding formula and will bring forward proposals for public consultation.</p> <p>The current assumptions do not factor in any adverse impact as a result of a revised formula.</p> <p>Based on what is currently known of the proposals, this is a prudent assumption, however, it does present a potential risk.</p> <p>Current indications are that no changes will be made before the next CSR which is due in 2020.</p>	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Future year's funding is lower than forecast.	The police settlement was for a one year period although some detail has been provided for 2019/20 should certain efficiency milestones be achieved.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Pay awards are higher than those assumed in the LTFP.	<p>The LTFP assumes that pay will rise by 2% from September 2018.</p> <p>A movement of 1% would have an impact on pay and contracts of approximately £1.1m over a full financial year.</p>	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
The cost of Job Evaluation is in excess of the budget and earmarked reserve.	An earmarked reserve has been set up to cover the cost of implementation.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.

<p>A higher than forecast level of costly major incidents.</p>	<p>The number and cost of major incidents in any one year is unpredictable.</p>	<p>There is sufficient flexibility in the plan to absorb some additional costs depending on the magnitude and the time of year the issue becomes known.</p> <p>The CNY Joint MIT has introduced additional resilience into the system.</p> <p>The PCC may absorb any additional costs in total or part through the use of reserves or other income.</p>
<p>The continued acceleration of Police Officer and PCSO leavers above the planned profile outstripping our ability to recruit.</p>	<p>Pay budgets have been set based on assumptions in respect of officers and staff leaving and additional recruits being brought in. Should the number of leavers outstrip our ability to recruit this could result in capacity gaps and generate a material underspending.</p>	<p>Should a capacity gap emerge, service levels will be delivered through targeted overtime and the continued employment of police staff investigators along with a further recruitment of transferee Police Officers.</p>
<p>National mandation.</p>	<p>In recent years there has been national mandation of systems e.g. Pentip, resulting in unplanned costs to the Force.</p>	<p>There is sufficient flexibility in the plan to absorb some additional costs depending on the magnitude and the time of year the issue becomes known.</p> <p>The PCC may absorb any additional costs in total or part through the use of reserves or other income.</p>
<p>Police Pension scheme 2015.</p>	<p>Test case on new pension with risk due to Gender/Race inequality.</p>	<p>Cleveland has contributed to the NPCC legal defence of this case. Cleveland has at present 48 claims from Police Officers. This case is not likely to be heard until 2018.</p>

Employment Tribunals	An earmarked reserve has been set up to cover the cost of implementation.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Allard V the Chief Constable of Cornwall	A recent court determination in the case of Allard v the Chief Constable of Cornwall in respect of historic on-call payments for specific staff groups has the potential to create a significant financial pressure for forces nationally.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.



Report of the Chief Financial Officer for the Police and Crime Commissioner (PCC) to the PCC 28th February 2018

Status: For Decision

Treasury Management and Prudential Indicators 2018/22

1. Purpose

To comply with the CIPFA Prudential Code of Practice, the PCC is required to set a range of Prudential Indicators for the financial year 2018/19. The code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy for 2018/19. The content of this report addresses this requirement.

2. Recommendations

The PCC is asked to:

- 2.1 Approve the Prudential Indicators, set out in 3.5, 3.6 and 3.7.
- 2.2 Approve the Annual Investment Strategy set out at Appendix A.
- 2.3 Approve the Treasury Management Policy in Appendix C.
- 2.4 Note that future investments will be placed in line with the strategy in Appendix A.

3.1 Prudential Indicators

The Prudential Code requires authorities (including the PCC) to self regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans, by setting estimates and limits, and by publishing actuals, for a range of Prudential Indicators. It also requires them to ensure their Treasury Management Practices are in accordance with good practice.

- 3.2 The Code imposes on authorities clear governance procedures for setting and revising of Prudential Indicators, and describes the matters to which an authority will have regard when doing so. This is designed to deliver accountability in taking capital financing, borrowing and Treasury Management decisions. A fundamental provision of the Prudential Code is that over the medium term net borrowing will only be for a capital purpose.

- 3.3 Under the Code, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the code. Under the code The PCC are required to set a range of Prudential Indicators for the financial year 2018/19.

- 3.4 The code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy.

3.5 Affordability

The following indicators are required to assess the affordability of the capital investment plans. They provide an indication of the impact of the capital investment plans on overall PCC finances. The PCC is requested to approve the following:

- 3.5.1 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital against the net budgetary requirement.

In 2018/19 the actual cost in this area is expected to be £6,298k; however of this, £4,511k is attributable to our PFI's (£3,006k of interest charges and £1,505k of MRP). These PFI charges are essentially covered by separate PFI Grants totalling £4,106k.

Financing Costs to Net Revenue Streams	2017/18	2018/19	2019/20	2020/21	2021/22
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Minimum Revenue Provision (MRP)	1,958	2,272	2,607	2,197	2,365
Interest Payable on Borrowing	3,851	4,071	4,001	3,489	3,209
Interest Receivable	(27)	(45)	(50)	(50)	(50)
Financing Costs	5,782	6,298	6,557	5,636	5,524
Net Revenue Stream	123,824	125,751	127,805	130,576	133,380
Ratio %	4.7%	5.0%	5.1%	4.3%	4.1%

Given that funding for PFI's is dealt with by a separate specific grant then the underlying level of funding that will be set aside to service borrowing (excluding PFI's) in 2018/19 will be £1,767k or 1.4% of our Net Revenue Stream, as per the table below:

Financing Costs to Net Revenue Streams (Excluding PFI)	2017/18	2018/19	2019/20	2020/21	2021/22
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Minimum Revenue Provision (MRP)	736	767	1,023	1,000	894
Interest Payable on Borrowing	719	1,044	954	832	593
Interest Receivable	(27)	(45)	(50)	(50)	(50)
Financing Costs	1,428	1,767	1,928	1,783	1,436
Net Revenue Stream	123,824	125,751	127,805	130,576	133,380
Ratio %	1.2%	1.4%	1.5%	1.4%	1.1%

3.5.2 *Incremental Impact of Capital Investment Decisions on Band D Council Tax*

This indicator shows the incremental impact of the additional capital expenditure that is planned in the current programme on the Band D council tax.

Council Tax	2017/18	2018/19	2019/20	2020/21	2021/22
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£000	£000
Band D Impact	0.00	6.49	3.02	(1.06)	(2.52)
Band D increase year on year	4.18	12.00	12.00	4.75	4.84
%age of precept increase funding capital costs	0.1%	54.1%	25.2%	-22.3%	-52.1%

The PCC has approved a £12 increase in the Band D Precept for 2018/19. Of this increase 54% will be funding increases over the amount of funding that was set aside for Capital Purposes in 2017/18. The main reason for the increase relates to the timing of the need to borrow to fund the Community Safety Hub. It is worth keeping in mind that over the last 5 years significant savings have been made from the amount that has been set aside to facilitate the debt of the organisation. If the organisation delivers on its current plans then this current increase will be mitigated as the remaining Capital receipts from the sale of Ladgate Lane are received and the amount required to be set aside for debt repayments will return to 2017/18 levels by 2021/22.

3.6 Prudence

The table below summarises the Capital Programme that is also for approval, plus amendments for PFI expenditure as dictated by International Accounting Standards.

Capital Expenditure	2017/18	2018/19	2019/20	2020/21	2021/22
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Capital Expenditure	16,878	6,674	3,455	2,534	1,194
PFI Capital Expenditure	483	270	355	1,102	904
Total Capital Expenditure	17,361	6,944	3,810	3,636	2,098
Funded By:					
Gross Borrowing	11,760	3,000	0	0	0
PFI Borrowing	0	0	0	0	0
Other Capital Resources	5,601	3,944	3,810	3,636	2,098
%age of Expenditure funded by Borrowing	67.7%	43.2%	0.0%	0.0%	0.0%

The level of borrowing needed to maintain the current plans of the organisation has reduced by around £10m over the last 5 years as we rationalised this area, reduced the level of the budget that would need to be set aside to fund this debt, used the cash received from the sale of parts of the Ladgate Lane land sale and ran cash balances down to as low a level as possible.

The level of loans will however increase significantly in 2017/18 and further again in 2018/19 as the build of the new Community Safety Hub (CSH) is financed in advance of the receipt of the remainder of the capital receipts from the sale of the Ladgate Lane site and to enable continued investment in other capital schemes. The CSH will ultimately be funded fully from Capital Receipts and it is important that the level of loans within the organisation is returned to this lower level as the LTFP progresses.

3.6.1 The PCC's Borrowing Need (The Capital Financing Requirement)

The Capital Financing Requirement (CFR) measures the PCC's underlying need to borrow for Capital purposes and ensures that borrowing is only undertaken to fund capital assets and not support revenue expenditure.

The PCC is asked to approve the following CFR projections:

Capital Financing Requirement	2017/18	2018/19	2019/20	2020/21	2021/22
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Opening Capital Financing Requirement	17,631	17,796	17,194	16,617	12,953
Supported Borrowing	760	0	0	0	0
MRP on Supported Borrowing	(595)	(602)	(578)	(3,663)	(3,396)
Closing Capital Financing Requirement	17,796	17,194	16,617	12,953	9,558
Unsupported borrowing to fund Capital Expenditure	20,546	23,546	23,546	23,546	23,546
PFI Borrowing	34,978	34,978	34,978	34,978	34,978
Total CFR Base on which MRP is calculated	73,320	75,718	75,141	71,477	68,082
MRP on Unsupported Borrowing	(4,862)	(5,027)	(5,473)	(5,919)	(6,365)
MRP on PFI	(10,236)	(11,741)	(13,324)	(14,521)	(15,992)
Total CFR Base for borrowing purposes	58,222	58,950	56,344	51,037	45,725

The Gross Borrowing requirement detailed in the table in 3.6 above increases the CFR. The PCC is required to make a statutory charge to revenue for the repayment of supported debt (the Minimum Revenue Provision) and this reduces the CFR.

3.6.2 Limits to Borrowing Activity

Within the Prudential indicators there are a number of indicators to ensure that the PCC operates its activities within well defined limits.

For the first of these the PCC needs to ensure that its total borrowing net of any investments does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, to take advantage of market opportunities and to build in budget uncertainty.

Net Borrowing and the Capital Financing Requirement (CFR)	2017/18	2018/19	2019/20	2020/21	2021/22
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Borrowing	28,936	31,064	28,292	25,020	21,020
PFI Borrowing	24,742	23,237	21,654	20,457	18,986
Investments	0	0	(3,000)	(3,000)	(3,000)
Net Borrowing	53,678	54,301	46,946	42,477	37,006
Total CFR Base for borrowing purposes	58,222	58,950	56,344	51,037	45,725

The projected forecasts detailed in the table above show that there is still some margin between the Net Borrowing and the CFR and therefore the PCC will be well within the limits required.

3.6.3 A further two prudential indicators control or anticipate the overall level of borrowing. These are:

- The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by the PCC, borrowing beyond this limit would be ultra vires. The provision for temporary borrowing allows for any additional potential borrowing that might result from the cash flow timings involved in the sale of Ladgate and subsequent build of the Community Safety Hub.
- The **Operational Boundary** which is based on the probable external debt during the course of the year. It includes scope for borrowing for revenue purposes that may be required in the short term during the year, if for instance a large grant payment was delayed.

The PCC is asked to approve the following limits:

Authorised Limit for External Debt	2017/18	2018/19	2019/20	2020/21	2021/22
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Borrowing	28,936	31,064	28,292	25,020	21,020
PFI Borrowing	24,742	23,237	21,654	20,457	18,986
Provision for Temporary Borrowing	7,000	7,000	7,000	7,000	7,000
	60,678	61,301	56,946	52,477	47,006
Operational Boundary for External Debt	2017/18	2018/19	2019/20	2020/21	2021/22
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Borrowing	28,936	31,064	28,292	25,020	21,020
PFI Borrowing	24,742	23,237	21,654	20,457	18,986
Provision for Temporary Borrowing	5,000	5,000	5,000	5,000	5,000
	58,678	59,301	54,946	50,477	45,006

3.7 Treasury Management Indicators

The purpose of these is to contain the activity of the Treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing

decisions impacting negatively on the PCC's overall financial position. The PCC is asked to approve the indicators below:

3.7.1 Upper Limits on Borrowing

This indicator identifies a maximum level of borrowing that can be made at Fixed and Variable interest rates.

Borrowing	2017/18	2018/19	2019/20	2020/21	2021/22
	Estimate	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100	100	100
Upper Limit of Variable Rate Exposures	25	25	25	25	25

This means 75%-100% of our borrowing will be at rates fixed until the loan is repayable, while no more than 25% will be at variable rates so liable to change at short notice.

3.7.2 Upper Limits on Investments

This indicator identifies a maximum level of investments that can be made at Fixed and Variable interest rates.

Investments	2017/18	2018/19	2019/20	2020/21	2021/22
	Estimate	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100	100	100
Upper Limit of Variable Rate Exposures	20	20	20	20	20

This means 80%-100% of our investments will be at rates fixed until the investment matures, while no more than 20% will be at variable rates so liable to change at short notice.

3.7.3 Maturity Structure of Debt

These gross limits are set to reduce the PCC's exposure to large fixed rate sums falling due for re-financing within a short timeframe. Upper and lower limits are required which the PCC is asked to approve.

Maturity Structure of Debt	2017/18		2018/19		2019/20		2020/21		2021/22	
	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%
Over 12 months and under 2 years	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%
Over 2 years and under 5 years	0%	55%	0%	50%	0%	50%	0%	50%	0%	50%
Over 5 years and under 10 years	0%	85%	0%	85%	0%	85%	0%	85%	0%	85%
Over 10 years	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%

3.7.4 Upper Limit for Sums Invested for a Period of over 364 days

Principal Sums Invested > 1yr	2017/18	2018/19	2019/20	2020/21	2021/22
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Maturity Profile	2,000	2,000	2,000	2,000	2,000

This indicator sets a limit on the level of investments that can be made for more than 364 days. The PCC is asked to approve that we do not invest more than £2m for a period of greater than 1 year.

3.8 Annual Investment Strategy

The proposed Annual Investment Strategy for 2018/2018 is attached at Appendix A. This includes the criteria for inclusion on the Counterparty List and also how this is split between Specified and Non-specified Counterparties.

3.9 Returns on Investments

While returns on investments are of secondary importance to the security of the sums invested, it is still important to consider the potential impact of approving the Investment Strategy put forward. The limited number of counterparties on our list potentially restricts the returns, in the form of interest receivable, which the PCC can make.

3.10 Given the current low level of interest rates, the Bank of England Base rate is currently 0.5% and has been at 0.5% or below for almost 9 years, the impact will be relatively small. The budget set for interest receivable in 2018/19 is £45k.

3.11 Counterparty Limits

As per the strategy in Appendix A, limits for specified counterparties are:

- The maximum investment with any counterparty is £10 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £15 million.

3.12 For non-specified counterparties these are:

- The maximum investment with any counterparty is £10 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £15 million.

4. **Implications**

4.1 Finance

There are no financial implications arising from this report that is not included above.

4.2 Diversity & Equal Opportunities

There are no issues arising from this report to bring to the PCC's attention.

4.3 Human Rights Act

There are no Human Rights Act implications arising from this report.

4.4 Sustainability

This report is part of the process to establish sustainable annual and medium term financial plans and maintain prudent financial management.

4.5 Risk

The investment strategy put forward today seeks to minimise the risks of the PCC while ensuring that the cash balances of the PCC are managed in line with proper practice and to ensure funds are available to make payments at the correct time.

5. **Conclusions**

5.1 To comply with the CIPFA Prudential Code of Practice the PCC is required to set a range of Prudential Indicators for the financial year 2018/19.

5.2 The CIPFA code does not set benchmark indicators. Each organisation must use its judgement when setting indicators.

5.3 Based on the indicators proposed above, the revenue budget, capital programme and associated financing are within prudent limits.

5.4 A prudent Investment Strategy has been put forward for approval that seeks to firstly secure the money being invested before secondly looking at rates of return.

Michael Porter
CFO for the PCC

PCC for Cleveland Annual Investment Strategy

The PCC will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

The main investment priorities are:

- The security of capital; and
- The liquidity of its investments.

The PCC for Cleveland also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

The borrowing of monies purely to invest or lend to others and make a return is not lawful and the PCC for Cleveland will not engage in such activity.

The guidance on Local Government Investments sets out a range of investments which can be used and these are listed as either "specified" or "non-specified" investment categories.

In practice it is not intended that the PCC for Cleveland should depart significantly from the existing procedures, which have proven to be robust.

The guidance recognises that there has been much debate about the reliance placed by local authorities on counter parties' credit ratings. Credit ratings are an important source of information but it is important to realise that they do have limitations. Authorities are advised to have regard to the ratings issued by the three main agencies and to make their decisions on the basis of the lowest rating. Ratings should be kept under review and 'ratings watch' notices acted upon.

Credit ratings should not be relied upon in isolation to identify counterparties, but should be considered along side generally available market information. Other sources of information should be reviewed by authorities. These include the quality financial press, market data, information on government support for banks and the credit ratings of that government support.

A PCC should define what it means by a high or strong credit rating in order that its treasury management strategy is clear and its approach to risk is transparent.

Although the guidance definition of Non-Specified Investments is "one not meeting the definition of a Specified Investment", the PCC is required to identify which categories of investments are identified as prudent to use and the limits on any such investment either individually or in total. It is because some organisations do not subscribe to credit rating agencies that they have to be included as Non-Specified Investments, rather than any concern over their creditworthiness.

Limits and Definition of Specified Investments

- (a) The investment is made with the UK Government or a Local Authority (as defined in the Local Government Act 2003).
- (b) The investment is made with a Money Market Fund which, at the time the investment is made, has been awarded the highest credit rating, (AAA), by a credit rating agency.
- (c) The investment is made with the PCC's own bank, currently NatWest.
- (d) The investment is made with a Nationalised Bank or Building Society
- (e) The investment is made with a Bank or Building Society that is part owned by the UK Government.

Where officers become aware of a revision of a body's rating the body should be removed from the list of Specified Investments. The PCC currently has no method of knowing about changes in ratings and has organised the Specified and Non-Specified split to avoid subscribing to one of the companies supplying monthly ratings, which would be expensive.

All Specified Investments must be denominated in sterling and must be one where the PCC may require it to be repaid or redeemed within 12 months of the date on which the investment is made. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The minimum % of the total of all investments which must be Specified Investments, at the time the investment is made, is 5%.
- The maximum investment with any one counterparty is £10 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £15 million.

Limits and Definition of Non-Specified Investments

The investment is made with one of the bodies listed in Appendix B "Non Specified Investments", or the investment is for a period of one year or longer.

All Non-Specified Investments must be denominated in sterling. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The maximum investment with any one counterparty is £10 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £15 million
- The maximum % of the total of all investments for a period of one year or longer, at the time the investment is made, is 10%.

NON-SPECIFIED INVESTMENTS

Bank of Scotland
Barclays
Clydesdale Bank
The Co-operative Bank
HSBC Bank
Lloyds Bank
National Westminster Bank
Nationwide Building Society
The Royal Bank of Scotland
Santander UK
Yorkshire Building Society
Coventry Building Society
Skipton Building Society
Leeds Building Society
Principality Building Society
West Bromwich Building Society
Newcastle Building Society
Nottingham Building Society
Cumberland Building Society

Criteria for Inclusion on Investment Counterparty List

- UK Clearing Banks and their wholly owned subsidiaries. Nationalised Banks and Nationalised Building Societies.
- UK Local Authorities, Police and Crime Commissioners and nationalised industries.
- The UK Government.
- Building Societies with Group Assets greater than £2bn

TREASURY MANAGEMENT POLICY

(To be adopted by the Police and Crime Commissioner for Cleveland)

The Police and Crime Commissioner for Cleveland (PCC) adopts as part of its Financial Regulations the following four clauses of the CIPFA Code of Practice for Treasury Management and the Treasury Policy Statement as set out below. When considering the contents of this document it should be remembered that the responsibility for Treasury Management **must always** stay with the PCC and cannot be passed to an external party.

CLAUSE 1

The PCC will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement (see Appendix 1), stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMPs)(see Appendix 2), setting out the manner in which the PCC will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in the Code, subject only to amendment where necessary to reflect the particular circumstances of the PCC. Such amendments will not result in the PCC materially deviating from the Code's key principles.

CLAUSE 2

The PCC will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

CLAUSE 3

The PCC retains the responsibility for the implementation and regular monitoring of its treasury management policies and practices, and delegates the execution and administration of treasury management decisions to the Chief Financial Officer of the Office of the Police and Crime Commissioner (OPCC), who will act in accordance with the PCC's policy statement and TMPs.

CLAUSE 4

The PCC nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

THE TREASURY MANAGEMENT POLICY STATEMENT (see Clause 1)

The treasury management policy statement defines the policies and objectives of the PCC's treasury management activities:

1. The PCC defines its treasury management activities as:

The management of the PCC'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.

2. The PCC regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will

focus on their risk implications for the PCC, and any financial instruments entered into to manage these risks.

3. The PCC acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

4. The PCC's specific borrowing objective is to achieve the lowest level of interest paid on debt as prudently possible, while at the same time minimising the potential volatility of the average rate of interest.

5. The PCC's specific investment objective is to achieve an overall return on total deposits above the seven day notice London Interbank Bid Rate (LIBID) – the rate at which a bank will bid to borrow money in the London money market – with the minimum risk of capital loss.

THE TREASURY MANAGEMENT PRACTICES (TMPs) and INDICATORS

INDICATORS

There are 4 specific treasury management Prudential indicators. The PCC must set these annually and they must be approved by the PCC prior to the start of the financial year. Their purpose is to restrict the activity of the Treasury function to within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. They are:

- Upper Limits on Variable Interest Rate Exposure
- Upper Limits on Fixed Interest Rate Exposure
- Maturity Structures of Borrowing
- Total Principle Funds invested for greater than 364 days

PRACTICES

There are 12 TMPs specified in the Code and all public sector organisations are expected to include those that are relevant to their Treasury Management powers and the scope of their activities as part of their detailed operational procedures. They cover the following:

- TMP1 – Risk Management
- TMP2 – Performance Management
- TMP3 – Decision-making and analysis
- TMP4 – Approved Instruments, methods and techniques
- TMP5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP6 – Reporting requirements and management information arrangements
- TMP7 – Budgeting, accounting and audit arrangements
- TMP8 – Cash and Cash Flow management
- TMP9 – Money Laundering
- TMP10 – Training and Qualifications
- TMP11 – Use of External Service Providers
- TMP12 – Corporate Governance

GUIDANCE ON INVESTMENTS

The PCC must produce an Investment Strategy, which must be approved by the PCC, prior to the start of the financial year. It may be revised during the year, but must be approved again.

The strategy must consider the investment policy in terms of **Security – Liquidity – Yield** and must also define the approach to the use of both “specified” and “non-specified” investments.

Specified Investments are those that offer high security and liquidity and include investments with the UK Government and other local authorities and must be for less than one year and made in sterling.

The Strategy should deal in more detail with non-specified investments, identify the types of such investments, set a limit on the amounts held in them at any time in the year, and have guidelines for making decisions on such investments.



Report of the Chief Finance Officer to the PCC to the Police and Crime Commissioner for Cleveland

28th February 2018

Status: For Decision

Minimum Revenue Provision 2018/19

1. Purpose

- 1.1 Minimum Revenue Provision (MRP) is the annual revenue provision that authorities have to make in respect of their debts and credit liabilities. The requirement to make MRP has existed since 1990.
- 1.2 A report is necessary to seek approval from the PCC as to the annual MRP strategy.
- 1.3 The MRP strategy complements the wider financial picture which aims to provide transparency on the cost to the PCC of taking on new borrowing, therefore linking into the PCC's prudential indicators and the overall management of the PCC's assets.

2. Recommendations

The PCC is asked to approve:

- 2.1 The MRP Strategy for 2018/19, which involves no change from the 2017/18 strategy. Specifically that being:
 - Option 1 ("Regulatory Method") be used to calculate the MRP on existing borrowing (before the 1st April 2008) and any future supported borrowing (after 1st April 2008).
 - Option 4 ("Depreciation Method") be used to calculate the MRP in the case of any future unsupported borrowing (after the 1st April 2008).

3 Reasons

- 3.1 Minimum Revenue Provision is the annual revenue provision that authorities, which are not debt free, have to make in respect of their debts and credit liabilities. MRP aims to provide transparency as to the cost to the PCC of taking on new borrowing. The requirement to make MRP has existed since 1990.
- 3.2 Under the Local Authorities (Capital Financing and Accounting) (Amendment) (England) Regulations 2007, the current arrangements for calculating the MRP as specified in the 2003 Regulations have been superseded. The 2007 Regulations now place a general duty on local authorities to make a Minimum Revenue Provision which is considered to be prudent, with the responsibility being placed upon the PCC to approve an Annual MRP Strategy each year.
- 3.3 The 2007 Regulations require that an Annual MRP Strategy be adopted by the PCC prior to the start of the coming financial year. The PCC can change the method of calculating MRP on an annual basis (subject to the constraints set out below). Once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP charged in the same way (that is, the PCC can not change the method of calculating MRP on individual assets).
- 3.4 Options Available
Four options are outlined within the 2007 Regulations for authority's to follow as to the calculation of MRP, however there are certain factors which predetermine the option the PCC must adhere to, depending on the timing of the borrowing (that is before or after the 1st April 2008) and whether the borrowing is supported or unsupported:
- 3.4.1 Option 1 ("Regulatory Method") and Option 2 ("Capital Financing Requirement (CFR) Method") can only be used to calculate the MRP in the following circumstances:
- Existing borrowing against capital expenditure that was incurred before the 1st April 2008 (regardless of whether the borrowing was supported or unsupported).
 - Supported borrowing incurred after the 1st April 2008.
- 3.4.2 Option 3 ("Asset Life Method") and Option 4 ("Depreciation Method") can only be used to calculate the MRP for new schemes that require the PCC to take on unsupported borrowing after the 1st April 2008.

Appendix 1 provides a glossary of some of the terms used in the paper and calculations. Appendix 2 shows how the MRP figure is calculated under each of the options discussed above.

- 3.4.3 To minimise the impact on revenue the PCC is asked to approve:
- Option 1 ("Regulatory Method") be used to calculate the MRP on existing borrowing (before the 1st April 2008) and any future supported borrowing (after 1st April 2008)
 - Option 4 ("Depreciation Method") be used to calculate the MRP in the case of any future unsupported borrowing (after the 1st April 2008)

4 Implications

4.1 Finance

The financial implications of this Strategy are factored into the Long Term Financial Plan.

4.2 Diversity & Equal Opportunities

There are no diversity or equal opportunity implications arising from this report.

4.3 Sustainability

The MRP Strategy aims to provide transparency as to the cost to the PCC of taking on new borrowing and links with the Prudential Indicators to determine the sustainability and affordability of all unsupported borrowing undertaken.

4.4 Risk

Insufficient MRP provided for in the PCC's budget. Any new borrowing that the PCC takes out will incur a MRP charge in the revenue budget which will specifically relate to the asset acquired or enhanced. This 'charge' will need to be built into the revenue budget to ensure the PCC has sufficient resources available to meet the liability.

5 Conclusion

This report seeks approval from the PCC on the treatment and calculation of MRP, and the Strategy that is used by the PCC and therefore ensures that the PCC is in line with the Local Authority Regulations.

Michael Porter
Chief Finance Officer for the PCC

Glossary of Terms

Adjustment A – Technical accounting adjustment set out in regulations to ensure consistency with previous Capital Regulations

Capital Financing Requirement (CFR) – Amount needed to finance the Capital Programme from previous years (borrowing) and current year (capital receipts, grants etc.)

Prudential Indicators – In order to assess the PCC's ability to afford borrowing when making capital financing decisions and to ensure that prudent levels are set. These indicators show the projected and actual position together with limits which can only be exceeded with approval and in exceptional circumstances

Supported Borrowing – Borrowing for which the Government will provide support through the Revenue Support Grant to meet the cost of borrowing for capital projects

Unsupported (Prudential) Borrowing – Borrowing under the Prudential Code for which the Government will not provide support through the Revenue Support Grant to meet the cost of borrowing for capital projects.

Supported Borrowing (after 1st April 2008) and any Previous Borrowings

Option 1 ("Regulatory Method") – This is the method currently used by the Authority, as set out in the 2003 Regulations. Option 1 is calculated as 4% of the total Capital Financing Requirement for all borrowing, less Adjustment A:

$$4\% (CFR - AA)$$

Where:

- CFR = Capital Financing Requirement
- AA = Adjustment A

Option 2 ("Capital Financing Requirement (CFR) Method") – this uses the same formula as Option 1 but does not take account of Adjustment A.

$$4\% (CFR)$$

Where:

- CFR = Capital Financing Requirement

Once calculated Adjustment A remains a fixed variable within the calculation; in the case of Cleveland Police Authority Adjustment A is £1,997,000 meaning that the MRP calculated under Option 1 will always be £79,880 (4% of £1,997,000) less compared to Option 2.

Unsupported Borrowing (after 1st April 2008)

Option 3 ("Asset Life Method") – The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- B = Total MRP already made against the asset
- C = Remaining useful life of the asset

Option 4 ("Depreciation Method") - The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B - D}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- B = Total MRP already made against the asset
- C = Remaining useful life of the asset
- D = Residual Value of the Asset

The only difference between the two methods of calculating the MRP is that there is recognition in option 4 that the asset will still be worth 'something' after its useful life has expired.



Scrutiny, Delivery & Performance Meeting

28 February 2018

Everyone Matters

Purpose of the Report

1. To outline the information required by the PCC regarding the Force's progress with the implementation and delivery of the Everyone Matters programme.

Information Required

2. In order to gain a greater depth of understanding and assurance a detailed presentation is required on the following:
 - a. Progress on the implementation and delivery of the programme;
 - b. Details of the Annual Report; and
 - c. Proposed programme of work for 2018/19, including details of the communications plan any needs assessments that have been undertaken.

Actions Arising

3. That the PCC continues to receive regular updates from the Force on the progress with the Everyone Matters programme.



Scrutiny, Delivery & Performance Meeting

28 February 2018

Police Use of Overt Surveillance Camera Systems in Public Places

1. The Surveillance Camera Commissioner has recently published his Annual Report alongside which he provided details of a survey exercise conducted with police forces in England and Wales. The survey, completed by all 45 forces, aimed to gain a better understanding as to the extent to which Chief Officers of police were complying with their statutory responsibilities arising from Section 33(1) of the Protection of Freedoms Act 2012 (POFA) and also the Surveillance Camera Code of Practice issued by the Secretary of State.
2. The recommendations arising from the survey were as follows:
 - i. That a Senior Responsible Officer (SRO) should be identified who would have strategic responsibility for the integrity and efficacy of the process in place within the police force which ensure compliance with Section 33 of the PoFA in support of the Chief Officer, and in respect of all relevant surveillance camera systems operated by the force; and
 - ii. That police forces conduct a review of all surveillance camera systems operated by them to establish whether or not those systems fall within the remit of Section 29 (6) PoFA. The advice of the force legal advisors may be required in some circumstances. Where systems are so identified there should be processes in place that enable Chief Officers to discharge their responsibilities effectively under the PoFA in respect of all of those systems. Such processes should also keep the development, procurement and operation of future systems under review so as to determine and address the inherent legal responsibilities associated with their operation appropriately. The SRO should lead on this work.
3. Forces have been asked to provide an indication as their response to the recommendations.
4. Therefore, the PCC would like an update from the Force as to how the force responded to the survey, to give an insight as to how the force was complying with its statutory duties in the PoFA and details of whether or not the force had actioned the 2 recommendations above.



Scrutiny, Delivery & Performance Meeting

28 February 2018

Force Management Statements – Discussion

Information Required

1. The PCC would like an update on the general position on the production of the Force Management Statement (FMS), including details of whether or not the Force intends to publish the FMS and if there is an anticipated cost of production.



Scrutiny, Delivery & Performance Meeting

28 February 2018

PCC Questions

Matters Arising from the Previous Minutes

1. At the meeting on 20 December, the PCC was informed about the initiatives to be put in place to improve staff well-being. In particular the development of in-house support services to be delivered on an 'invest to save' basis. Could the Force provide details on the anticipated return on investment for that support?

Joint Targeted Area Inspection (JTAI) – Multi agency response to the abuse and neglect in Stockton on Tees

2. The pre-publication report had been received regarding the JTAI multi agency response to the abuse and neglect of children in Stockton on Tees. The PCC would like an update on the Force's response, in advance of the publication of the final report, to be presented at the next meeting of the Scrutiny, Delivery and Performance Meeting (Date Tba).