



Office of the Police & Crime Commissioner

REQUEST FOR POLICE & CRIME COMMISSIONER DECISION - (N° 010 / 2015)

TITLE: 2016-17 Budget and Medium Term Financial Strategy

Executive Summary:

The Commissioner is asked to approve the revenue and capital budgets for 2016/17 and the level of council tax to support the budget, having taken into account the advice of the Chief Finance Officer in her report on the robustness of the proposed budgets. The papers provide provisional financial information for the years 2017/18 to 2019/20 and for 10 years in respect of the capital programme. The Commissioner is asked to approve the medium term financial strategy that consolidates the budgets presented for approval and sets out the arrangements for financial governance to support the management of approved resources.

Recommendation:

The Commissioner is asked to note the attached Chief Financial Officer's report on the robustness of the budget 'the Local Government Act 2003 Requirements' report, taking into account her advice in respect of his decisions on the proposed budgets.

Appendix of C the attached report 'Budget 2016/17 and Financial Forecasts 2018/19 to 2019/20' sets out the budget resolution for decision by the Commissioner in order to formally approve the level of council tax precept. In the context of the budget resolution, it is recommended that:

- a) The revenue budgets outlined in the report and appendices be approved, having regard to the Local Government Act 2003 Requirements report
- b) That the policy on reserves at appendix B be approved
- c) That the budget requirement for 2016/17 be set on the basis of the amount within the budget resolution at appendix C
- d) The council tax for Band D properties be approved at £216.63 for 2016/17, an increase of £4.05 or 1.91%, being the amount within the budget resolution
- e) The Commissioner approves the attached Medium Term Financial Strategy 2016-2020

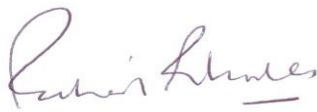
Police & Crime Commissioner

I confirm that I have considered whether or not I have any personal or prejudicial in this matter and take the proposed decision in compliance with the Code of Conduct for Cumbria Police & Crime Commissioner. Any such interests are recorded below.

I hereby approve/~~do not approve~~ the recommendation(s) above

Police & Crime Commissioner / ~~Chief Executive~~ (delete as appropriate)

Signature:



Date: 24th February 2016

PART 1 – NON CONFIDENTIAL FACTS AND ADVICE TO THE PCC**1. Introduction & Background**

It is a legal requirement for the Police and Crime Commissioner to annually set a balanced budget and to allocate funds to the Chief Constable to secure the maintenance of the Police Force for Cumbria. The attached reports set out the proposed budgets and the advice of the Commissioner's Chief Finance Officer regarding their approval.

2. Issues for Consideration

Please see attached reports. The Local Government Act 2003 report sets out the primary issues for consideration in approving the proposed budgets.

3. Implications

(List and include views of all those consulted, whether they agree or disagree and why)

- 3.1. Financial: As set out in the attached reports
- 3.2. Legal: It is a legal requirement to annually set a balanced budget and determine the police precept.
- 3.3. Risk: The attached medium term financial strategy sets out the financial strategic and operational risks and how they are being managed. The Local Government Act 2003 report documents the risks to the financial forecasts. The medium term financial strategy sets out a sensitivity analysis that

quantifies the values of forecasting risks. Specific operational reserves and contingencies and general balances have been set at a level that in the view of the Chief Finance Officer is reasonable in the context of those risks that it is possible to provide for. The budgets place reliance on the Home Office transition funding in respect of formula funding risks.

- 3.4. HR / Equality: The proposed budget provide resources used by the Constabulary. The Commissioner has arrangements in place to hold the Chief Constable to account in respect of the Public Sector Equality Duty. The Commissioner's Commissioning plan contains a number of themes and resources to support taking action on Hate Crime. Domestic and Sexual Violence initiatives are priority areas for funding and are crimes that disproportionately impact on gender. The 2016-17 budgets for the Constabulary provide resources to maintain establishment numbers at the levels supported in 2015-16.
- 3.5. I.T.: The budgets and capital programme are supported by a comprehensive ICT strategy. There are significant implications for ICT following from the investment proposed for both capital and revenue to support the delivery of the strategy.
- 3.6. Procurement: Accompanying the papers on this agenda is the Procurement Strategy. There are significant procurement implications arising from the budgets in respect of both revenue supplies and services expenditure and procurement of large capital estate and ICT schemes. Procurement regulations require procurement business partners to lead and/or support business managers in any significant or complex procurement activity.
- 3.7. Victims: The budgets provide resources for commissioning victims services in addition to the resources for the continued provision of sexual assault referral services.

4. Backgrounds / supporting papers

The Local Government Act 2003 Requirements Report

Budget 2016/17 and Financial Forecasts 2018/19 to 2019/20

Police and Crime Commissioner for Cumbria Medium Term Financial Strategy 2016-2020

Public Access to Information

Information in this form is subject to the Freedom of Information Act 2000 (FOIA) and other legislation. Part 1 of this form will be made available on the PCC website within 3 working days of approval. Any facts/advice/recommendations that should not be made automatically available on request should not be included in Part 1 but instead on the separate Part 2 form. Deferment is only applicable where release before that date would not compromise the implementation of the decision being approved.

Is the publication of this form to be deferred? NO

If yes, for what reason:

Until what date (if known):

Is there a **Part 2** form - NO

(If Yes, please ensure Part 2 form is completed prior to submission)

ORIGINATING OFFICER DECLARATION:

I confirm that this report has been considered by the Chief Officer Group and that relevant financial, legal and equalities advice has been taken into account in the preparation of this report.

Signed: n/a

OFFICER APPROVAL**~~Chief Executive~~ / Deputy Chief Executive (delete as appropriate)**

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner / Chief Executive (delete as appropriate).

Signature: R. Hunter

Date: 15th February 2016

Media Strategy

The decision taken by the Police & Crime Commissioner may require a press announcement or media strategy.

Will a press release be required following the decision being considered? YES

If yes, has a media strategy been formulated? YES

Is the media strategy attached? NO

What is the proposed date of the press release: 24th February 2016



Cumbria Office of the Police and Crime Commissioner

Local Government Act 2003 Requirements Report

Report of the Chief Finance Officer

1. Introduction

1.1 The Local Government Act 2003 requires the Chief Financial Officer to report formally on the robustness of the budget for consideration immediately prior to setting the Budget and Council Tax. The report aims to ensure that the Commissioner is aware of the opinion of the Chief Financial Officer 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 Commissioner is required to take account of this report when determining the budget.

2. Robustness of the Estimates, Medium Term Plans and Tax Setting Calculations

2.1 Preparation for the budget, including decisions on key budget assumptions, takes place between November and February, with the budget being set 14 months ahead of the end of financial year to which it relates. Whilst the final recommended budget will always take account of the latest forecasts, the nature of the budget cycle means that there will always be some level of variation between the budget and actual expenditure. This risk is managed by ensuring that the budget process and estimates are robust and that balances and reserves are set at a level that takes account of financial and operational uncertainty. In giving a positive opinion on the robustness of the estimates and tax setting calculations reliance is placed on the Commissioner's overall arrangements for financial management.

2.2 The process for preparing the estimates involves a budget proposal from the Constabulary. The proposal is supported by detailed financial estimates prepared in accordance with guidance

issued by the Constabulary's Chief Finance Officer. Estimates are prepared under the professional supervision of the Deputy Chief Finance Officer and with the support of financial services officers. Estimates are subject to scrutiny by finance services staff and the Constabulary's Chief Officer Group prior to submission to the Commissioner's Chief Finance Officer for further review.

2.3 Working papers for review include a full reconciliation between the base budget for the previous financial year and the proposed budget for the new financial year for each section of the budget. This is accompanied by the detail of the management accounts. The working papers support an analytical review of the reasonableness of variations between financial years against budget assumptions. The overall budget consolidates the Constabulary's budget proposal with detailed estimates of the Commissioner's direct expenditure; budget's commissioned with other third parties and estimates of income. The most significant areas of income are in respect of government grant and council tax. The budget is calculated using actual information from the settlement and district notification of the tax base.

2.4 In addition to detailed estimates for the immediate financial year, a Medium Term Financial Forecast (MTFF) is prepared covering four financial years. Key financial risks identified within the forecast are included within the Commissioner's strategic risk register and are subject to review based on the likelihood and severity of the risk. This ensures that the medium term profile of income and expenditure is based on a sound review of risk and uncertainty that informs budget assumptions and the level of provisions and reserves.

2.5 Internal audit undertake cyclical reviews of the main financial systems and processes. Both internal and external audit provide an annual opinion on governance and internal controls. In addition, the external auditor undertakes a review of financial resilience as part of the value for money conclusion within the audit findings report. Collectively this work provides assurance with regard to the accuracy and reliability of the financial information used in the budget setting process.

2.6 On the basis of the overall arrangements for financial management, and audit of those arrangements, I can confirm that in my view the Commissioner has robust procedures in place for determining estimates, medium term plans and the Council Tax requirements.

3. Determination of the level of resources available

3.1 The resources available to the Commissioner to support expenditure primarily derive from Home Office Police Grant (£59.5m). The next most significant funding source is Council Tax (£36.1m). The balance of expenditure is funded from specific grants, reserves and fees and charges. The 2016/17 budget is based on actual government grant settlement figures and district notifications of the Council Tax base. As such, a high degree of assurance can be provided in respect of the level of certainty for 2016/17 in respect of funding. This level of assurance cannot be given to resources beyond 2016/17. Whilst Council Tax income forecasts are reasonably assured, there is a high degree of uncertainty with regard to government formula and specific grants funding in future years. This means that there are a number of risks and issues that currently make the calculation of revenue funding forecasts challenging beyond the 2016/17 financial year.

3.2 Each of the key issues with regard to the availability of resources, and the approach taken to managing the associated financial risk, is set out below. It is my opinion that the approach taken, alongside the Commissioner's position with respect to reserves and balances, is both prudent and robust in view of the level of risk.

Police and Crime Panel Veto

3.3 The arrangements for budget setting provide the Police and Crime Panel with a veto over the level of precept increase. The panel may determine that the precept increase is too high or too low. In these cases, the Commissioner is required to either reduce or increase the precept. It is for the Commissioner to determine the extent to which the precept is revised, having taken into account the views of the panel. For the 2016/17 budget the panel determined not to exercise its powers of veto and the budget is presented on the basis of the precept proposal supported by the panel of 1.91%. The position of the panel in respect of future year precept increases will not be known until January of the relevant financial year, presenting a risk in respect of the precept increase assumptions in the medium term budget.

Legacy Council Tax Grants

3.4 Council tax discounts are available to support low income households with the cost of their council tax liabilities. They are administered locally on the basis of schemes developed by district councils. Because these benefits were previously administered nationally, and the impact of the

change reduces the local tax base and council tax income, a national government grant compensates precept and billing authorities for the funding loss. Further compensation is provided for financial years where decisions have been taken to freeze the council tax precept. Collectively these grants are known as Legacy Council Tax Grants. The amount of grant for Cumbria is £4.85m from a national fund of £507.39m.

3.5 There is a level of uncertainty in respect of longer term methodologies for distributing this funding and the mechanism through which the total amount of grant funding will be determined nationally. In addition, the calculation of the total national funding and its distribution is based on a number of assumptions. Where local circumstances vary from these assumptions, there will be a financial implication.

3.6 The level of government grant is set at the time of the financial settlement. The main risk in respect of the level of national funding is therefore in respect of future years grant allocations and the extent to which this funding is impacted by overall reductions in government department expenditure allocations. It is also unclear whether the national review of police funding will result in this and other specific grants being rolled into formula grant. This would result in a complete change in the distribution methodology with potential impacts from the 2017/18 settlement. The Commissioner's current share of the national total funding for Legacy Council Tax Grants is 0.96%. Cumbria's proposed share of the total pot for formula funding is between 0.71% and 0.63% depending on which methodology is used. This means that a consolidation of the grant into the formula funding distribution, even assuming no reduction in the amount of funding at a national level, would result on a funding loss of between £1.2m and £1.6m for Cumbria.

3.7 A further risk is the potential for an increase in local claims for council tax discount. Experience of the last three years suggests that this risk is low as the move to local schemes has not resulted in any significant changes between former benefit and current discount applicants. It is however known that there are gaps between the proportion of households eligible for discounts and the proportion that actually claim. Should this risk materialise there will be an implication for the collection fund managed by districts that will be shared with all precepting bodies. A high level estimate of the impact of this risk suggests that a 10% increase in claims would have a financial implication of around £400k for the Commissioner's budget.

Council Tax Base & Collection Fund Surplus and Deficits

3.8 The amount of council tax income is dependent on the level of council tax and the council tax base – the number of households in Cumbria, within property bands A to G, with a liability to pay their council tax bill. The council tax base is known for 2016/17 but may go up or down compared to the forecasts for the three final years of the medium term financial forecast. The forecast assumes that from 2017/18 the annual increase in tax base is 0.75%. This presents a cumulative risk to the budget of £870k by 2019/20. Estimates have however been prepared based on a rolling average for the previous forecast period and are considered to be robust. They will be revisited on an annual basis.

3.9 In any single year the actual council tax income collected from households by district councils can be higher or lower than the amount forecast at the time of setting the budget. Any variation is shared with precepting authorities and will impact on the total amount of council tax income in future years. The factors influencing the council tax base and actual income collected are complex and difficult to forecast. There is therefore always a risk that income does not meet budgeted amounts. This is however considered to be a small risk as more recent trends, following council tax localisation, has been for actual income to exceed the forecast. The budget currently assumes the surplus will be £200k per annum from 2017/18.

Council Tax/Council Tax Grant Risk

3.10 Collectively, the factors above mean that the ability to accurately forecast council tax income and the local council tax grant, in the medium term, is becoming complex, reducing the amount of assurance that can be provided from income forecasts beyond 2016/17. However a high degree of assurance can be provided with regard to the combined income from council tax and council tax grants for 2016/17. Whilst future income will be less certain, the most significant risks are in respect of formula funding. Variations to risks outside the funding formula are likely to be capable of being managed without having a material impact on the robustness of the budget or financial resilience.

National Funding Settlements

3.11 The budget for 2016/17 is presented based on notifications of the actual financial settlements. Beyond 2016/17 financial forecasts are based on estimates. The current medium term forecast

assumes a flat rate of Government funding for the next four years, based on the total police grant for 2016/17, but applies an estimated reduction of £9.9m due to formula funding changes. The full range of potential formula funding impacts has been estimated to be between £9.9m and £15.8m for core Police Grant. Whilst the budget does not take account of this level of financial risk in full, the Change Programme that is tasked with delivering financial savings is developing options for cost reduction to cover the full range of estimated formula funding reductions. Application to the Home Office will need to be made for transition funding to support the budget pending the implementation of the Change Programme.

3.12 This strategy carries some level of risk, making the assumption that any changes to formula funding will be supported by sufficient transitional funding to allow time to implement material changes in operational services. It is however considered to be a balanced approach given the high level of uncertainty regarding the timing and impact of changes to national funding formula.

Capital Grants and Capital Receipts

3.17 The capital budget has been developed as a 10 year programme. Government capital allocations are only given on an annual basis and the resources from 2016/17 have therefore been prudently based. Overall funding within the programme is reliant on capital receipts and this presents some risk to funding given the economic climate and market conditions. Capital reserves are however managed at a level to ensure that the programme is balanced for four years. This provides a high degree of resilience in respect of available funding over the life of the medium term financial forecast.

4. The affordability of Spending Plans

4.1 Revenue and Capital budget plans are subject to annual review to ensure that forecasts of resources remain robust and can support planned levels of expenditure. Whilst the process for developing budget estimates is comprehensive, there will always be a degree of risk and operational uncertainty in respect of expenditure forecasts. The affordability of the budget has to take account of financial risks and the actions that can be taken to mitigate that risk. In my view the Commissioner's expenditure plans are affordable, taking account of the risks set out below and the plans for how they will be managed.

Capital Expenditure

4.2 The capital programme incorporates the delivery of two significant estates capital schemes. These comprise a Estates North Resilience/Flood Management scheme at the Penrith HQ site including the delivery of a Strategic Co-ordination Centre, planned for delivery by 2018/19 and a longer term scheme Estates West scheme to manage estates resilience issues within the west of the county. Both schemes are reliant on achieving capital receipts from the disposal of vacated sites. Within the current market this will entail some risk that income is either delayed or less than the amount assumed the within the budget. The North Resilience Scheme funding is dependent only on small levels of capital receipt income but the funding envelope for this scheme will be challenging and there will be financial and reputational risks inherent in delivering to time and budget. These may be more challenging as key stages of the project will require partnership sign off. The risks to this project will be maintained within the estates risk register and will be subject to regular review.

4.3 The capital programme 2016/17 and 2017/18 includes £9m in ICT capital schemes. The experience of past financial years is that ICT capital schemes can experience slippage against the budget. The reasons for the slippage is varied and includes national schemes that have not progressed, local schemes that have been subject to changes in decision making and issues around capacity to deliver within the team. Whilst slippage in capital schemes does not create a financial pressure the consequent level of reserves can be subject to challenge in the context of budget cuts. There are also reputational implications for the quality of financial forecasting and management. To protect against these risks it will be important to understand the risks and issues inherent in the ICT programme and ensure that delivery is effectively supported.

4.4 The capital programme is currently only sustainable on the basis of general capital reserves. In addition, any significant level of capital investment is reliant on one off revenue contributions and capital receipts. The programme is however forecast over 10 years to ensure advanced financial planning can be managed and peaks in expenditure are identified at an early stage. The revenue budget implications of the programme have been built into the medium term forecast.

Treasury Management

4.5 Treasury management has the potential to be an area of high budget risk that could have implications for the robustness of the budget should those risks materialise. The treasury management strategy statement provides assurance around the approach to investment and

borrowing activity and the way the function is managed that mitigates against this risk. The Commissioner should however be aware that the level of risk against any investment activity is higher in the current financial climate than would typically be the case.

Capital Financing

4.6 The capital programme is financed through direct revenue contributions, capital grants, reserves and notional borrowing. Notional borrowing reflects an underlying need to borrow to finance capital schemes but where actual borrowing has not been undertaken because internal cash flow balances are sufficient to fund schemes. Many of the internal balances are available as a result of the level of short term reserves. As reserves are spent there will become a need to actually borrow.

4.7 The exact timing of borrowing will depend on the extent to which capital schemes deliver to budget or are subject to slippage and the overall position on reserves. Borrowing will create a revenue implication in the form of interest charges. These charges are provided for on a recurrent basis from 2019/20. Should the requirement to borrow arise earlier than this date, this will create a budget pressure. This is however a low risk given that the significant reserves are held pending the delivery of capital schemes that will operate to a known and managed project plan.

Inflation/Pay Awards

4.8 Pay costs are provided for within the budget on the basis of a 1% pay increase for the duration of the medium term forecast. Pay costs account for the most significant element of the budget and are therefore highly sensitive to variations against the budget assumption. This risk is however mitigated as a result of public sector pay constraints announced nationally. Whilst pay is still be the subject of trade union negotiation with potential for concessions, this is not considered to be a material risk to the budget.

Staffing Costs and Profiling

4.9 Within the budget employment costs are an area of budget that is highly sensitive to changes in the profile of staffing and difficult to forecast as a result of the complexities of and changes to terms and conditions that influence actual pay. Maintaining officer numbers at a planned level can be operationally difficult as a result of the timing of staff turnover and lead in time to recruit.

Estimates of the costs of early retirement (ER) and redundancy have to be based on averages until the point in which individual staff are identified as part of the change management programme. These factors can cumulatively give rise to significant variations between budgeted costs for pay and ER/redundancy. Historically there has been under spending against these budget heads. Under spend against a budget that incorporates significant savings requirements presents a risk that services have been reduced at a greater level or faster than is needed.

Savings Requirements and Budget Gap

4.10 The overall savings requirement over 4 years to balance the budget is £11.6m. The change programme savings for the 2016/17 budget are £2.5m and have been subject to planning and decision making with the required budget reductions being fully incorporated within the proposed budgets. They therefore present a low risk to the budget although there will be some risk that implementation does not achieve the level of savings in the plan. The net position, assuming the delivery of 2016/17 savings is a requirement for over £9m of further reductions. From 2017/18 savings have been planned but in some areas those plans are at a high level and subject to further detailed work and decisions. There are £4m of savings requirements by 2019/20 for which plans have still to be developed. This means that there is a higher risk of delivery in respect of the savings programme in later years of the medium term forecast. A key mitigating factor to this risk is that the Constabulary has a good track record of delivering savings. In addition the revenue and capital budgets provide for a significant amount of investment in ICT mobile and digital working to facilitate the necessary reductions in staff numbers.

4.11 Any underachievement in the level of required savings presents a risk of budget deficit. Should this materialise, the risk could to some degree be mitigated by a freeze on recruitment. In an average year, staff/officer turnover typically delivers a full year saving of between £2m and £3m across a 12 month period. This measure, whilst providing budget assurance, is however unlikely to support the strategic objectives and priorities within the police and crime plan. It will therefore be critical to both financial and operational performance that the change programme continues to bring forward and implement carefully considered proposals to balance the budget on a timely basis.

5 General Balances and Reserves

5.1 General balances are held as a contingency against risks not provided for in the Commissioner's financial plans or other reserves and provisions. The level of balances, reserves and provisions are assessed annually to ensure they are adequate and take account of known financial risks. This is not a precise science and local circumstances, the strength of financial reporting arrangements and the Constabulary's track record in financial management is also a key influence on the actual potential of any risk materialising.

5.2 This report sets out the key risks that have been taken into account in presenting the budget, including any provision made for that risk. Some risks are currently unfunded whilst others have a level of provision that may be less than the full requirement. General balances should be at an appropriate level to provide cover for those risks. The Commissioner's Chief Finance Officer has set balances at £3m for 2016/17. This is around 3% of net expenditure and reasonable in the context of the budget risks set out in this report. These general balances are supported by £1m of operational reserves and contingencies. These can be used to manage budget pressures in year that are unable to be contained within the set budget, being replenished as part of the following year's budget process.

5.3 Further cover is provided through the position on specific reserves. Whilst these are earmarked, a number of the reserves, particularly those for capital, are not planned to be used for a number of years. This provides an additional level of resilience in the short term, although the use of these reserves for other purposes will need to be repaid.

5.4 Based on the risk assessment, the Commissioner's general balances are sufficient to meet potential risks and earmarked reserves are set at an appropriate level for the purposes intended. More information on reserves and the purpose for which they are held is included within the Commissioner's policy on reserves, appended to the revenue budget report on this agenda.

6 The Affordability of the Capital Programme in determining Prudential Indicators

6.1 The Prudential Code requires the Chief Financial Officer to ensure that all matters required by the Code to be taken into account in determining the budget are reported to the Commissioner. The treasury management strategy statement provides assurance in respect of this requirement. In particular the strategy sets out the prudential indicators and limits calculated under the Code including those that support assurances in respect of the affordability of capital expenditure plans. The Code of practice gives no suggestions as to their appropriate level. These have to be set by the Commissioner based on individual circumstances.

6.2 The conclusions from the strategy following the setting and calculation of indicators is that capital expenditure plans are resourced and levels of borrowing are prudent in relation to income and assets. The strategy is subject to review by the Joint Audit and Standards Committee and independent advisors to provide further assurance that the principles of the code and best professional practice is being applied in relation to operational processes and procedures.

7 Conclusion

7.1 Based on the assessment included in this report I have concluded that the budgets as proposed and the associated systems and processes are sound and the level of general balances/reserves is adequate. This is subject to no amendments being made to the budget proposals which would impact on this assessment. It is my view that the estimates proposed and the tax setting calculations are robust and the provisional capital programme is affordable.

Ruth Hunter

Chief Finance Officer/Deputy Chief Executive

24th February 2016



Cumbria Office of the Police and Crime Commissioner

Budget 2016/17 and Financial Forecasts 2017/18 to 2019/20

Report of the Chief Finance Officer

1 Purpose of the Report

1.1 The purpose of this report is to recommend to the Commissioner for approval the revenue and capital budget for 2016/17 and the level of council tax to support the budget. The report also provides provisional estimates for the three years to 2019/20, ensuring budget decisions are taken in the context of the medium term financial forecast.

2 Introduction

2.1 It is a legal requirement for the Police and Crime Commissioner to annually set a balanced budget and to allocate funds to the Chief Constable to secure the maintenance of the Police Force for Cumbria. In doing this the budget takes into account forecasts of the income anticipated to be available to the Cumbria police area, and expenditure that is expected to be incurred in delivering the functions of the Commissioner and the priorities of the Police and Crime Plan. This report presents the Commissioner's revenue budget plans to meet these requirements.

2.2 This budget report is the final report in a series of papers that provide financial and other information to support the budget setting process. In October and January more detailed financial and contextual information has been provided to the Police and Crime Panel. Accompanying the budget report on this agenda is a report covering the capital strategy and programme, treasury management strategy, Prudential Indicators and the policy on Minimum Revenue Provision (MRP). These reports support the due diligence in respect of the affordability of the capital programme and the revenue implications of that expenditure. The agenda includes the Chief Finance Officer's statutory report on the robustness of the budget. The full suite of financial reports is available on the Commissioner's website.

3 Summary Budget and Precept

3.1 The table below sets out a summary of the consolidated budget setting out the plans for income and expenditure based on the 2016/17 government financial settlement for policing bodies. Appendix A sets out the budget for the Commissioner and the budget for the Chief Constable.

| Table one: summary budget | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|
| | £000s | £000s | £000s | £000s | £000s |
| Expenditure | | | | | |
| Police Pay | 76,347 | 75,326 | 80,328 | 81,809 | 83,058 |
| PCSO Pay | 2,811 | 2,814 | 3,031 | 3,023 | 3,120 |
| Staff Pay | 19,162 | 19,600 | 18,983 | 19,153 | 19,324 |
| Other Employee Costs | 809 | 677 | 539 | 550 | 560 |
| Premises Costs | 3,720 | 3,532 | 3,613 | 3,697 | 3,783 |
| Transport Costs | 2,480 | 2,142 | 2,201 | 2,262 | 2,326 |
| Supplies & Services | 10,039 | 9,804 | 9,194 | 9,448 | 9,579 |
| Third Party Expenditure | 1,621 | 1,630 | 1,660 | 1,692 | 1,724 |
| LGPS Past Service Costs | 799 | 799 | 1,199 | 1,199 | 1,199 |
| Insurances/Management of Change | 2,533 | 767 | 795 | 803 | 833 |
| Commissioned Services | 2,699 | 2,583 | 2,083 | 2,083 | 2,083 |
| Accounting & Financing | 5,755 | 6,311 | 4,967 | 4,943 | 9,843 |
| Contributions To Revenue Reserves | 1,890 | 50 | 50 | 50 | 50 |
| Contributions To Capital Reserves | 0 | 3,473 | 0 | 0 | 2,000 |
| Total Expenditure | 130,665 | 129,507 | 128,643 | 130,711 | 139,483 |
| Funded by | | | | | |
| Home Office Pension Grant | (18,006) | (18,134) | (21,577) | (22,095) | (24,010) |
| Other Grants & Contributions | (7,448) | (6,958) | (6,961) | (6,963) | (6,966) |
| Sales, Fees Charges & Rents | (3,967) | (4,639) | (4,565) | (3,952) | (4,004) |
| Interest/Investment Income | (125) | (100) | (135) | (170) | (170) |
| Revenue Reserves | (4,127) | (697) | (337) | (100) | 0 |
| Capital Reserves | (2,121) | (3,305) | (1,927) | (1,928) | (6,857) |
| Formula Grant | (59,884) | (59,543) | (49,643) | (49,643) | (49,643) |
| Council Tax Income | (34,987) | (36,132) | (36,830) | (37,812) | (38,821) |
| Total Income/Funding | (130,665) | (129,507) | (121,974) | (122,663) | (130,470) |
| Net Savings Requirement | 0 | (0) | 6,669 | 8,048 | 9,013 |

3.2 The table shows estimated expenditure based on the budget proposed by and agreed with Cumbria Constabulary. It also includes expenditure for services that will be commissioned with wider partners and the Constabulary in support of the priorities within the Police and Crime Plan. The budget plan provides estimated funding of £129.5m in 2016/17 to support an equivalent level of expenditure. Between 2017/18 and 2019/20 the gap between income and expenditure is expected to increase to £9m. This is the net impact of inflationary pressures on expenditure and estimated reductions in Police Grant offset by increases in Council Tax Income and Pensions Grant, the later funding growth in the cost of police pensions. The Constabulary, as the main recipient of funding from the Commissioner, will provide annual plans for a reciprocal reduction in costs, ensuring an overall balance of resources through the delivery of a savings programme. At the time of writing this report, plans for delivering saving have been developed but are subject to implementation. Section 6 within this report sets out more information on the impact of implementing the change programme to achieve the required reductions in expenditure.

4 2016/17 Policing Bodies Grant Settlement

4.1 On the 17th December 2015 the provisional funding allocations for policing bodies in England and Wales were announced. The funding allocations were based on a 0.6% cash reduction that consolidated the previously announced national funding with a number of top-slicing reductions to fund national policing initiatives. The final settlement was announced on 4th February and confirmed that there would be no changes to the provisional settlement. The outcome of the settlement is a formula funding amount of £59.543m for the Cumbria police area for 2016/17. The equivalent figure for 2014/15 was £59.884m. There are no indicative figures for future years.

4.2 The settlement confirmed that the current arrangements for formula funding and damping would continue for 2016/17. This means all policing bodies received the same percentage reduction in core Government funding. The financial position is expected to become significantly more difficult after 2016/17 with a significant risk of a worsening financial outlook as a result of changes to the Home Office police funding formula. More information on potential formula funding changes is set out in the Commissioner's Medium Term Financial Strategy. The budget currently assumes that the impact will be a reduction of £9.9m in Police Grant from 2017/18 but there is a high level of risk regarding this budget assumption.

4.3 In addition to the formula grant the Commissioner receives a number of specific grants for policing and crime. The key grants against which most funding is received are the Police Pensions

Top-Up Grant (£18m) and Home Office legacy Council Tax Grants of £4.85m. The Commissioner will also receive income of £0.59m to support responsibilities for commissioning support for victims and restorative justice.

4.4 In summary, the formula grant settlement has seen a small reductions in funding for local policing and crime reduction in Cumbria with a loss of £0.341m of recurrent formula income in 2016/17. The medium term forecast currently anticipates a further reduction in Police Grant from 2017/18 of £9.9m. On this basis, budgeted expenditure exceeds income by £11.6m. Savings of £2.5m are planned for 2016-17 resulting in a balanced budget with a residual balance of £9m in further savings to be delivered between 2017/18 and 2019/20.

5 Council Tax Income & Other Income

5.1 The net budget for the Cumbria Police area is funded by a combination of formula grant and Council Tax income. Income from Council Tax is dependent on a precept levied on each District Council in Cumbria. Total tax income is dependent upon the amount at which the precept is set, the number of properties charged (tax base) and the Police Area's share of any surplus or deficit on District Collection Funds. The Council Tax Base takes account of expected collection levels and discounts. The surplus or deficit position on each District Collection Fund reflects the extent to which actual collection and discounts have varied from the budget. Each precepting authority takes a share of the deficit or surplus pro-rata to their share of the precepts.

5.2 The amount of the council tax precept is a decision for the Commissioner, who will take account of the views of the Police and Crime Panel and other consultations in making that decision. This is providing the proposal on the precept is within the Government's Council Tax increase limits. The limits are set by Government each year and inform the percentage increase in Council Tax income allowed before the Commissioner would need to hold a public referendum. The Government has formally announced the Council Tax increase limits as part of the formula grant settlement. The limit for Policing Bodies is set at 2%. **The Commissioner's budget is based on a precept increase of 1.91%. The financial implications for residents are that the Band D Council Tax amount would increase to £216.63 for 2016/17, an increase of £4.05.**

5.3 Council tax income is forecast using the tax base estimates provided by district councils. Calculations of the tax base have taken into account billing authorities' responsibilities to support low income households with their council tax liabilities. This support is delivered by way of local

schemes that provide discounts. The discounts reduce the tax base and therefore also impact precepting bodies. Schemes are subject to review and the Police and Crime Commissioner is required to be consulted with regard to scheme changes. Districts have not proposed any changes to these schemes for the 2016/17 financial year.

5.4 The table below sets out the tax base for each district for 2016/17 and the tax base for the prior year. The table shows that the total tax base is estimated to increase by 2538 band D equivalent properties. Budgets from 2017/18 are based on an assumed annual increase in the tax base of 0.75%. The actual updated tax base will be incorporated into future budgets in the year it is notified by districts. If the tax base increases above our estimates this will deliver a small budget benefit whilst a decrease from our estimates will have a negative impact on funding.

| District | tax base 2015/16 | tax base 2016/17 | Increase (decrease) | % change |
|-------------------------|---------------------|---------------------|------------------------|-------------|
| Allerdale Borough | 28,905.29 | 29,470.67 | 565.38 | 2.0% |
| Barrow Borough | 18,061.47 | 18,555.44 | 493.97 | 2.7% |
| Carlisle City | 31,585.89 | 32,138.68 | 552.79 | 1.8% |
| Copeland Borough | 19,846.36 | 20,121.06 | 274.70 | 1.4% |
| Eden District | 19,543.10 | 19,886.14 | 343.04 | 1.8% |
| South Lakeland District | 44,202.64 | 44,510.88 | 308.24 | 0.7% |
| Total | 162,144.75 | 164,682.86 | 2,538.12 | 1.6% |

5.5 In addition to the recurrent grant and tax base income, the 2016/17 budget benefits from the net impact of a forecast surplus on the 2015/16 district collection funds. The table below shows the council tax attributable to each district for 2016/17 and the position on each district collection fund for 2015/16.

| Council Tax Income 2016/17 | tax base 2016/17 | precept (Band D) | Council Tax Income | Declared Surplus/ (Deficit) | Total 2016/17 |
|-------------------------------|---------------------|------------------------|-----------------------|-----------------------------------|----------------------|
| Allerdale Borough | 29,470.67 | 216.63 | 6,384,231.24 | 147,012 | 6,531,243.24 |
| Barrow Borough | 18,555.44 | 216.63 | 4,019,664.97 | 77,963 | 4,097,627.97 |
| Carlisle City | 32,138.68 | 216.63 | 6,962,201.92 | 95,157 | 7,057,358.92 |
| Copeland Borough | 20,121.06 | 216.63 | 4,358,824.40 | 52,173 | 4,410,997.40 |
| Eden District | 19,886.14 | 216.63 | 4,307,934.51 | 52,696 | 4,360,630.51 |
| South Lakeland District | 44,510.88 | 216.63 | 9,642,391.93 | 31,739 | 9,674,130.93 |
| Total | 164,682.86 | | 35,675,248.98 | 456,740 | 36,131,988.98 |

5.6 In addition to formula funding and Council Tax income, the budget includes an amount of one off income to support one off expenditure achieved through a contribution from reserves. The funding available to support the budget is determined annually and takes account of the funding settlement, the need to provide for budget risks and any estimated under spend from prior years. In total the 2016/17 budget is supported by the use of £4m earmarked revenue and capital reserves. The most significant element of this contribution is £3.3m from capital reserves that has been planned to support the capital programme.

5.7 Fees and charges income is estimated to provide £4.6m in 2016/17 in support of expenditure. This income is primarily derived from reimbursements for services and officers provided to support national and regional policing requirements in addition to income from driver awareness training and licensing. This income is generated on behalf of the Commissioner by the Constabulary and is netted off the overall funding provided to the Chief Constable. The general income target has been increased by £400k in 2016/17 to reflect prior year experience of actual income received and to support balancing the medium term budget.

6 Expenditure Budget & Savings

6.1 Gross expenditure of £129.5m can be supported by budgeted income in 2016/17. The same level of funding is not expected to be available in 2019/20 meaning that £9m savings will be needed to offset rising costs from 2017/18. The key driver in the level of savings requirements is cost pressures increasing whilst the total level of external financing reduces. Inflation on pay costs has been held at between 1% for the life of the medium term forecast. Inflation on supplies has been set at 1% in 201/17 followed by 1.9% for the remainder of the medium term forecast in line with Bank of England estimates. A zero based approach to setting the budget removed £1.8m of recurrent expenditure from these budgets by taking a more risk based approach to likely levels of expenditure. Low levels of inflation and a robust approach to keeping supplies and services costs low is helping to keep expenditure pressures low in the medium term.

6.2 Whilst upward pressures on expenditure are low and being well managed, budgeted income is forecast to fall, creating the requirement for savings to deliver a balanced budget. The savings programme introduces schemes for cost reduction over the life of the medium term budget. The savings that need to be made over the life of this medium term financial forecast are in addition to savings of over £20m that have already been delivered since 2010. Historic savings have largely

been delivered through efficiency savings in back office and support costs with the visible front line services being largely protected. The savings programme for the next four years will reduce front line services. Police officer numbers are forecast to reduce from the current establishment of 1123 to 997, a reduction of 123 posts. Police staff posts are forecast to reduce from 582 currently to 595, a loss of 67 posts. Fully balancing the current deficit by 2019/20 will require further consideration of the number of police officers, PCSO's and police staff that can be supported by the budget.

7 Capital Funding & Expenditure

7.1 In addition to revenue grants the Commissioner also receives a small amount of annual capital funding that supports a capital programme. The programme is developed in consultation with the Constabulary who are the primary user of the capital assets under the ownership of the Commissioner. The budget benefits from £0.43m in capital grant to support capital expenditure from the 2016/17 settlement. This compares to £0.71m in 2015/16. The reduction is as a result of a 40% national top-slicing from capital allocations. The decreasing level of capital grant provides a widening gap between the requirement for capital expenditure and capital funding. This has to be met by revenue contributions to capital and capital receipts from the disposal of property. The revenue budget currently contributes £1.2m recurrently per annum to fund capital. Over the four years of the medium term financial forecast, major capital schemes for ICT and estates are primarily funded through one off reserves and capital receipts. In future years beyond 2019/20 revenue contributions will be the primary source of capital funding.

8 Reserves and Balances

8.1 Over the life of the financial forecast total reserves are planned to reduce from £22m at the start of 2016/17 to £12.5m by end of March 2020. This is because only £3m of the total are general balances held for managing financial risks and resilience. All other funds are earmarked reserves, the substantial majority of which are planned to be used over the course of the next four years. Of the £12.5m reserves in 2020, £7.3m comprise capital reserves planned to fund the capital programme in 2021.

8.2 This report does not recommend any further movement in reserves as a result of the inherent risk in the funding settlement. The policy on reserves, setting out the purposes for which

they are held and planned movements over the life of the medium term budget are set out in appendix B.

9 Consultation & Value for Money

9.1 The Commissioner has undertaken consultation on the budget and the Police and Crime Plan in line with regulatory requirements. A public consultation on the police precept was carried out during the twelve week period 1st August to 31 October 2014 to determine public opinion on a precept increase for 2015/16 and 2016/17. The consultation comprised an independent statistically significant telephone survey undertaken by a nationally recognised company. The survey was supported by a number of county wide engagement events and an online survey. The outcome of the public consultation indicated that the majority of those surveyed would support a rise in the police precept of at least 1.9% for the next two financial years. Further public consultation has taken place through the Police and Crime Panel and with reports on the Commissioner's website during the budget setting process for 2016/17. The Panel voted to support the Commissioner's proposal at its meeting 25th January 2016 and made no further recommendations.

9.2 The Police and Crime Plan is underpinned by a performance framework that supports the Commissioner in holding the Chief Constable to account for delivering priorities and securing value for money. In developing the framework consideration is given to past performance, benchmarking against most similar forces, the level of officer and staffing resources that can be supported by the budget and the impact of the continuing implementation of the savings programme.

10 Summary

10.1 This report presents and explains the budget plans for the period from 2016/17 to 2019/20. The budget is balanced based on a precept increase of 1.91% and the delivery of £2.5m of change programme savings during 2016/17. Future year savings requirements are based on estimated figures for funding settlements beyond the next financial year. The estimates present a high degree of risk arising from a fundamental review of formula funding that will inform future grant allocations. The precept proposal will increase the annual Council Tax attributable to the Commissioner by £4.05 for a Band D property resulting in a Band D Council Tax charge of £216.63.

11 Recommendations

Appendix C sets out the budget resolution for decision by the Commissioner in order to formally approve the level of council tax precept. In the context of the budget resolution, it is recommended that:

- a) **The revenue budgets outlined in this report and appendices be approved, having regard to the Local Government Act 2003 report**
- b) **That the policy on reserves at appendix B be approved**
- c) **That the budget requirement for 2016/17 be set on the basis of the amount within the budget resolution at appendix C**
- d) **The council tax for Band D properties be approved at £216.63 for 2016/17, an increase of £4.05 or 1.91%, being the amount within the budget resolution**

12 Acknowledgements

12.1 The budget is recommended to the Commissioner with recognition for the hard work and support of the finance team who provide detailed income and expenditure forecasts and for the work of the Police and Crime Panel in providing challenge and scrutiny to the budget proposal.

Ruth Hunter

Chief Finance Officer/Deputy Chief Executive

24 February 2016

Human Rights Implications

None identified

Race Equality / Diversity Implications

Budget savings proposals are supported by the Change Programme Equality Impact Assessment (EIA) that is subject to regular review and update. Individual proposals where appropriate are identified for a specific EIA review.

Risk Management Implications

There is a legal requirement to set a balanced budget. The Commissioner's strategic risk register recognises the importance of sound financial planning.

Financial Implications

The main financial impacts are described in the paper

Personnel Implications

As identified in the report

Contact points for additional information

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Appendix A

| the budget for the Commissioner and the budget for the Chief constable | Budget | Budget | Budget | Budget | Budget |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
| | £000s | £000s | £000s | £000s | £000s |
| Constabulary Funding | | | | | |
| Police Officers - Pay | 57,452 | 56,303 | 57,851 | 58,799 | 58,117 |
| Police Officers - Contribution to Police Pension | 18,006 | 18,134 | 21,577 | 22,095 | 24,010 |
| Police Officers - Ill Health & Injury Pensions | 889 | 889 | 900 | 915 | 931 |
| Police Community Support Officers | 2,811 | 2,814 | 3,031 | 3,023 | 3,120 |
| Police Staff | 18,556 | 18,993 | 18,369 | 18,533 | 18,698 |
| Other Employee Budgets | 803 | 672 | 534 | 544 | 555 |
| Transport Related Expenditure | 2,470 | 2,134 | 2,193 | 2,255 | 2,318 |
| Supplies & Services | 9,878 | 9,675 | 9,062 | 9,314 | 9,442 |
| Third Party Related Expenditure | 1,616 | 1,630 | 1,660 | 1,692 | 1,724 |
| Constabulary Expenditure | 112,480 | 111,244 | 115,178 | 117,170 | 118,916 |
| Earned Income | (3,967) | (4,639) | (4,565) | (3,952) | (4,004) |
| Total Constabulary Funding | 108,513 | 106,605 | 110,612 | 113,218 | 114,912 |
| | | | | | |
| Commissioners Budgets | | | | | |
| Office of the Police & Crime Commissioner | 799 | 759 | 768 | 777 | 786 |
| Commissioned Services Budget | 2,699 | 2,250 | 1,850 | 2,000 | 2,000 |
| Sexual Assault Support Service | 0 | 333 | 233 | 83 | 83 |
| Premises Related Costs | 3,717 | 3,529 | 3,610 | 3,694 | 3,780 |
| LGPS Past Service Costs | 799 | 799 | 1,199 | 1,199 | 1,199 |
| Insurances and Management of Change | 2,533 | 767 | 795 | 803 | 833 |
| Technical Accounting and Capital Financing | 5,748 | 6,304 | 4,960 | 4,936 | 9,836 |
| Contributions to Revenue Reserves | 1,890 | 50 | 50 | 50 | 50 |
| Contributions to Capital Reserves | 0 | 3,473 | 0 | 0 | 2,000 |
| Grants & Contributions - Home Office Pension | (18,006) | (18,134) | (21,577) | (22,095) | (24,010) |
| Grants & Contributions - Other | (7,448) | (6,958) | (6,961) | (6,963) | (6,966) |
| Interest/Investment Income | (125) | (100) | (135) | (170) | (170) |
| Total Commissioners Budget | (7,394) | (6,928) | (15,207) | (15,687) | (10,579) |
| | | | | | |
| Use of Reserves | | | | | |
| Revenue Reserve Drawdown | (4,127) | (697) | (337) | (100) | 0 |
| Capital Reserve Drawdown | (2,121) | (3,305) | (1,927) | (1,928) | (6,857) |
| Total Use of Reserves | (6,248) | (4,002) | (2,264) | (2,028) | (6,857) |
| | | | | | |
| Budget Requirement | 94,871 | 95,675 | 93,142 | 95,503 | 97,477 |
| Formula Grant & Council Tax Income | | | | | |
| General Police Grant | (59,884) | (59,543) | (49,643) | (49,643) | (49,643) |
| Council Tax Precepts | (34,987) | (36,132) | (36,830) | (37,812) | (38,821) |
| Total Formula Grant & Council Tax Income | (94,871) | (95,675) | (86,473) | (87,454) | (88,464) |
| | | | | | |
| Net Deficit/Savings Requirement | 0 | (0) | 6,669 | 8,048 | 9,013 |
| | | | | | |
| Council Tax per Band D Property | £208.62 | £212.58 | £216.64 | £220.78 | £225.02 |
| Increase over previous year | £3.96 | £3.96 | £4.06 | £4.14 | £4.24 |
| Percentage Increase | 1.93% | 1.90% | 1.91% | 1.91% | 1.92% |

Policy on Reserves 2016/17

Our policy on reserves meets the statutory requirement to consider annually the level of reserves that should be held to meet future expenditure requirements when setting the budget. It sets out the purpose for which reserves are held and the planned movement in reserves over the life of this strategy. Our reserves are held for three main purposes. These are:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
- a contingency to cushion the impact of unexpected events or emergencies
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted pressures or liabilities

The level of reserves should take into account the medium term financial plan and not be based solely on short term considerations. Set out below is a description of the reserves held by the Commissioner, the purpose for which they are held and a table setting out the planned movement in reserves over the life of this medium term financial strategy.

General Reserves: The general reserve is the main contingency for unexpected events, and the management of cash flow. The level of general reserve is £3m in 2016-17. The amount represents approximately 3% of the net

recurrent budget (after specific grants & fees and charges). The level of the general reserve takes account of the risks within the budget as set out in the Chief Finance Officer's report on the robustness of the budget and the level of provision for those risks within specific earmarked reserves and contingencies.

Capital Reserves: Capital reserves are a combination of general and earmarked revenue contributions that have been set aside to meet the costs of approved capital schemes to be delivered over multiple financial years. Capital schemes are only included within the capital programme on the basis of setting aside funding to meet the expenditure. The policy is that general capital reserves will be maintained at a level to ensure a balanced capital budget for the duration of the medium term financial forecast.

Earmarked Reserves: Earmarked reserves are held for a number of specific purposes. Future liability reserves provide for areas within the budget where there is a liability but the amount or timing is uncertain. Budget stabilisation reserves are established to smooth the impact of intermittent costs across financial years. Project reserves primarily fund the one off revenue implications of approved capital schemes.

Planned Movement in Reserves 2016/17 to 2019/20

| Reserves | 01 April | 2016/17 | 2016/17 | 01 April | 2017/18 | 2017/18 | 01 April | 2018/19 | 2018/19 | 01 April | 2019/20 | 2019/20 | 01 April |
|---|---------------|--------------|----------------|---------------|-----------|----------------|---------------|-----------|----------------|---------------|--------------|----------------|---------------|
| | 2016 | Receipt | Payment | 2017 | Receipt | Payment | 2018 | Receipt | Payment | 2019 | Receipt | Payment | 2020 |
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| General Reserve/Police Fund | 3,000 | 0 | 0 | 3,000 | 0 | 0 | 3,000 | 0 | 0 | 3,000 | 0 | 0 | 3,000 |
| General Reserve/Police Fund | 3,000 | 0 | 0 | 3,000 | 0 | 0 | 3,000 | 0 | 0 | 3,000 | 0 | 0 | 3,000 |
| | | | | | | | | | | | | | |
| General Capital reserve | 2,810 | 1 | (2,811) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,000 | (257) | 1,743 |
| North Resilience Flood Management | 0 | 2,549 | (494) | 2,055 | 0 | (1,177) | 878 | 0 | (878) | 0 | 0 | 0 | 0 |
| West Resilience Flood Management | 13,077 | 923 | 0 | 14,000 | 0 | (750) | 13,250 | 0 | (1,050) | 12,200 | 0 | (6,600) | 5,600 |
| Total Capital Reserves | 15,887 | 3,473 | (3,305) | 16,055 | 0 | (1,927) | 14,128 | 0 | (1,928) | 12,200 | 2,000 | (6,857) | 7,343 |
| | | | | | | | | | | | | | |
| Future Liability Reserves | | | | | | | | | | | | | |
| Insurance | 523 | 0 | 0 | 523 | 0 | 0 | 523 | 0 | 0 | 523 | 0 | 0 | 523 |
| PFI Lifecycle | 303 | 0 | 0 | 303 | 0 | 0 | 303 | 0 | 0 | 303 | 0 | 0 | 303 |
| Budget Stabilisation Reserves | | | | | | | | | | | | | |
| PCC Operational | 250 | 0 | 0 | 250 | 0 | 0 | 250 | 0 | 0 | 250 | 0 | 0 | 250 |
| Constabulary Operational | 250 | 0 | 0 | 250 | 0 | 0 | 250 | 0 | 0 | 250 | 0 | 0 | 250 |
| Constabulary Contingency | 500 | 0 | 0 | 500 | 0 | 0 | 500 | 0 | 0 | 500 | 0 | 0 | 500 |
| Body Armour | 41 | 50 | 0 | 91 | 50 | 0 | 141 | 50 | | 191 | 50 | 0 | 241 |
| Short Term Project Reserves | | | | | | | | | | | | | |
| ICT Business Plan (Revenue) | 868 | 0 | (578) | 290 | 0 | (290) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Short Term Projects | 345 | 0 | (119) | 226 | 0 | (47) | 179 | 0 | (100) | 79 | 0 | 0 | 79 |
| Total Earmarked Revenue Reserves | 3,080 | 50 | (697) | 2,433 | 50 | (337) | 2,146 | 50 | (100) | 2,096 | 50 | 0 | 2,146 |
| | | | | | | | | | | | | | |
| Total All Reserves | 21,967 | 3,523 | (4,002) | 21,488 | 50 | (2,264) | 19,274 | 50 | (2,028) | 17,296 | 2,050 | (6,857) | 12,489 |

Appendix C

Budget Resolution

Local Government Act 2003 Requirements: That the comments of the Chief Finance Officer on the robustness of the estimates and adequacy of balances and reserves be noted and reflected in the decisions made by the Commissioner in making the following budget determination for 2016/17.

Revenue Estimates 2016/17: That the Commissioner's net **Budget Requirement** of £95,674,784 be approved.

Council Tax Base 2016/17: That it is noted that the Council Tax based has been calculated at the amount of 164,682.86 for 2016/17. This is the total of the tax bases calculated by the District Councils as required by regulation.

Budget Requirement: That the following amounts are calculated by the Commissioner for the 2016/17 financial year:

| | | |
|-----|--------------|--|
| (a) | £129,507,378 | being the total of gross expenditure |
| (b) | £33,832,594 | being the total of income from specific grants, fees and charges and transfers from reserves |
| (c) | £95,674,784 | being the Budget Requirement for the year to be met from Council Tax and External Finance |
| (d) | £59,542,795 | being the total the Commissioner estimates will be received from external financing, being the Police Grant |
| (e) | £456,740 | being the net surplus on district collection funds |
| (f) | £35,675,249 | being the council tax requirement (the budget requirement less the collection fund surplus and external finance) |
| (g) | £216.63 | being the basic amount of Council Tax for the year (the council tax requirement divided by the tax base) |

Valuation Bands and Calculation of the amount of Precept payable by each billing authority

| Valuation Band | Amount £.pp | Proportion |
|----------------|---------------|------------|
| | £ | |
| Band A | 144.42 | 6/9 |
| Band B | 168.49 | 7/9 |
| Band C | 192.56 | 8/9 |
| Band D | 216.63 | 9/9 |
| Band E | 264.77 | 11/9 |
| Band F | 312.91 | 13/9 |
| Band G | 361.05 | 15/9 |
| Band H | 433.26 | 18/9 |

| Billing Authority | tax base 2016-17 | precept (Band D) | Amount payable |
|-------------------------|-------------------|------------------|----------------------|
| | | | |
| Allerdale Borough | 29,470.67 | 216.63 | 6,384,231.24 |
| Barrow Borough | 18,555.44 | 216.63 | 4,019,664.97 |
| Carlisle City | 32,138.68 | 216.63 | 6,962,201.92 |
| Copeland Borough | 20,121.06 | 216.63 | 4,358,824.40 |
| Eden District | 19,886.14 | 216.63 | 4,307,934.51 |
| South Lakeland District | 44,510.88 | 216.63 | 9,642,391.93 |
| | | | |
| Total | 164,682.86 | | 35,675,248.98 |

| | | | | | |
|-----------|-------|--------|-----------|-------|--------|
| 658.24 | -0.22 | 11.32% | 4.22 | -0.22 | 10.00% |
| 21.23 | +0.22 | 11.32% | 838.34 | -8.22 | 11.32% |
| 20.34 | +0.32 | 10.32% | 21.23 | +9.32 | 11.56% |
| 72.20 | -0.21 | 11.10% | 20.34 | +0.32 | 10.32% |
| 21.322.90 | +3.12 | 10.94% | 72.20 | -0.21 | 13.10% |
| 3.00 | -9.33 | 10.64% | 51.322.00 | +3.12 | 10.04% |
| 21.33 | -3.38 | 10.29% | 3.00 | -9.33 | 10.66% |
| 238.27 | -7.93 | 18.16% | 23.03 | -3.38 | 15.29% |
| 928.10 | -5.03 | 10.90% | 238.27 | -7.93 | 18.12% |
| 58.23 | +0.34 | 10.93% | 928.10 | +3.03 | 10.89% |
| 4.25 | +0.00 | 11.93% | 58.23 | +0.34 | 10.93% |
| 46.32 | -3.23 | 11.32% | 4.25 | +0.00 | 11.93% |
| 47.38 | +3.96 | 10.32% | 46.02 | -3.23 | 11.32% |
| 78.12 | -3.21 | 10.90% | 47.38 | +3.96 | 10.32% |
| 21.494.57 | -0.32 | 15.32% | 78.12 | -3.21 | 10.99% |
| 2.48 | +0.73 | 10.02% | 21.494.57 | -0.32 | 15.32% |
| 332.45 | +2.09 | 11.87% | 2.48 | +0.73 | 15.32% |
| 86.39 | -3.94 | 10.89% | 332.45 | +2.09 | 11.87% |
| 4.21 | +0.34 | 10.93% | 86.39 | -3.94 | 11.87% |
| 132.09 | +0.00 | 11.93% | 4.21 | +0.34 | 10.93% |
| 33.33 | +2.23 | 13.78% | 132.09 | +0.00 | 11.93% |
| 57.92 | -2.23 | 11.32% | 33.33 | +2.23 | 13.78% |
| 21.33 | -2.21 | 10.74% | 57.92 | -2.23 | 11.32% |
| 832.98 | +3.96 | 10.32% | 21.33 | -2.21 | 10.74% |
| 72.12 | +1.32 | 12.16% | 832.98 | +3.96 | 10.32% |
| 633.22 | -3.21 | 10.90% | 72.12 | +1.32 | 12.16% |
| 51.126.80 | -0.32 | 15.32% | 633.22 | -3.21 | 10.90% |
| 3.00 | +9.73 | 10.02% | 51.126.80 | -0.32 | 15.32% |
| 83.12 | +2.09 | 11.87% | 3.00 | +9.73 | 10.02% |
| 63.38 | +0.32 | 11.56% | 83.12 | +2.09 | 11.87% |
| 234.22 | +0.32 | 10.32% | 63.38 | +0.32 | 11.56% |
| 12.32 | -0.21 | 13.10% | 234.22 | +0.32 | 10.32% |
| 28.13 | +3.33 | 10.32% | 12.32 | -0.21 | 13.10% |
| 78.75 | +0.32 | 12.21% | 28.13 | +3.33 | 10.32% |
| 89.43 | +4.10 | 11.93% | 78.75 | +0.32 | 12.21% |
| 92.42 | -0.43 | 19.83% | 89.43 | +4.10 | 11.93% |
| 9329.12 | +3.03 | 10.89% | 92.42 | -0.43 | 19.83% |
| 23.32 | +0.34 | 10.93% | 9329.12 | +3.03 | 10.89% |
| 928.10 | +0.00 | 9.93% | 23.32 | +0.34 | 10.93% |
| 98.23 | +3.23 | 13.78% | 928.10 | +0.00 | 9.93% |
| 4.25 | +3.23 | 11.32% | 98.23 | +3.23 | 13.78% |
| 46.32 | +9.21 | 10.74% | 4.25 | +3.23 | 11.32% |
| 47.38 | +3.96 | 10.32% | 46.32 | +9.21 | 10.74% |
| 78.12 | +1.32 | 12.16% | 47.38 | +3.96 | 10.32% |
| 21.494.57 | +9.21 | 10.90% | 78.12 | +1.32 | 12.16% |
| 78.75 | +0.32 | 12.21% | 21.494.57 | +9.21 | 10.90% |
| | | | 78.75 | +0.32 | 12.21% |



Police and Crime Commissioner for Cumbria

Medium Term Financial Strategy 2016-2020

Contents

| | Page |
|---|---|
| Foreword | ■ 4 |
| Medium Term Financial Strategy | ■ 5 |
| National Police Funding | |
| ■ Spending Review 2015 | ■ 6 |
| ■ Police Formula Funding | ■ 7 |
| Our Finances | |
| ■ Our income | ■ 9 |
| ■ Changes in our income | ■ 10 |
| ■ Total forecast income 2016-2020 | ■ 14 |
| ■ How the money is spent | ■ 15 |
| ■ Total forecast expenditure 2016-2020 | ■ 17 |
| ■ The net deficit and plans for savings | ■ 19 |
| Managing Our Money | |
| ■ Achieving our Financial Objectives | ■ 23 |
| ■ Policy on Reserves | ■ 26 |
| ■ Other Key Financial Policies | ■ 29 |
| Financial Governance | |
| ■ Control Frameworks and Assurance | ■ 33 |
| ■ Managing Financial Risk | ■ 36 |
| Capital and Assets | |
| ■ The Capital Programme | ■ 38 |
| ■ Capital Expenditure | ■ 39 |
| ■ Capital Financing | ■ 41 |
| Annexe 1 | Four Year Budget ■ 43 10 year Capital Programme ■ 44 |
| Appendix A | Objective Analysis Descriptions ■ 45 |
| Appendix B | Treasury Management Investment Counterparties ■ 46 |

Welcome to the Police and Crime Commissioner for Cumbria's Medium Term Financial Strategy. The purpose of this document is to inform our stakeholders of our financial plans and policies for 2016-2020. It includes information on our approach to balancing our annual budgets, taking into account the 2015 Comprehensive Spending Review (CSR), changes to the police funding formula and the aspirations of the Police and Crime Plan. It also sets out our approach to financial management and governance and includes our capital programme setting out our expenditure plans for the estate, our vehicle fleet and investment in ICT.

This strategy has been developed in the context of the 2015 CSR that sets out the Government's plans for public spending. Those plans protect police spending in real terms and provide for continuity in the levels of real cash funding to police forces, when taking into account the capacity of Police and Crime Commissioners to raise council tax by up to 2%. During the CSR period the government aims to implement changes to the way police forces are funded. This review of formula funding is currently planned for implementation from April 2017. The CSR commitments make a significant contribution to the medium term financial outlook however the review of formula funding presents some specific challenges for policing in Cumbria.

This medium term financial strategy presents a balanced budget for 2016-17 following which a net deficit results in the requirement for significant savings. The four year forecast is presented on the assumption that funding changes will reduce formula grant resources for Cumbria by £9.9m. There are risks that this assumption proves optimistic when actual formula allocations are calculated because there is potential for a greater funding loss. On the basis of all available information it is a realistic planning assumption that ensures a level of preparedness for future funding settlements. Underlying savings plans are scalable and will be refined as soon as more information is known.

On the basis of these financial plans we will resource an establishment of 1123 police officers, 95 PCSO's and 571 police staff in 2016-17. By 2019-20 we expect police officer numbers to reduce to 997. This is a significant reduction from the position prior to the first CSR in 2010. The Police and Crime Commissioner and the Chief Constable are however satisfied that the financial plans within this strategy can sustain an independent policing model for Cumbria that delivers the aspirations within the Police and Crime Plan.

Medium Term Financial Strategy

Purpose

This strategy presents the medium term financial forecasts for revenue and capital expenditure. It supports the priorities of the Police and Crime Plan and ensures a strategic approach to setting the annual budget, including decisions on the level of council tax. Revenue budgets are forecast forward over 4 years. Capital budgets are presented over a ten year timeframe to reflect the greater degree of annual volatility in capital expenditure. The strategy sets out the key assumptions and financial policies that underpin the forecasts. This supports decisions on the level of risk within budgets and the level of provision within reserves to manage those risks.

The Police and Crime Plan Thematic Areas of Priority

Domestic abuse,
sexual violence
and hate crime

Restorative
Justice

An effective
policing strategy

Supporting
victims

Public
engagement

Key Financial Objectives

- To deliver a robust and balanced medium term financial plan and annual budget supported by an in-year reporting framework that monitors its delivery.
- To ensure arrangements for funding between the Commissioner and Constabulary deliver value for money and support the priorities of the Police and Crime Plan
- To ensure capital expenditure plans are robustly scrutinised, fully funded for a minimum of four years and are supported by capital strategies that meet the needs of the business
- To maintain a risk assessed level of reserves to meet unplanned expenditure and to provide revenue budget smoothing for intermittent costs.
- To ensure treasury management activities provide for the security of the Commissioner's funds whilst meeting the cash management needs of the Commissioner and Constabulary
- To provide a framework for financial governance that ensures the proper administration of the Commissioner's financial affairs

Spending Review & Formula Funding

This section of our strategy sets out the national financial plans that influence our funding locally and on which our medium term financial forecasts are based.

Spending Review 2015

2015-16, the starting point for the development of this strategy, has marked a significant year for police funding. On 25 November 2015 the Chancellor of the Exchequer, George Osborne MP, announced the outcome of the Comprehensive Spending Review (CSR) 2015, detailing spending settlements for each government department over the next four years (2016-17 to 2019-20). It has also

**Home Office total
funding: £11.2bn, of
which Police Grant
funding is £7.4bn
2016-17**

been the year in which the Home Office commenced a long awaited consultation on police formula funding, the mechanism through which national funding for police is distributed to policing areas locally.

Despite expectations that police funding would see significant reductions as part of the CSR 2015, in his speech, the Chancellor addressed police funding and said: "now is not the time for further police cuts, now is the time to back our police and give them the tools to do the job." The Spending Review document added that police force budgets will be maintained at current cash levels. Home Office funding under the CSR increases from £10.7bn in 2015-16 to £11.2bn in 2016-17, reducing down to £11bn by 2019-20. The CSR also announced £1bn investment in the emergency services mobile network and an additional £500m for counter-terrorism.

A letter from the Home Office to Police and Crime Commissioner's on 25th November confirmed that this meant a flat real settlement for policing as a whole when taking into account the capacity to raise council tax. The letter also advised that Commissioners should plan on the basis that the overall referendum limit for the police precept will be maintained at 2% over the spending review period. This is the first time that discretions over police precept have been announced on a multi-year basis.

The Home Office letter announced a number of planned changes to policing to be set out in the Police and Criminal Justice Bill. This included proposals to extend the role of PCC's to police complaints, fire and rescue and other services, to support better co-ordination and improve accountability.

Whilst the CSR set out total year on year funding for the Home Office, there has been no separate announcements on local police area funding over the CSR period. The Police Grant Settlement setting out funding for each Police and Crime Commissioner covers 2016-17 only. The table below shows the national totals and the share for Cumbria.

| 2016-17 Funding Settlement | Police Grant Funding | Legacy Council Tax Grants | Overall Total Funding |
|---|----------------------|---------------------------|-----------------------|
| National Total England & Wales | 6,914,200,241 | 507,388,388 | 7,421,588,629 |
| Police and Crime Commissioner for Cumbria | 59,542,795 | 4,849,759 | 64,392,554 |
| Cumbria % of National Funding | 0.86% | 0.96% | 0.87% |

Police Grant Funding is the amount received from the Home Office in respect of historic grants from government departments. Legacy council tax grants are funding that compensates policing areas for the loss of council tax income. It is allocated as a result of decisions to freezing council tax and the introduction of local schemes to support low income households with their council tax bills. Cumbria receives less than 1% of the overall funding total for 2016-17.

Police Formula Funding

In the summer of 2015 the Home Office issued a consultation on a set of principles and proposals for a new formula to distribute the £7.4bn national funding to local policing areas. There has been broad consensus on the need for changes to the current mechanism for local funding. The underlying data on which police grant is currently distributed is no longer capable of being updated. There has also been a failure to implement the outcome of previous formula review. As a result of these issues, a simple damping mechanism has been applied which has resulted in an annual equal percentage change to the funding currently allocated to each Police and Crime Commissioner.

Whilst the initial intention of the Home Office was to implement the new formula from 2016-17, an error in the process means that the review has been delayed and it is now expected to be introduced from 2017-18. Forecasts of the potential financial implications for resources within Cumbria as a result of current proposals are significant. The error acknowledged by the Home Office mean that there is uncertainty in respect of which statistical measures will be used in the final formula. It is expected that the final model will be strongly based on deprivation indicators supported to a lesser extent by population. The latest proposed formula model is set out below:

| Formula Funding Proposed Indicators and Weight | Weighting |
|---|-----------|
| Population volume | 30% |
| Households with no adults employed and dependent children | 31% |
| Hard Pressed or Urban adversity/Acorn 5 | 31% |
| Volume and bar density | 8% |

Of significance in the proposal is the inclusion of the highlighted indicator, Acorn 5 Urban Adversity. This indicator replaced Acorn 5 Hard Pressed, a deprivation measure that was included in the initial summer consultation. Changes to the formula using the Urban Adversity measure results in a significant funding loss for Cumbria compared to if the Hard Pressed measure is adopted. There are further financial implications dependent on decisions regarding the inclusion or exclusion of legacy council tax grants within the final formula.

| Formula Funding Review: Potential Financial Implications | Formula Grant | Legacy C T | Overall Total |
|--|---------------|------------|---------------|
| Cumbria Formula Grant 2016-17 | 59,542,795 | 4,849,759 | 64,392,554 |
| Percentage | 0.86% | 0.96% | 0.87% |
| Formula Funding (Hard Pressed) 0.7178% | 49,630,129 | 3,642,034 | 53,272,163 |
| Formula Funding (Urban Adversity) 0.6319% | 43,690,831 | 3,206,187 | 46,897,019 |
| Loss of Formula Funding (Hard Pressed) | 9,912,666 | 1,207,725 | 11,120,391 |
| Loss of Formula Funding (Urban Adversity) | 15,851,964 | 1,643,572 | 17,495,535 |

The table shows that the formula funding review presents a financial risk estimated at between £9.91m and £17.49m, dependent on the specific indicators adopted and on whether legacy council tax grants are also distributed within the formula. Pending the receipt of firm information on the final formula, the medium term financial strategy currently incorporates the funding loss for the Hard Pressed indicator and excludes legacy council tax grants. The full range of financial risk arising from the funding review is being planned for in the change programme. Further information on the implications of the funding loss is set out in the strategy section on our finances.

£9.9m to £17.5m:
The estimated
financial risk from
formula funding
review

This section of our strategy sets out our main areas of income and expenditure, with detailed budgets for 2016-17 and a high level forecast for the four years to 2019-20.

Our Income

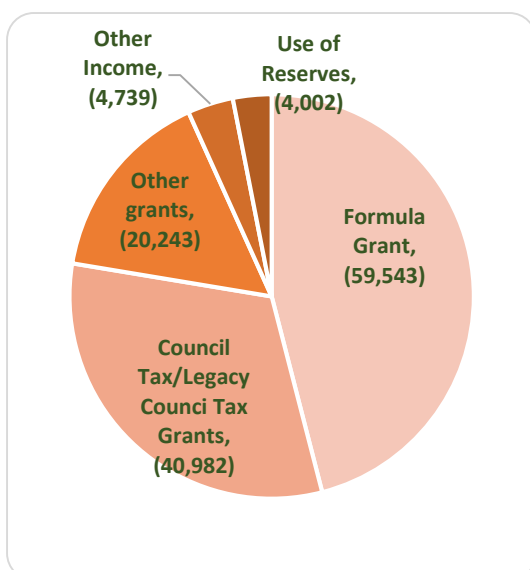
The main income for our budget comes from three sources, Police Grant from the Home Office, Council Tax income from levying a precept and specific grants from government departments. We also have smaller amounts of income from fees and charges and some of our expenditure is funded from reserves we have set aside to meet specific one off costs. The charts below compare our main sources of income for 2016-17 and 2019-20 and show how we expect income to change over the four years to 2019-20. Our forecasts of income change significantly in 2017-18 as a result of proposed changes to the funding formula that distributes total Home Office funding for the police to individual policing areas. Whilst formula funding goes down in 2017-18, by 2019-20 our other grant and council tax income goes up. We also make use of our reserves. This means our total gross income increases to £130.0m in 2019-20, but with a much smaller proportion of that funding coming from Police Grant.

£129.5m: total gross income for 2016-17
£122.m: total gross income for 2017-18

Graph one: Where the Money Comes From

Our Income budget 2016-17

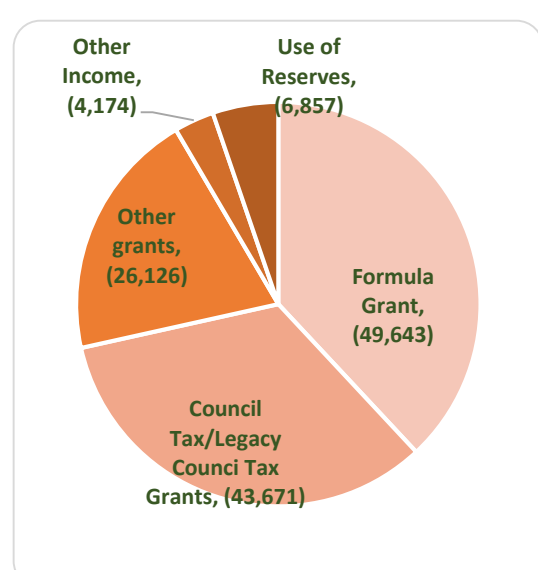
£000

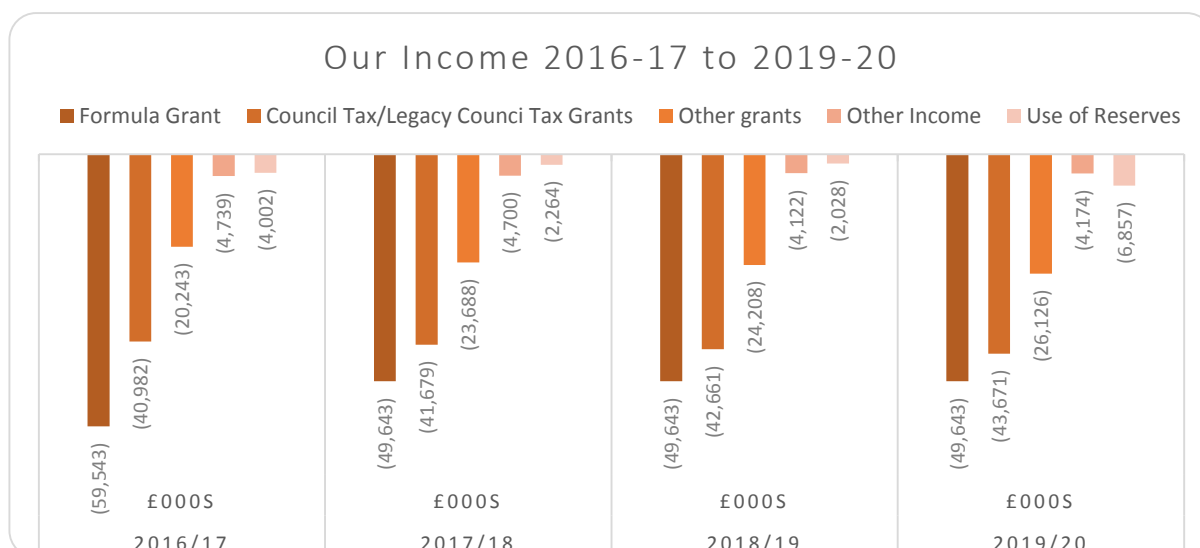


Graph two: Income Forecast

Our forecast Income Budget 2019-20

£000





Changes in our Income

Formula Grant Income

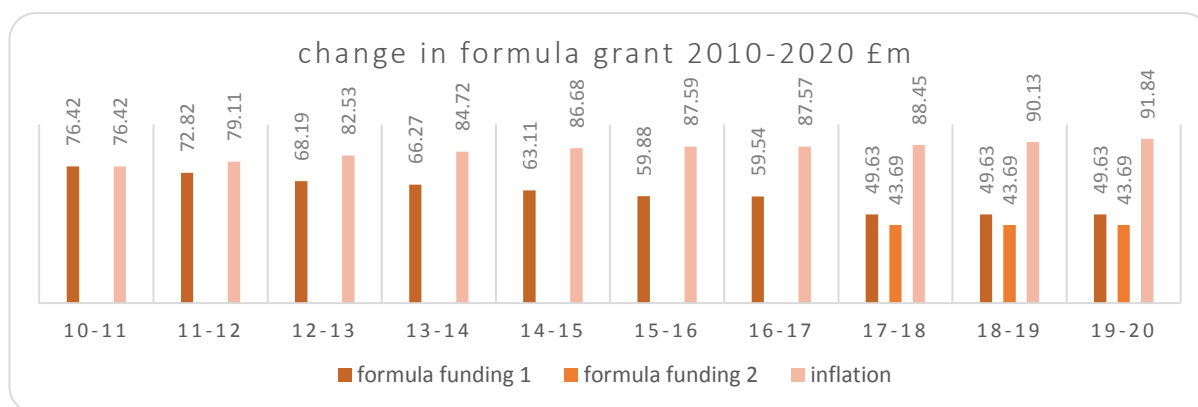
Over the next four years, the most significant change in our income is expected from formula funding. The Home Office plans to introduce a new formula, from 2017-18, that will change how the total amount of funding for police areas is distributed. It is expected that this change will result in a

£26.8m to £32.7m
The forecast loss for
formula grant
between 2010 and
2017

loss of core formula funding of at least £9.9m for Cumbria, with potential for this loss to be as much as £15.8m. There is a further potential impact on legacy council tax grant funding. This loss of funding follows a significant reduction in formula grant between 2010 and 2016 as a result of the 2010 CSR.

The chart below sets out the implications for our levels of core formula grant income since 2010¹ and expected levels for the next four years. This is compared to the level of income that could have been expected had formula grant been subject to annual inflationary increases. From 2017-18 formula grant would be £49.6m assuming a £9.9m loss in core formula funding (formula funding 1) or £43.6m assuming a loss of £15.8m (formula funding 2). This compares to £76.4m in 2010-11, a reduction of between £26.8m (35%) and £32.7m (42%). Inflationary increases in grant by comparison would have increased core formula funding income by 20.2% to £91.8m.

¹ formula grant between 2010 and 2016 has been adjusted to reflect specific grants rolling into formula grant



Council Tax Income

Changes to our council tax income arise from changes to the council tax precept and changes to the tax base (the number of properties on which council tax is charged). These factors are set annually. For 2016-17 the precept has been increased by 1.91% and the tax base has increased by 1.6% compared to 2015-16. The medium term financial strategy makes a number of assumptions on how these factors will change for the three years beyond 2016-17. These assumptions are that the council tax precept will increase by 1.91% or 1.92% annually and that the tax base will increase by 0.75% per annum. This represents a change to the financial strategy that has in previous years assumed no tax base increase or surplus, with any in year variation being taken to reserves. This represents a risk in respect of income levels but this is considered to be an acceptable risk based on past experience. The tables below set out our assumptions and their impact on budgeted income.

| Tax base & Precept | 15-16 | 16-17 | 17-18 | 18-19 | 19-20 |
|--------------------|---------|---------|---------|---------|---------|
| Tax base increase | 1.37% | 1.57% | 0.75% | 0.75% | 0.75% |
| Tax base | 162,145 | 164,683 | 165,918 | 167,162 | 168,416 |
| Precept amount | 212.58 | 216.63 | 220.77 | 225.00 | 229.32 |
| Precept increase | | 4.05 | 4.14 | 4.23 | 4.32 |

| Council tax | 15-16 | 16-17 | 17-18 | 18-19 | 19-20 |
|---------------------|------------|------------|------------|------------|------------|
| Precept income | 34,468,731 | 35,675,249 | 36,629,714 | 37,611,533 | 38,621,177 |
| Cumulative Increase | | 1,206,518 | 2,160,983 | 3,142,802 | 4,152,446 |

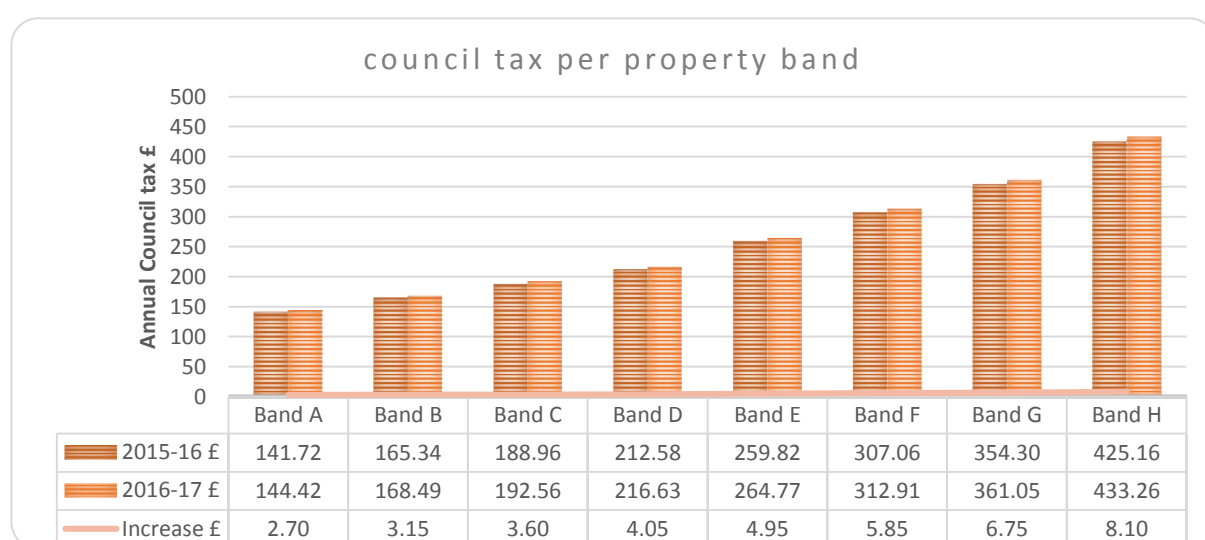
The tables show that Band D council tax charges increase each year by between £4.05 and £4.32 taking the precept amount from £216.63 in 2016-17 to £229.32 in 2019-20. The increase in tax base combined with annually inflated precept charges delivers a cumulative growth in income by 2019-20 of £4.15m. Of this total increase, £2.7m is attributable to the increase in precept and £1.3m to the increase in the tax base, with the balance due to the impact of gearing (the inflationary benefit from the increased tax base or precept amount being applied to prior year income.)

Total income from council tax also includes the Commissioner's share of any surplus or deficit from district council's tax collection in the previous financial year. In 2016-17 the Commissioner has benefitted from a tax collection surplus of £457k and we are assuming that we will receive an annual tax collection surplus of £200k in future years. The level of budgeted tax surplus is based on averages for the three years prior to 2016-17.

| Council Tax | 15-16 | 16-17 | 17-18 | 18-19 | 19-20 |
|--------------------------|------------|------------|------------|------------|------------|
| Precept income | 34,468,731 | 35,675,249 | 36,629,714 | 37,611,533 | 38,621,177 |
| Collection surplus | 518,023 | 456,740 | 200,000 | 200,000 | 200,000 |
| Total council tax income | 34,986,754 | 36,131,989 | 36,829,714 | 37,811,533 | 38,821,177 |

Our income will change across the life of this strategy if the actual tax base, precept or surplus varies from budget assumptions for the final three years of our forecasts. The tax base has a sensitivity to our assumptions of £575k for every 0.5% change. This means a decrease in our income of £575k by 2019-20 if the tax base only grows by 0.25% per annum or an increase of the same amount if it grows by 1% per annum. The sensitivity of the precept is £1m for every 1% change over three years.

Whilst this medium term forecast assumes council tax increases for the life of the strategy, decisions on the increase in council tax are taken annually and following consultation with the public, the Police and Crime Panel and the Chief Constable. The 2016-17 police grant settlement confirmed that 2% will be the level above which any decision to increase council tax would trigger a requirement for a public referendum. This level applies to the full four years of this strategy. The impact of the increase for 2016-17 is that Band A council tax payers will receive an increase of £2.70. At Band H the increase is £8.10 for the year. The charge for the policing element of council tax ranges £144.42 to £433.26.



Changes in Council Tax Income & Legacy Council Tax Grants

Legacy council tax grants are paid to local policing areas as a result of decisions to forgo council tax income. They support decisions to freeze council tax and schemes that help low income households with their council tax bills. The government uses national data to estimate the financial impact of local decisions on council tax. Legacy

council tax grants are distributed in lieu of the council tax income they estimate policing areas would otherwise have received. Cumbria has been in receipt of £4.85m in legacy council tax grant since 2013-14. Because legacy grants compensate for loss of council tax income, any analysis of historic income from council tax needs to take account of these grants.

£9.5m: the forecast increase in council tax precept and legacy grants 2010 to 2020

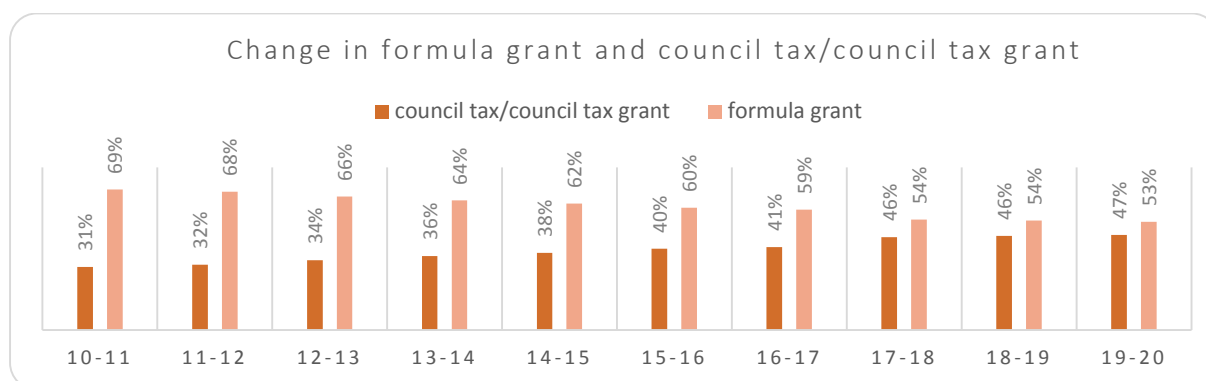
From 2017-18 future levels of legacy council tax grant funding present a risk to the budget as the national formula funding review is considering the inclusion of these grants within formula grant. Grant income reduces by between £1.21m and £1.64m contingent on the indicators selected for the formula, should this funding be included within the final funding model for police. Our budget currently assumes no change. The table below shows our actual income and forecasts for council tax income and government funded legacy council tax grants between 2010 and 2020, based on our budget.

| 10-11 | 11-12 | 12-13 | 13-14 | 14-15 | 15-16 | 16-17 | 17-18 | 18-19 | 19-20 |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| 34,209 | 34,391 | 35,590 | 32,941 | 33,605 | 34,987 | 36,132 | 36,830 | 37,812 | 38,821 |
| | | | 4,850 | 4,850 | 4,850 | 4,850 | 4,850 | 4,850 | 4,850 |
| 34,209 | 34,391 | 35,590 | 37,791 | 38,455 | 39,837 | 40,982 | 41,680 | 42,662 | 43,671 |

In 2019-20, income is forecast to be £43.7m, compared to £34.2m in 2010-11, an increase of £9.5m or 28%. Over the same period actual and forecast inflation is 20%. This means that, when allowing for the growth in the tax base/collection surplus and increases in the amount of the precept, implemented and planned levels of income achieve growth above the rate of inflation. This helps to support the budget from changes in our Police Grant Income.

The implemented and expected reductions in formula funding alongside the increase in council tax income over time significantly changes the balance of income with a much stronger dependency on local funding. Whilst this provides more resilience to future funding settlements, the difference between the additional income generated through council tax and the loss of formula funding, combined with the impact of cost inflation, has resulted in a significant loss of total resources. The

chart below shows the actual and expected change in the balance between formula funding and council tax/legacy grant income on the basis of the minimum estimated loss of Police Grant of £9.9m.



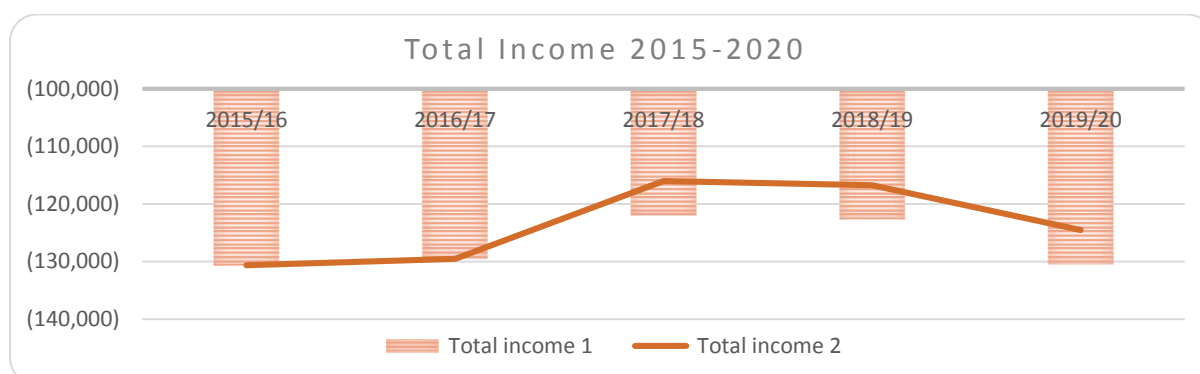
Total Forecast Income 2015-2020

The table and chart below set out our forecast total income for the life of the medium term financial strategy. Formula funding and total income 1 show the forecast using a £9.9m reduction in formula funding. Formula funding and total income 2 show the impact of a £15.8m loss. The chart sets out the trends for each income stream.

| Total Forecast Income | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|
| | £000s | £000s | £000s | £000s | £000s |
| Use of Reserves | (6,248) | (4,002) | (2,264) | (2,028) | (6,857) |
| Fees, charges, other income | (4,092) | (4,739) | (4,700) | (4,122) | (4,174) |
| Home Office Pension Grant | (18,006) | (18,134) | (21,577) | (22,095) | (24,010) |
| Other grants | (2,599) | (2,109) | (2,111) | (2,113) | (2,116) |
| Legacy Council Tax Grant | (4,850) | (4,850) | (4,850) | (4,850) | (4,850) |
| Council Tax | (34,987) | (36,132) | (36,830) | (37,812) | (38,821) |
| Formula Grant 1 | (59,884) | (59,543) | (49,643) | (49,643) | (49,643) |
| Total income 1 | (130,665) | (129,507) | (121,974) | (122,663) | (130,470) |
| Formula grant 2 | (59,884) | (59,543) | (43,691) | (43,691) | (43,691) |
| Total income 2 | (130,665) | (129,507) | (116,022) | (116,711) | (124,518) |

The table shows income falling significantly in 2017-18 as a result of the changes in formula grant, following which increases in council tax income and police pension grant provide annual increases in total income. Police pensions grant is offset by an equivalent increase in the overall cost of police pensions. It funds the deficit between benefits paid and employer and employee contributions received. Being matched with growth in expenditure, it has a net neutral impact on the overall budget and does not represent real growth in income. The medium term financial forecast between 2015 and 2019-20 utilises £20.4m in reserves. This provides a measure of the extent to which total recurrent

revenue costs and one off investment costs exceed recurrent income. Earmarked revenue reserves will be substantially depleted by 2019-20 with capital reserves depleted by 2020-21. Further information on reserves is set out later in the financial strategy.



How the money is spent

The charts below set out our expenditure budgets from 2015-16 to 2019-20 allocated between the Commissioner's budgets and the budgets provided by the Commissioner to the Chief Constable to provide for the costs of policing Cumbria. For 2016-17 budgets are shown both subjectively (what we spend the money on) and objectively (the services we provide by incurring this expenditure).

£111.2m: the funding provided to the Chief Constable for Policing in 2016-17

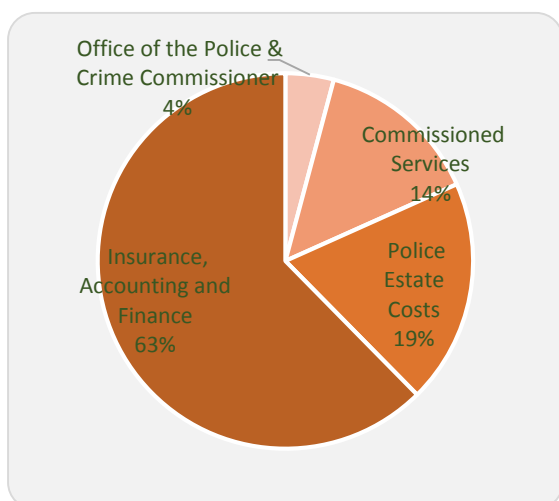
The total expenditure budget for 2016-17 is £129.5m from which the Commissioner provides funding of £111.2m for the Chief Constable to provide for the cost of policing Cumbria. This funding is agreed annually between the Commissioner and Chief Constable based on a proposal from the Constabulary.

| Description | 2015/16 £000's | 2016/17 £000's | 2017/18 £000's | 2018/19 £000's | 2019/20 £000's |
|----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Commissioner's Expenditure | 18,186 | 18,264 | 13,466 | 13,541 | 20,567 |
| Constabulary Expenditure | 112,480 | 111,244 | 115,178 | 117,170 | 118,916 |
| Total Expenditure | 130,665 | 129,507 | 128,643 | 130,711 | 139,483 |

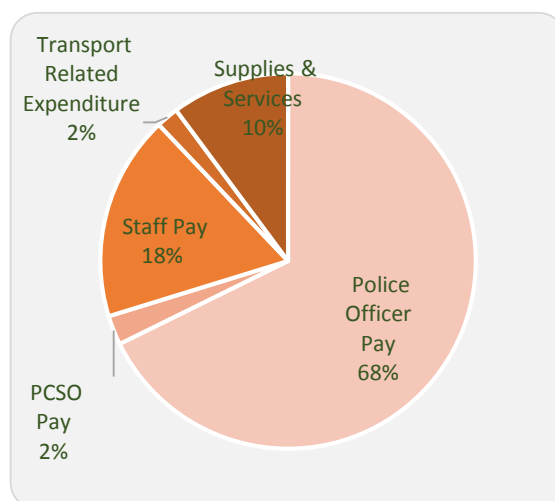
The Commissioner manages costs in relation to the police estate, insurances and the technical and accounting charges and reserves movements that reflect how the budget is financed. These costs reflect the Commissioner's statutory powers and financial responsibilities. These responsibilities are different to those of the Chief Constable and make up the most significant element of the total

expenditure managed by the Commissioner (£14.9m, 82% 2016-17). The Commissioner's budgets also provide for the delivery of the commissioning strategy that supports the priorities within the Police and Crime Plan and the Commissioner's wider statutory duties for community safety, enhancing criminal justice and supporting victims.

| Commissioners Budgets | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---------------|---------------|---------------|---------------|---------------|
| | £000s | £000s | £000s | £000s | £000s |
| Office of the Police & Crime Commissioner | 799 | 759 | 768 | 777 | 786 |
| Commissioned Services | 2,699 | 2,583 | 2,083 | 2,083 | 2,083 |
| Police Estate Costs | 3,717 | 3,529 | 3,610 | 3,694 | 3,780 |
| Insurance, Accounting and Finance | 10,971 | 11,393 | 7,004 | 6,988 | 13,918 |
| Total expenditure | 18,186 | 18,264 | 13,466 | 13,541 | 20,567 |



Commissioner's Budgets 2016-17

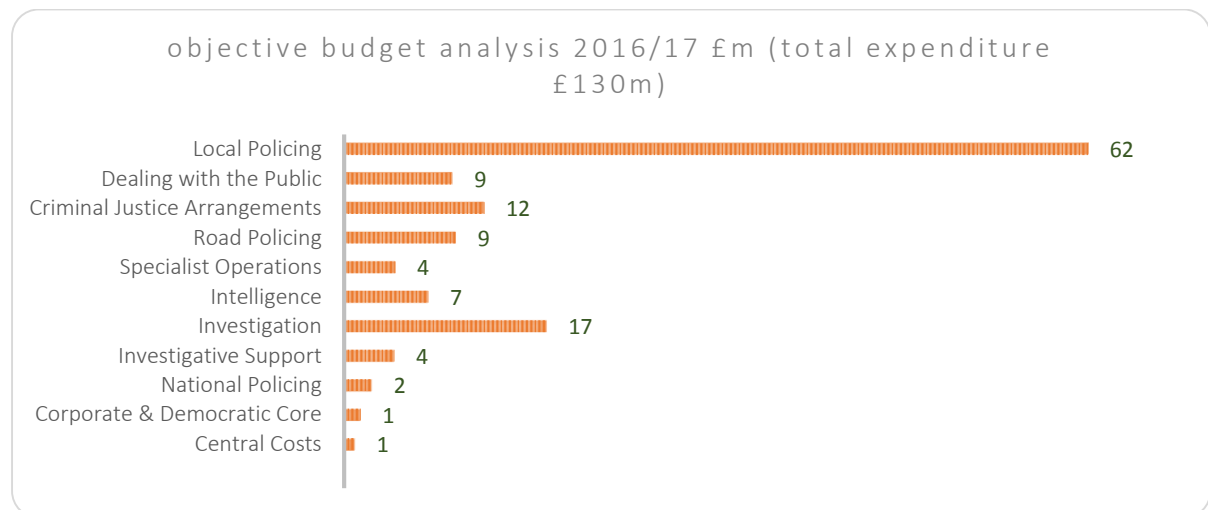


Constabulary Budgets 2016-17

| Constabulary Budgets | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| | £000s | £000s | £000s | £000s | £000s |
| Police Officer Pay | 76,347 | 75,326 | 80,328 | 81,809 | 83,058 |
| PCSO Pay | 2,811 | 2,814 | 3,031 | 3,023 | 3,120 |
| Staff Pay | 19,359 | 19,665 | 18,903 | 19,077 | 19,253 |
| Transport Related Expenditure | 2,470 | 2,134 | 2,193 | 2,255 | 2,318 |
| Supplies & Services | 11,493 | 11,304 | 10,723 | 11,006 | 11,166 |
| Total Expenditure | 112,480 | 111,244 | 115,178 | 117,170 | 118,916 |

The Constabulary budgets for 2016-17 support an establishment 1123 police officers, 95 PCSO's and 582 police staff. 88% of total expenditure is on establishment costs with a further 10% on supplies and services and 2% on transport.

The graph below sets out our total combined expenditure of £130m for 2016-17 analysed objectively, showing that by far the most significant proportion of that expenditure (£62m) provides for the cost of local policing. This is the cost of neighbourhood policing, incident management, community liaison and command teams. Appendix A to this strategy sets out a brief description of each objective heading in the chart.



Total Forecast Expenditure 2016-2020

This section of the strategy sets out our forward forecasts for total expenditure for the four years to 2020. In doing this we make a number of assumptions about how we expect our costs to increase. Our assumptions for expenditure within this strategy and forecast are:

- Pay awards will be limited to 1% annually in line with the public sector pay ceiling
- Our pension contribution rates (24.2% police; 12.7% police staff) will remain unchanged for the life of the strategy
- The triennial actuarial review of the LGPS will increase past service pension costs from £0.8m to £1.2m from 2017-18
- Employers National Insurance costs are assumed to increase by 3.4% following the introduction of the single state pension, an additional cost of £1.6m from 2016-17
- Most non-pay budgets will receive an uplift of 1% in 2016-17 followed by 1.9% per annum in line with Bank of England Inflation forecasts
- Energy and fuel costs will receive an uplift of 5% to reflect the volatility of these costs and historically low prices.

Our budget assumptions are subject to sensitivity testing to ensure the risks of any assumptions are understood and to inform the level of earmarked operational reserves and contingencies. The tables below set out the sensitivity of our main budget assumptions to changes.

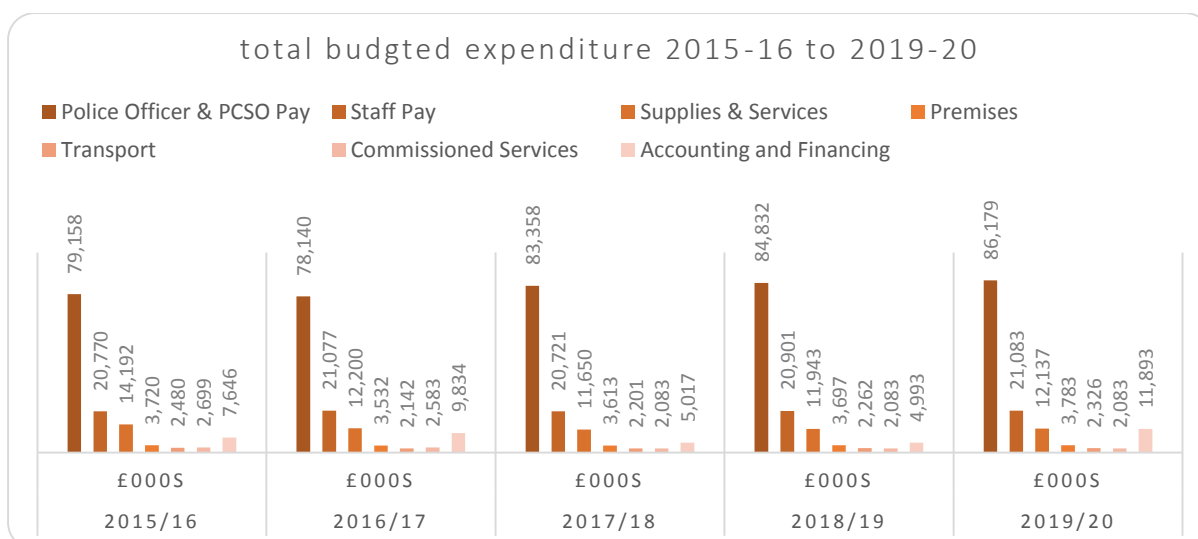
| Cost per annum per 0.5% change in inflation/contribution factor. | Inflation/Contribution Factor 2016/17 | Financial Impact +/- 0.50% | Inflation Factor Future Years |
|--|---------------------------------------|----------------------------|-------------------------------|
| | % | £000s | % |
| Area of Budget | | | |
| Pay | 1.00% | 364 | 1.00% |
| Utilities (Gas, Electric, Oil) | 5.00% | 4 | 5.00% |
| Vehicle Fuel | 5.00% | 5 | 5.00% |
| Non Pay (General) | 1.00% | 75 | 1.90% |
| Police Officer Pensions | 24.20% | 198 | 0.00% |
| Staff and PCSO Pensions | 12.70% | 77 | 0.00% |
| National Insurance | 13.80% | 236 | 0.00% |

In addition to sensitivity testing all budgets are annually reviewed through a Star Chamber process that re-assesses and challenges costs based on prior year experience and expectations for the next financial year. This process for 2016-17 has delivered a saving of £1.8m in expenditure.

Over the four years of this medium term strategy, and on the basis of the above assumptions, our forecasts are that total expenditure will increase from £129.5m in 2016-17 to £139.5m by 2019-20.

| Total Expenditure | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|-------------------|---------|---------|---------|---------|---------|
| | £000s | £000s | £000s | £000s | £000s |
| Total Expenditure | 130,665 | 129,507 | 128,643 | 130,711 | 139,483 |

Whilst total expenditure is forecast to increase by £10m, the significant proportion of that increase is as a result of police pay which includes the cost of police pensions. Pension's costs grow by £5.9m but are matched by an equivalent growth in police pension grant. Police pay costs excluding pensions grow by £1.8m. The balance of growth in the budget is a result of accounting and financing costs primarily associated with the capital programme. More information on capital and financing for the programme is set out later in this strategy. All other areas of expenditure remain at relatively stable levels over four years as a result of anticipated low rates of pay and price inflation combined with one off reductions in cost as a result of the Star Chamber process for 2016-17.

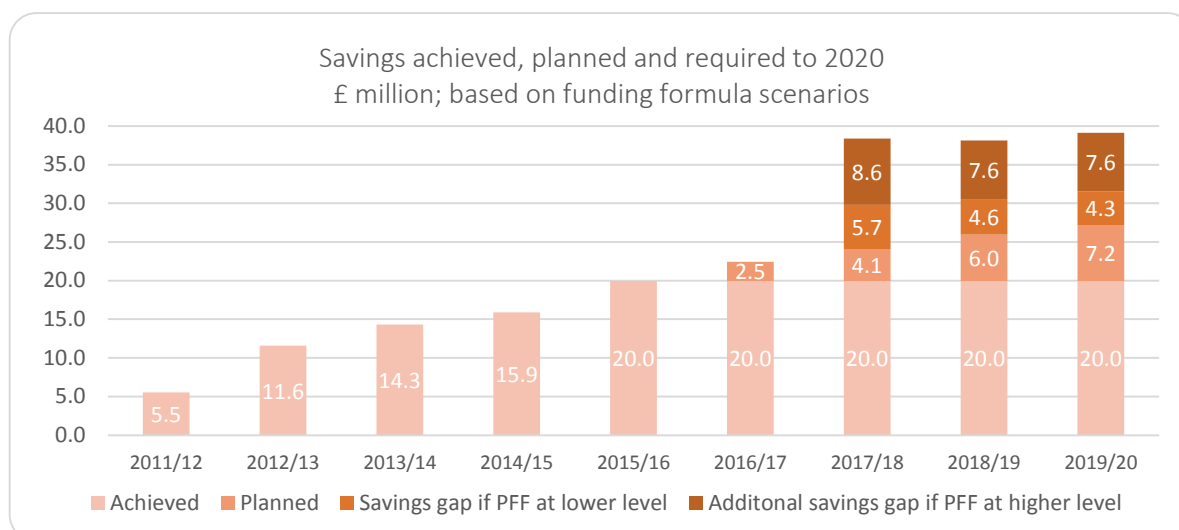


The Net Deficit & Plans for Saving

The table and chart below set out the overall financial impact of our forecasts for income and expenditure. The 2016-17 financial year shows a balanced budget as a result of work during 2015-16 to review expenditure and reduce costs. From 2017-18 our assumptions regarding the expected changes to our share of formula funding through Police Grant generate a deficit and savings requirement of between £9m to £16.6m. Net deficit FF1 in the table below shows the deficit based on our current budget and assumes a formula funding loss of £9.9m. The net deficit FF2 shows the deficit based on our estimate of maximum level of potential formula funding loss.

| Medium Term Budget 2016-2020 | 2015/16 £000s | 2016/17 £000s | 2017/18 £000s | 2018/19 £000s | 2019/20 £000s |
|------------------------------|------------------|------------------|------------------|------------------|------------------|
| Total Expenditure | 130,665 | 129,507 | 128,643 | 130,711 | 139,483 |
| Total Income/Funding | - 130,665 | - 129,507 | - 121,974 | - 122,663 | - 130,470 |
| Net Deficit FF1 | | | 6,669 | 8,048 | 9,013 |
| Net Deficit FF2 | | | 14,252 | 15,631 | 16,596 |

The forecast budget deficit will need to be addressed through the delivery of savings of at least £9m by 2019-20. This is in addition to £20m of savings that have been delivered between 2010-11 and 2015-16 and £2.5m that have been included within the 2016-17 budget. The chart below sets out the savings that have been delivered and are planned between 2011-12 and 2019-20. It also shows the additional savings that may be needed dependent upon the impact of formula funding on our income.



Plans for savings currently aim to deliver £7.2m in cost reduction between 2016-17 and 2019-20. These will reduce the workforce to 997 officers and 95 PCSO's supported by 500 Police Staff. Beyond these changes we estimate that a further £4.3m to £11.9m savings will need to be made by 2019-20. Savings proposals being developed by the Constabulary change team are based around a number of core themes that aim to deliver flexible and scalable options to respond the financial challenge supported by a core principle of 'keeping Cumbria safe'. Key themes within the change programme are:

Command and Control: Changing how we organise and respond to calls for service from the public to resolve issues at the earliest opportunity and managing out demand that is not appropriate for the police service to deal with.

Community and Response Policing: The Constabulary has changed the structure and number of its neighbourhood policing teams. The limitation for reducing officer numbers is the

geography of the county - a fixed number of officers is required to cover the large area, regardless of the number of incidents or crimes, because a minimum number is required to deliver a safe 24/7 emergency response service and meet national targets. For uniformed response officers, the reduction in officers is planned to achieve this minimum level.



Problem Solving and Proactive Capability:

NEW The Constabulary will design leading-edge flexible structures and processes to deliver the right level of prevention activity that proves its cost effectiveness by reducing calls for service.

Review of Sergeant Ranks: **NEW** The Constabulary will undertake a review of the sergeant ranks to ensure cost effective and appropriate supervisory levels across all of the operational portfolios

Operational Support: Reduction in supervisory ranks in the later years of the programme

Dog Capability: **NEW** The review will develop options for change in how this service could be provided, ensuring that tactical firearms options are maintained.

Custody and Criminal Justice: A review of custody in previous years rationalised how the Constabulary managed this critical function. There will be further work to provide options for change that will identify savings including the implantation of processes to streamline and digitise case file management.

Criminal Justice Administration: **NEW** The Constabulary will develop options for change to streamline peripheral administrative support to criminal justice, using technology and redesigning our processes.

Rationalisation of Front Counters: Plans are being developed to reduce front counters away from main stations and in respect of the

number of hours services are available. Public consultation will be undertaken as part of this process.

Crime Command Phase 2: **NEW** Using demand analysis to review service to achieve savings through redesigning processes, centralising suitable functions, stopping activities that can be removed with minimal risk to the public, maximising benefits from strategic and regional units.

Administration Services: streamline and remove activity to reduce transactional costs.

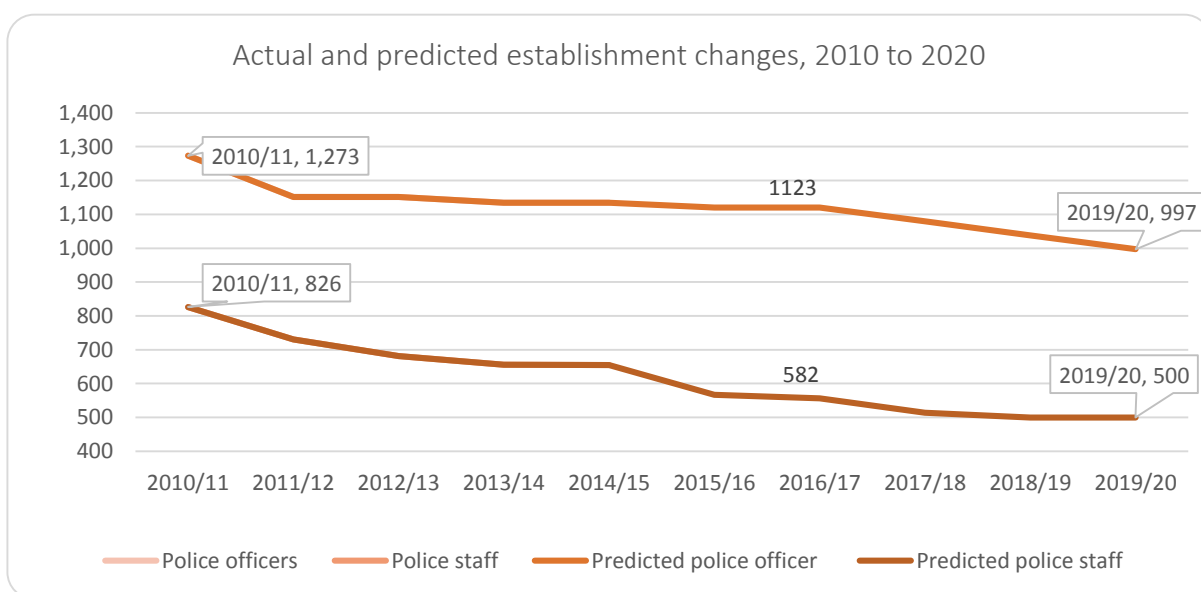
Duties Management: Following the changes to operational officers, the Constabulary is scheduled to centralise and streamline its duties management staff under the Strategic Resourcing Cell

Print Services: This project is looking at the most cost effective way to deliver print services to the Constabulary.

Corporate Support and Corporate Improvement Targeted Reductions: **NEW** This will include: an options' analysis and evaluation to determine the best approach for business services (transactional administration across HR, Procurement, Finance, Fleet, Estates and others); development of ICT Strategy to determine the level of resource required; options to stop large amounts of activity and reporting, supported by radically streamlined policy and processes.

| Summary of Change Programme and Savings | Cumulative Savings (£ million) | | | |
|---|--------------------------------|--------------|--------------|--------------|
| | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
| Command & Control | 0.610 | 0.624 | 0.630 | 0.636 |
| Community & Response Policing | 1.122 | 1.041 | 1.053 | 1.064 |
| Operational Support | 0.040 | 0.081 | 0.082 | 0.082 |
| Custody & Criminal Justice | 0.419 | 0.776 | 0.781 | 0.785 |
| Crime Command | - | 0.493 | 0.493 | 0.493 |
| Officer Reductions to 977 | - | 0.670 | 1.818 | 2.966 |
| Front Counter Services | - | 0.110 | 0.441 | 0.441 |
| Administration Services | 0.272 | 0.275 | 0.500 | 0.500 |
| Print Services | 0.022 | 0.044 | 0.044 | 0.044 |
| Duties Management | - | - | 0.055 | 0.055 |
| Inflation on Change Programme Figures | 0.001 | 0.034 | 0.103 | 0.183 |
| Total | 2.486 | 4.148 | 5.998 | 7.249 |

The chart below shows how the establishment numbers have reduced since 2010 for police officers and police staff with current predictions for future numbers based on the existing change programme. Over the period, officer posts will have reduced by 22%, police staff by 39% and PCSOs by 17% (from 114 to 95). The chart shows the impact of delivering £7.2m of savings from 2016-17 resulting in a total establishment of 1592. Early estimates of the impact of the formula funding reductions have potential to reduce the establishment further to between 1466 and 1245 posts, although in practice some savings from supplies and services will mitigate the need for some reductions to the establishment.



Managing Our Money

Our finances are managed in the context of this medium term financial strategy. The strategy sets out the key financial objectives that support financial management and governance and underpin the development of annual, medium and longer term revenue and capital budgets. The strategy is supported by financial policies that set out how we will account for and manage our money including our approach to holding reserves.

Achieving Our Financial Objectives

Objective One

To deliver a robust and balanced medium term financial plan and annual budget supported by an in-year reporting framework that monitors its delivery.

How do we do this?

The Police and Crime Commissioner sets the strategic direction for policing. The Commissioner's Chief Finance Officer sets the financial assumptions and parameters that govern how future income and expenditure will be forecast. This provides a framework within which the Constabulary prepare annual and longer term budget proposals for revenue and capital expenditure. These proposals are considered by the Commissioner in February each year, supported by advice from the Chief Finance officer. The final approved budgets are set out in a funding arrangement between the Commissioner and Chief Constable. The funding arrangement provides for the Constabulary to produce quarterly monitoring reports that provide information in any variances between actual and budgeted expenditure and any action that will be taken to address this.

Objective Two

To ensure arrangements for funding between the Commissioner and Constabulary deliver value for money and support the priorities of the

How do we do this?

The annual budgets and funding arrangements are prepared alongside the development of the Police and Crime Plan and a review of value for money. The funding arrangement ring-fences Constabulary funding to specific Police and Crime Plan priorities and commitments, for example providing for a specific number of Police Officers and PCSO's. A report is prepared for the Commissioner by the Constabulary analysing annual HMIC² value for money profiles and the police effectiveness, efficiency and legitimacy programme. Where costs are identified as being higher than those of other similar forces, for reasons other than specific policy decisions or fixed costs, savings are built into the change management programme

² HMIC: Her Majesty's Inspectorate of Constabulary

Police and Crime
Plan

and Constabulary budgets are reduced. The Commissioner monitors the implementation of significant HMIC recommendations.

Objective Three

To ensure Capital Expenditure Plans are robustly scrutinised, fully funded for a minimum of four years and are supported by capital strategies that meet the needs of the business

How do we do this?

The cost of the capital programme is forecast on the basis of a 10 year planning cycle, rolled forward annually. Estimates are made of the likely level of capital grant funding following government spending announcements. The estates strategy is used to profile the value and likely timing of capital receipts. Capital expenditure is profiled on the basis of medium term capital strategies for the fleet, estates and ICT. Constabulary working groups enable operational users to input into the strategy and specifications for the functionality of vehicles and ICT/other equipment. Direct revenue contributions are modelled on the basis of the gap between total costs and grant/capital receipt income across the first four years of the capital programme. This ensure the financial implications of the capital programme are fully funded for the period of the medium term financial strategy. All expenditure is robustly challenged by a '*Star Chamber*' of Constabulary and OPCC officers prior to being presented to the Commissioner for scrutiny as part of the budget process.

Objective Four

To maintain a risk assessed level of reserves to meet unplanned and approved earmarked expenditure and to provide revenue budget smoothing for intermittent costs.

How do we do this?

The Commissioner's Chief Finance Officer presents a policy on reserves annually as part of the budget setting process. The policy takes into account the risks identified in the officer's Section 151³ report on the robustness of the budget. Those risks inform the overall level of general reserves and any specific earmarked reserves necessary to provide mitigation. Further earmarked reserves are set aside for the financial management of large one off investments. The policy also provides for the establishment of specific operational contingencies within reserves to meet revenue pressure that arise cyclically but not annually, to smooth the impact on the revenue budget and manage down recurrent costs.

³ The section 151 report refers to the statutory report of the Chief Finance Officer that is a requirement under section 151 of the Local Government Finance Act 1972.

Objective Five

To ensure Treasury Management activities provide for the security of the Commissioner's funds whilst meeting the cash management needs of the Commissioner and Constabulary

How do we do this?

A treasury management strategy is approved annually by the Commissioner as part of the budget setting process. It sets out the rules that must be followed in investing surplus cash including institutions, financial instruments and the investment limits that must be complied with. The strategy is developed under guidance from external treasury management advisors and subject to scrutiny by the Joint Audit and Standards Committee. It is underpinned by a treasury management practices document in compliance with the CIPFA⁴ Code of Practice setting out more detailed rules and requirements for a treasury management function. Quarterly reports are produced during the year to report on activity and provide assurance regarding on-going compliance with the strategy.

Objective Six

To provide a framework for financial governance that ensures the proper administration of the Commissioner's financial affairs

How do we do this?

The Commissioners' Code of Corporate Governance is an annually approved framework that sets out key aspects of corporate governance including those relating to finance. This includes the requirement for financial regulations, financial rules, procurement regulations, policies governing reserves, prudential indicators for capital financing, the financial statements and treasury management practices. The financial governance framework is supported and challenged by the arrangements for internal and external audit and the Joint Audit and Standards Committee. Arrangements in respect of the budget and financial management are also subject to challenge and review externally by the Police and Crime Panel and HMIC.



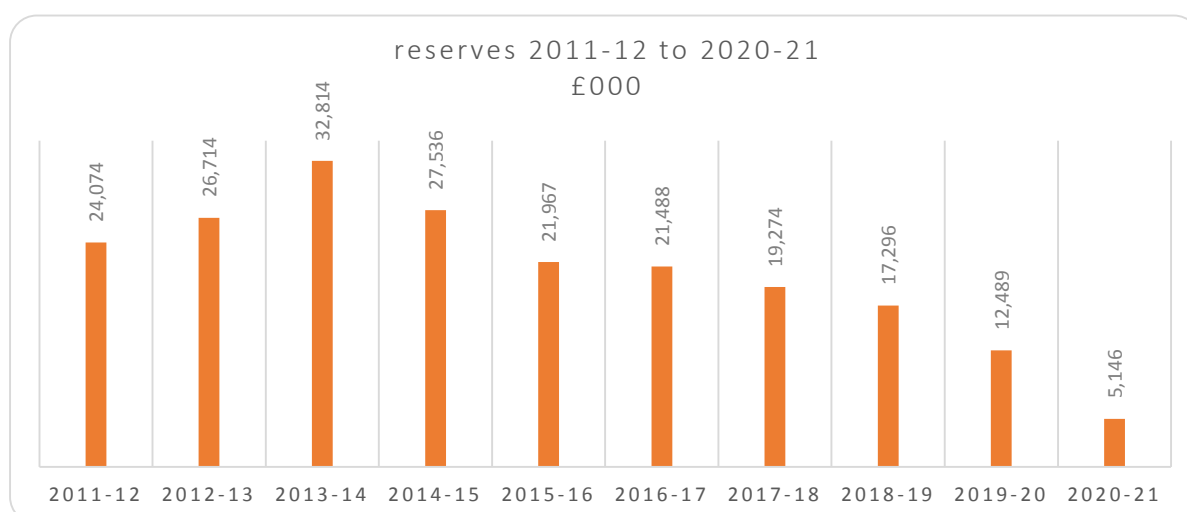
⁴ The Chartered Institute of Public Finance and Accountancy

Policy on Reserves

Our policy on reserves meets the statutory requirement to consider annually the level of reserves that should be held to meet future expenditure requirements when setting the budget. It sets out the purpose for which reserves are held and the planned movement in reserves over the life of this strategy. Our reserves are held for three main purposes. These are:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
- a contingency to cushion the impact of unexpected events or emergencies
- a means of building up funds, often referred to as earmarked reserves, to meet known or anticipated liabilities

The level of reserves should take into account the medium term financial plan and not be based solely on short term considerations. The most significant factor influencing the level of reserves is the capital programme. Annual capital grant from the Home Office is £0.43m in 2016-17 and there is a risk that this funding is reduced further when formula grant is reviewed. Between 2016-17 and 2020-21 the capital programme will cost £46m as a result of significant investment in ICT and major estates projects. Resourcing capital expenditure requirements without recourse to borrowing and the associated interest costs requires forward financial planning – essentially saving up. Our reserves for the 10 years between 2011-12 and 2020-21 are set out below, and demonstrate this principle. The figures show actual or planned reserves at the end of each financial year.



£21.5m of funds are held in 2016-17 and this is forecast to reduce to £5.1m by 20-21 following the delivery of significant capital investment. Beyond 2021 our capital programme returns to a more steady

state with average expenditure of £3.2m funded by direct revenue contributions and the Home Office capital grant.

Set out below is a description of the reserves held by the Commissioner, the purpose for which they are held and a table setting out the planned movement in reserves over the life of this medium term financial strategy.

General Reserves: The general reserve is the main contingency for unexpected events, and the management of cash flow. The level of general reserve is £3m in 2016-17. The amount represents approximately 3% of the net recurrent budget. The level of general reserve takes account of the risks within the budget as set out in the Chief Finance Officer's report on the robustness of the budget and the level of provision for those risks within specific earmarked reserves and contingencies.

Capital Reserves: Capital reserves are a combination of general and earmarked revenue contributions that have been set aside to meet the costs of approved capital schemes to be delivered over multiple financial years. The policy is that general capital reserves will be maintained at a level to ensure a balanced capital budget for the duration of the medium term financial forecast. The reserves plan also provides for two specific earmarked capital schemes for the estate – North and West Resilience Flood Management. Further information on the capital programme is set out later in this strategy.

Earmarked Reserves: Earmarked reserves are held for a number of specific purposes. **Future liability reserves** provide for areas within the budget where there is a liability but the amount or timing is uncertain. They are currently held to manage our liabilities around insurance risk and in respect of future liabilities for the PFI contract at Workington. **Budget stabilisation reserves** are established to smooth the impact of intermittent costs across financial years. These have been instrumental in supporting year on year reductions in recurrent revenue budgets. They provide a pool of funds that can be used should a significant budgets risk materialise. In practice these risks occur intermittently and providing for them through reserves reduces the requirement within recurrent budgets. Examples include providing for a peak in energy costs during a severe winter or responding to a significant unplanned major incident. If these reserves are required in year they will be topped up as part of the following year's budget process. A general operational reserves is held for both the Police and Crime Commissioner and the Chief Constable as recommended by the Home Office Financial Management Code of Practice. **Project reserves** primarily fund the one off revenue implications of approved capital schemes, the main project reserve being for the ICT business plan.

£32.8m: our actual
reserves at year
end 2013-14
£5.1m: forecast
reserves at year
end 2020-21

Reserves Plan 2016-17 to 2019-20

| | 01 April | 2016/17 | 01 April | 2017/18 | 01 April | 2018/19 | 01 April | 2019/20 | 01 April |
|--------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 2016 | movement | 2017 | movement | 2018 | movement | 2019 | movement | 2020 |
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| General Reserve/Police Fund | 3,000 | | 3,000 | | 3,000 | | 3,000 | | 3,000 |
| General Reserve/Police Fund | 3,000 | | 3,000 | | 3,000 | | 3,000 | | 3,000 |
| | | | | | | | | | |
| General Capital reserve | 2,810 | (2,810) | | | | | | 1,743 | 1,743 |
| North Resilience Flood Management | | 2,055 | 2,055 | (1,177) | 878 | (878) | | | |
| West Resilience Flood Management | 13,077 | 923 | 14,000 | (750) | 13,250 | (1,050) | 12,200 | (6,600) | 5,600 |
| Total Capital Reserves | 15,887 | 168 | 16,055 | (1,927) | 14,128 | (1,928) | 12,200 | (4,857) | 7,343 |
| | | | | | | | | | |
| Future Liability Reserves | | | | | | | | | |
| Insurance | 523 | | 523 | | 523 | | 523 | | 523 |
| PFI Lifecycle | 303 | | 303 | | 303 | | 303 | | 303 |
| Budget Stabilisation Reserves | | | | | | | | | |
| PCC Operational | 250 | | 250 | | 250 | | 250 | | 250 |
| Constabulary Operational | 250 | | 250 | | 250 | | 250 | | 250 |
| Constabulary Contingency | 500 | | 500 | | 500 | | 500 | | 500 |
| Body Armour | 41 | 50 | 91 | 50 | 141 | 50 | 191 | 50 | 241 |
| Short Term Project Reserves | | | | | | | | | |
| ICT Business Plan (Revenue) | 868 | (578) | 290 | (290) | | | | | |
| Short Term Projects | 345 | (119) | 226 | (47) | 179 | (100) | 79 | | 79 |
| Total Earmarked Revenue Reserves | 3,080 | (647) | 2,433 | (287) | 2,146 | (50) | 2,096 | 50 | 2,146 |
| | | | | | | | | | |
| Total All Reserves | 21,967 | (479) | 21,488 | (2,214) | 19,274 | (1,978) | 17,296 | (4,807) | 12,489 |

Other Key Financial Policies

The Commissioner is required to annually approve a Treasury Management Strategy Statement and Treasury Management Practices that sets out the policies for managing cash flow and investments and for giving priority to the security and liquidity of those investments. The investment policy contains limits for the amount and duration of specific categories of investment based on their credit rating.

General policy is that investments should be made prudently with primary importance given to security ahead of liquidity and finally the yield that an investment may bring. The Commissioner holds significant investment balances as a result of income being received in advance of expenditure. During 2015-16, the Commissioner's investment balance has ranged between £13.2m and £34.2m. The larger sum is due to the receipt in July 2015 of £15.6m pension top up grant from the Home Office which is drawn down steadily over the remainder of the year.

Balances in 2016-17 are forecast to be similar to those of 2015-16. It is anticipated that some grant funding may be received in advance of the capital spend and at the peak, when the pensions grant is received in July, balances for investment could approach £40m. All investment decisions are made with reference to credit ratings and with advice

**£40m: the
estimated treasury
management upper
investment balance
for 2016-17**

from professional external Treasury Management Specialists. Based on that advice, the strategy annually sets the rules within which investments can be made. Appendix B sets out for 2016-17 the approved categories of counterparty for investment and the authorised limits for each category and institution based on their credit rating. The policy is that, other than for day to day banking requirements, counterparties must achieve a minimum rating of A-, or be secure unrated institutions, for example UK Government or Local Authority.

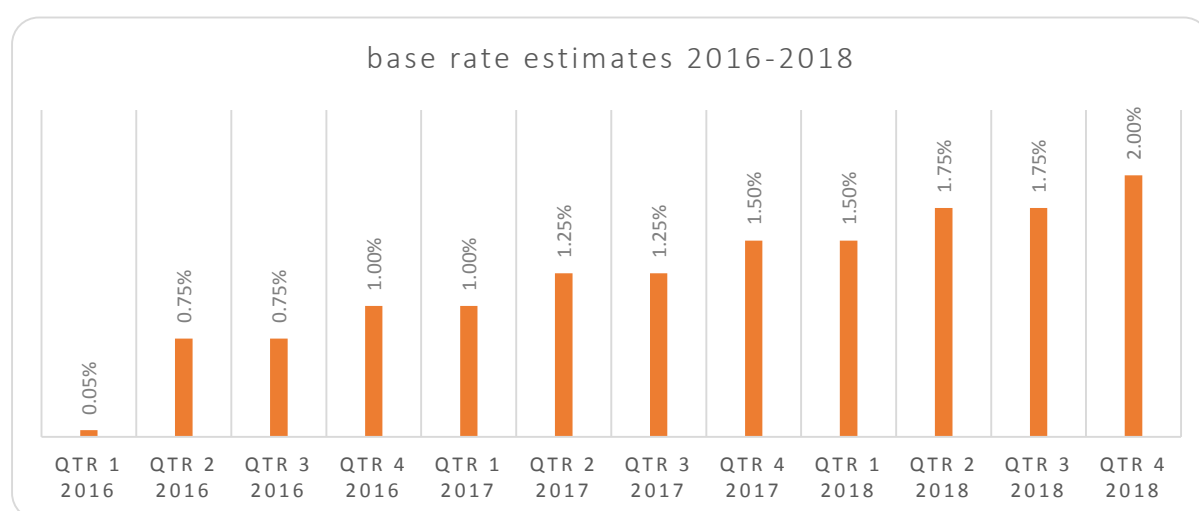
The Treasury Management Strategy is designed to be a dynamic framework which is responsive to prevailing conditions with the aim of safeguarding the Commissioner's resources. Accordingly, the Commissioner and its advisors continuously monitor corporate developments and market sentiment with regards to counterparties and amend the approved counterparty list and lending criteria where necessary.

The strategy takes into account the impact of treasury management activities on the Commissioner's revenue budget. Forecasts of cash balances, interest receipts and financing costs are regularly re-modelled. The revenue budget for 2016-17 and forecasts for future years are updated in light of the

latest available information as part of the financial planning process. Day to day fluctuations in cash-flows due to the timing of grant and council tax receipts and out-going payments to employees and suppliers have an impact on treasury activities and accordingly are modelled in detail. The Commissioner's level of debt and investments is linked to the above elements, but market conditions, interest rate expectations and credit risk considerations all influence the Commissioner's strategy in determining exact borrowing and lending activity. The estimated treasury position at 31st March 2016 and for the following financial years are summarised below:

| Estimated Treasury Position | Estimate 2016/17 £m | Estimate 2017/18 £m | Estimate 2018/19 £m | Estimate 2019/20 £m |
|-------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| external borrowing at start of year | 0.000 | 0.000 | 0.000 | 0.000 |
| interest payments | 0.000 | 0.000 | 0.000 | 0.000 |
| investments (average) | 13.504 | 11.106 | 9.895 | 8.667 |
| interest receipts | 0.100 | 0.135 | 0.170 | 0.170 |

The figures in the table above are based on the revenue budget and capital programme 2016-2020. The estimate for interest receipts in 2016-17 is £100k, which is comparable to recent years. The low level of receipts reflects the historically low level of investment returns currently available where the Bank of England base rate stands at 0.5%. Interest rate prospects for the life of the treasury remain low.



Whilst interest rates are forecast to continue at historically low levels, the expected steady growth to 2% by the final quarter of 2018 produces a small benefit to the budget of £70k compared to 2016-17 despite a reduction in average investment balances from £13.5m to £8.7m. The forecast reduction in

average investments is based on the expected reduction in reserves over the strategy period as significant capital schemes are delivered.

In relation to capital financing, there is a statutory requirement for the commissioner to set and arrange their affairs to remain within prudential limits for borrowing and capital investment. The Treasury Management Strategy includes prudential indicators that govern borrowing over the course of the year to ensure revenue costs are affordable, prudent and sustainable. Whilst the Commissioner sets prudential limits for borrowing annually, over the course of this medium term financial strategy there are currently no plans to borrow externally.

As part of our suite of prudential indicators, consideration is given to the affordability and revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. This indicator is termed the Ratio of Financing Costs to Net Revenue Stream. The table below shows the current and estimated value of the indicator based on the capital programme and borrowing requirements set out in this medium term financial strategy. The indicator ranges between 0.27% and 0.33% of the net revenue budget between 2016-17 and 2018-19, demonstrating that capital financing is affordable within the overall resources available to the Commissioner.

| Ratio of Financing Costs to Net Revenue Stream | | | | | |
|--|---------|----------|----------|----------|----------|
| | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
| | Actual | Estimate | Estimate | Estimate | Estimate |
| | £m | £m | £m | £m | £m |
| Financing Costs | 0.207 | 0.242 | 0.314 | 0.288 | 0.262 |
| Net Revenue Stream | 96,714 | 94,871 | 95,222 | 96,171 | 97,149 |
| Ratio | 0.21% | 0.26% | 0.33% | 0.30% | 0.27% |

Prudential indicators also consider the Incremental Impact of capital investment decisions on the council tax. This is a further indicator of affordability that identifies specifically the additional cost to the taxpayer of the new capital investment proposed for the three years between 2016-17 and 2018-19. The estimate of the impact of the capital investment approved in the 2016-17 budget on the council tax is set out in the table below. The figures are not cumulative and show the actual impact in each year. The table shows that in each year, the cost to the tax payer is between £9.14 and £9.48 from a Band D precept of £216.63. In practice funding from the revenue budget for the capital programme is

not met exclusively from precept income but from the full range of income sources available to the commissioner.

| Impact of capital investment decisions on the Council Tax | | | |
|---|---------|---------|---------|
| | 2016/17 | 2017/18 | 2018/19 |
| | £ | £ | £ |
| Capital Expenditure funded from revenue | 1.534m | 1.573m | 1.555m |
| Financing and direct revenue costs | 0.000m | 0.000m | 0.000m |
| Total Incremental Revenue Effect of Capital Investment | 1.534m | 1.573m | 1.555m |
| Incremental Impact on Band D Council Tax | 9.146 | 9.481 | 9.302 |

The Treasury Management Strategy includes the policy for minimum revenue provision (MRP). DCLG guidance recommends that this policy is approved before the start of the financial year to which it relates. This policy states how we will apply accounting charges to the revenue budget to make provision for the repayment of borrowing associated with capital assets. Whilst the Commissioner has not undertaken borrowing externally, some long life assets (buildings) within the capital programme are resourced from internal borrowing. This results in an underlying need to borrow externally, that will be implemented when internal cash flows are no longer sufficient manage this requirement. The underlying need to borrow is currently estimated at £13.6m, our capital financing requirement. At some time in the future it will be necessary to undertake external borrowing. Advice will be sought as to the most opportune time and interest rate to undertake such borrowing. Our MRP policy is that the revenue budget will be charged with the cost of the capital asset over the life of the asset being financed (Asset Life Method). The DCLG Guidance on investments states that publication of Treasury and associated strategies is formally recommended. The full suite of strategy documents is published on the Commissioner's website <http://www.cumbria-pcc.gov.uk/governance-transparency/budget-finance.aspx>.

The Commissioner and the Commissioner's Chief Finance Officer annually approve the statutory financial statements. The statements include a section on the financial policies that are used to determine how the financial transactions for the year have been accounted for and presented in the statement of accounts. The accounting policies set out how we record and value our income and expenditure and assets and liabilities. This includes how we allocate overheads and the techniques we use to estimate costs. The policies adhere to all regulatory and code of practice standards for proper accounting practices and are subject to external audit.

This section of our strategy sets out our arrangements for financial governance, our financial controls and how we manage financial risk.

Control Framework & Assurance

The Police Reform and Social Responsibility Act 2011 requires Police and Crime Commissioners' to have regard to any financial code of practice issued by the Secretary of State and to appoint a person to be responsible for the proper administration of the Commissioner's financial affairs. That person is referred to as the Commissioner's Chief Finance Officer. The Chief Finance Officer leads on the implementation and maintenance of a framework of financial controls and procedures for safeguarding public money and managing financial risk. This includes determining accounting processes and overseeing financial management procedures that enable the Commissioner to budget and manage within overall resources.



As part of these arrangements for financial stewardship the CFO is responsible for the development and implementation of governance structures that codify financial controls and assurance as well as defining a framework of financial accountabilities and reporting. This is set out in a set of Financial Regulations that are approved by the Commissioner and adopted by the Constabulary. They are supported by a funding arrangement that sets out the conditions and purpose of the budget provided annually to the Chief Constable. The regulations provide a framework for the development of more detailed financial rules and procedures that govern the administration of the Commissioner and Chief Constables financial affairs. As part of the annual budget process the Chief Finance Officer makes a statutory statement on the robustness of the Commissioner's budget and the adequacy of reserves and issues a number of financial reports annually including the statutory financial statements.

The Home Office Financial Management Code recommends that the Commissioner and Chief Constable have joint arrangements for Internal Audit including an Audit Committee. These arrangements are provided collaboratively through a shared internal audit service with County and District Council partners reporting to a Joint Independent Audit and Standards Committee (JASC). Internal audit and the JASC provide scrutiny and assurance on the arrangements for financial governance. The audit function is reviewed annually to ensure its on-going compliance with Public Sector Internal Audit

Standards (PSIAS) and provides a risk assessed annual audit plan within the framework of an Internal Audit Charter that defines the professionalism and standards that govern its delivery. The role and effectiveness of the JASC is assessed annually against a framework of best practice developed by the Chartered Institute of Public Finance and Accountancy. The table below sets out the draft audit plan for 2016-17.

| Audit Review | Description | Days |
|--|--|------------|
| Procurement <i>(Audit of Constabulary and OPCC)</i> | Internal Audit to provide assurance over managements arrangements for procurement | 25 |
| Information Security <i>(Audit of Constabulary)</i> | Review to provide assurance over management arrangements to secure data held by the Constabulary. | 20 |
| Mobile and Digital <i>(Audit of Constabulary)</i> | Internal Audit to provide assurance over management's arrangements to ensure value for money, effectiveness and efficiency from the initiative. | 15 |
| Command and Control <i>(Audit of Constabulary)</i> | Internal Audit to provide assurance over the Constabulary's arrangements for ensuring the new structure achieves its objectives and value for money. | 20 |
| Criminal Justice Unit <i>(Audit of Constabulary)</i> | Internal Audit to provide assurance that effective arrangements are in place within the Constabulary to ensure that case files are complete, robust and secure. | 20 |
| Use of Stop Sticks (Stingers) <i>(Audit of Constabulary)</i> | Audit review to provide assurance that the Constabulary has effective arrangements in place for complying with regulations and ensuring that effective training is provided and equipment is appropriately maintained. | 15 |
| Stop Search <i>(Audit of Constabulary)</i> | Audit review to provide assurance that the Constabulary has effective arrangements for ensuring compliance with the Best Use of Stop and Search Scheme. | 15 |
| Offender Management <i>(Audit of Constabulary)</i> | Audit review to provide assurance that the Constabulary has effective arrangements in place to ensure that offenders are progressed through the system efficiently. | 15 |
| Receipt, handling and disposal of drugs <i>(Audit of Constabulary)</i> | Internal Audit review to provide assurance that the Constabulary has effective arrangements in place to ensure that seized drugs are properly accounted for from receipt through to disposal. | 12 |
| Self-service – travel expenses / overtime <i>(Audit of Constabulary)</i> | Internal Audit review to provide assurance that the Constabulary has effective arrangements in place over the use of the system in relation to control and recording or travel expenses and overtime. | 15 |
| Subtotal for risk based audits | | 172 |

Other audit work to be included in the audit plan

Some audits are undertaken on a cyclical basis or because there are other requirements for the work to be done. This section outlines any additional non-risk assessed work.

| Audit Review | Description | Days |
|--|--|----------------|
| Governance <i>(Audit of Constabulary and OPCC)</i> | Cyclical programme of governance themed reviews. The 16/17 review will focus on the arrangements in place to ensure the Code of Corporate Governance is compliant with the updated CIPFA / SOLACE governance framework. | 15 |
| Annual Governance Statement (two separate reviews) | Review to provide assurance that sufficient and suitable evidence is available to support the Annual Governance Statement. | 6 |
| Financial System Reviews: <ul style="list-style-type: none"> • Pensions • Payroll • Main Accounting (Cross Cutting Review) | A rolling programme of financial systems audits is undertaken. The frequency of each review has been considered by the OPCC and Chief Constable's Chief Finance Officers and a risk assessment prepared taking into account internal management assurance statements, transaction volume, value, system changes and assurance provided from Internal Audit work. | 15 15 10 |
| Follow up: <ul style="list-style-type: none"> • Business Continuity Planning (Constabulary) • Business Continuity Planning (OPCC) • Duty Management System | Internal audit follow up methodology includes the follow up of all audits resulting in less than Reasonable assurance | 5 5 5 |
| Attendance at police audit training and development event | n/a | 2 |
| Internal Audit Management | Time is built into the audit plan for the management of the shared service in relation to the work undertaken for the constabulary and the Commissioner's Office. To include: Attendance at Audit & Standards Committee (5 meetings in year); Preparation of progress reports and annual reports and opinions; Audit planning; Management liaison; Effectiveness of Internal Audit – Compliance with PSIAS | 24 |
| | Subtotal for non-risk based audits | 102 |
| | Total for all proposed audit work for 2016/17 | 274 |

Management assurances are provided annually to the Chief Finance Officer on the controls for any financial system not included in the audit plan for the year.

The internal audit plan supports the basis on which the Chief Internal Auditor can provide an annual opinion to the Commissioner regarding the adequacy and effectiveness of the organisations' systems of risk management, governance and internal control.

Wider independent scrutiny and assurance is provided through Grant Thornton LLP, the Commissioner and Chief Constable's external auditors. The external auditors provide a number of reports to the Commissioner, Constabulary and JASC including an audit findings report expressing an audit opinion on the financial statements and a value for money conclusion. This work includes a review of financial resilience. The external auditors annual audit letter presented to the Commissioner and JASC in October 2015 concluded that the Commissioner continues to show strong financial resilience and good financial planning and management. The audit letter also noted that the Chief Constable is working closely with the Commissioner to ensure that its finances are effectively managed.

Managing Financial Risk

Strategic and operational financial risks are managed within the Commissioner's overall framework for risk management. Specific risks to the budget are managed through reserves and arrangements for insurance provide some mitigation for asset risks. Our principle financial risks are:

Lack of resources to deliver current levels of policing services (*strategic*):

This risk primarily arises as a consequence of the review of the police funding formula. A change in our funding settlement places a high degree of risk regarding the level of policing services that can be provided and will challenge the longer term sustainability of an independent Cumbria Constabulary if the worst case for funding materialises. Risk mitigation strategies currently focus on investment in existing services to reduce longer term costs alongside work with partner forces nationally to demonstrate the costs of delivering rural policing. Whilst the planned review of formula funding makes this a strategic risk, lesser operational impacts may also be experienced as a result of the risk that any of the wider budget assumptions prove to be materially incorrect. This includes assumptions about pay and supplies inflation, the cost of future pension's liabilities, the deliverability of assumed savings plans and growth in the tax base /council tax income. Whilst the impacts of these risks will be significantly smaller, should one or more be experienced in full, there will be a need to re-base budgets and plans to address the deficit.

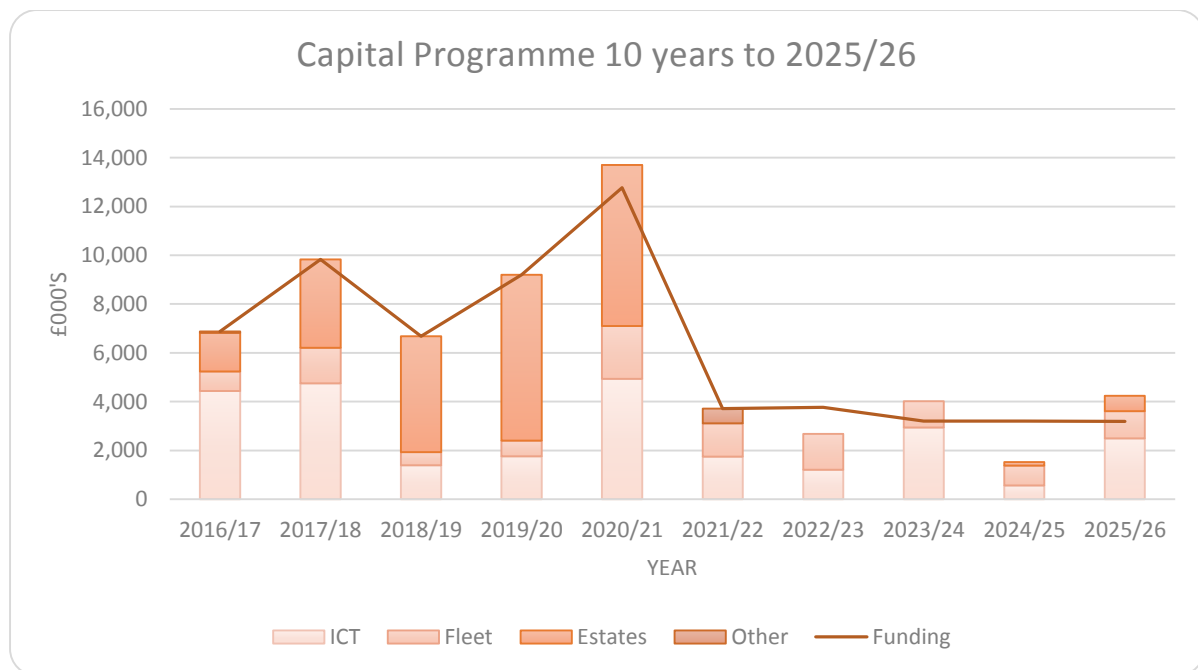
In addition to the strategic risk, the following financial risks are recorded on our operational risk register. The table shows each risk and the primary mitigations in place to manage them

| Operational Risk | Mitigation and Assurance |
|---|--|
| Budget Management: Failure to effectively manage budgets in year resulting in either an under or overspend of actual expenditure | <ul style="list-style-type: none"> ■ Arrangements for budget monitoring and reporting/reserves ■ Financial Regulations ■ Assured by Joint Audit and Standards committee and internal audit |
| Investment Counterparty Risk: The risk that the counterparty we invest in fails or under banking regulations is required to restructure capital, resulting in the loss of our investment or a reduction in value | <ul style="list-style-type: none"> ■ Independent external advisors ■ Treasury Management Policies and Practices ■ Assured by Joint Audit and Standards Committee and internal audit |
| Financial Governance: The risk that financial governance fails either through failure to comply with arrangements or a lack of proper arrangements | <ul style="list-style-type: none"> ■ Arrangements set out in the Code of Corporate Governance ■ Annual review as part of the arrangements for the annual governance statement ■ Assured by Joint Audit and Standards Committee, external and internal audit |
| Asset Management: Failure to secure effective arrangements for managing the commissioner's assets resulting in breach of regulations and/or public/employee liability, loss or damage to the asset, failure to secure value for money from the use of assets | <ul style="list-style-type: none"> ■ Insurance & Independent Insurance advice services ■ Rules for safeguarding and use of assets within financial regulations and the terms of the Chief Constables funding arrangement ■ Assured by Joint Audit and Standards Committee and internal audit |
| Insurance Failure: The risk that the organisation is not insured against all of the risks that it faces and/or failure to procure sufficient insurance cover/failure of the insurance provider | <ul style="list-style-type: none"> ■ Insurance broker procured to deliver professional advice on amount of cover and excess ■ Annual reporting from director of legal services on current claims ■ Risk assessed insurance provision and reserve for uninsured levels of liability ■ Assured through Bi-annual actuarial review of liabilities and annual review by the broker |

This section of our Medium Term Financial Strategy sets out our plans for capital expenditure to fund the purchase and enhancement of property, vehicles, ICT and other equipment assets used to deliver policing. Our forecasts of that expenditure and how it is planned to be financed are consolidated within a 10 year capital programme.

The Capital Programme

Capital expenditure funds the purchase and enhancement of property, vehicles, ICT and other equipment assets used to deliver policing. These assets have a balance sheet value of £64m at 31st March 2015 and over the next 10 years £62.5m will be spent replacing and enhancing those assets. The plans for resourcing and managing those costs are integral to the position within this strategy on the overall level of reserves, treasury management borrowing requirements and total revenue expenditure.



The capital programme estimates the financial resources needed to fund capital assets over 10 years. Expenditure within the programme is based on a proposal from the Constabulary that sets out the requirements to police Cumbria and is supported by detailed capital strategies for the estate, vehicles and ICT. Funding comes from capital grants, capital receipts and capital reserves with the balance provided for either through direct contributions from the revenue budget or revenue charges to fund

interest and repayment of borrowing. This strategy sets an objective that the capital programme will be fully funded for a minimum of four years, ensuring a fully balanced medium term revenue and capital budget. In addition, any major capital schemes requiring new investment over multiple years must be fully funded at the time of approval. The 10 year projection of costs ensures there is on-going review of future requirements facilitating financial planning to accommodate the peaks in expenditure that arise in the longer term.

Capital Expenditure

The significant proportion of total capital expenditure provides for investment and replacement of the ICT equipment, vehicles and property estate used to deliver operational policing. This expenditure will amount to £32.6m over the four years of this medium term financial strategy, an average of over £8m per annum. Capital expenditure is high in the first four years of the 10 year programme as a result of major strategic investment in ICT and the estate. This level of investment continues and increases to 2020-21, following which capital expenditure returns to a more typical average level of £3.2m per annum. The table below sets out the capital programme for four years of this medium term financial strategy. The full 10 year capital programme is set out in Annexe 1.

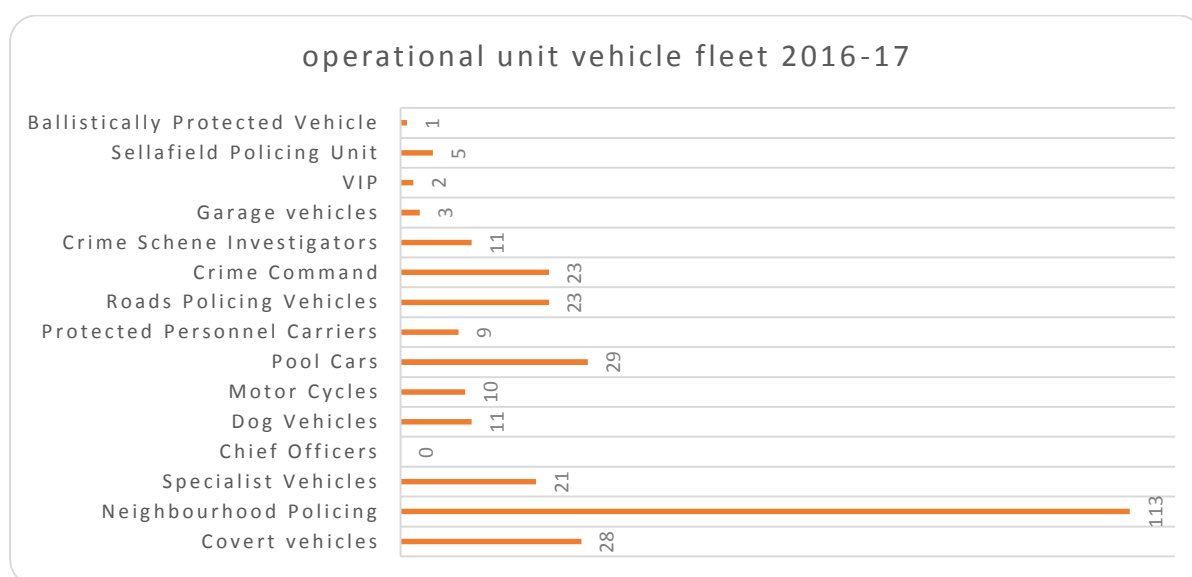
| Capital Expenditure | Year 1 | Year 2 | Year 3 | Year 4 | Years 1-4 |
|----------------------------------|--------------|--------------|--------------|--------------|---------------|
| 2016-17 to 2019-20 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | Total |
| | £000 | £000 | £000 | £000 | £000 |
| ICT Schemes | 4,440 | 4,753 | 1,398 | 1,759 | 12,350 |
| Fleet Schemes | 799 | 1,449 | 529 | 637 | 3,414 |
| Estates Schemes | 1,591 | 3,634 | 4,757 | 6,805 | 16,786 |
| Other Schemes | 54 | - | - | - | 54 |
| Total Capital Expenditure | 6,883 | 9,836 | 6,684 | 9,201 | 32,604 |

ICT capital expenditure provides for the cyclical replacement and improvement of the full range of ICT equipment, hardware and application software to meet the operational needs of the Constabulary. High levels of expenditure in 2016-17 and 2017-18 provide for strategic investment in mobile and digital working to support more efficient working and planned reductions in police office numbers. The ICT programme also provides for the renewal or replacement of core systems and applications such as the main crime and intelligence system SLEUTH, command and control, forensics management, prisoner information systems and case and custody. This includes digital files for integration with the crown prosecution service and the police national data base that supports the sharing of information between forces. From 2016-17 ICT capital expenditure also provides for the mandated replacement of the police radio (Airwave) system under the national Emergency Services Network (ESN) programme and

5.2 million miles: the distance travelled by fleet vehicles in 2015-16

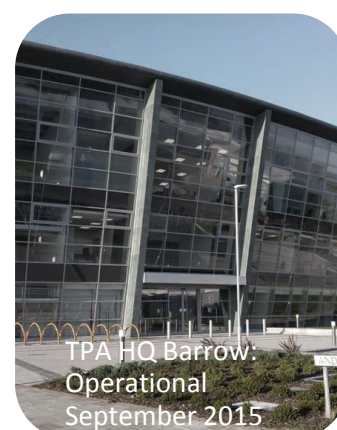
the cyclical replacement and improvement of networks, security and data storage capacity. Average ICT annual capital expenditure over the first 5 years of the programme is £3.5m, reflecting this investment. From years 6-10 expenditure returns to its typical annual average profile of £1.8m.

The Commissioner's fleet consists of 289 vehicles that are used and maintained by the Constabulary. The capital programme provides for the replacement and adaptation of these vehicles on a periodic basis at the end of their useful life. Expenditure fluctuates annually as procurement arrangements seek to procure categories of vehicle through framework agreements that achieve competitive levels of pricing. Over the 10 year programme expenditure averages £1.2m per annum. The programme includes targets for the reduction in fleet costs of 10% in 2016-17, 15% in 2017-18 rising to 20% from 2018-19. The Estates & Fleet Manager will work with operational colleagues to deliver these savings through a combination of reducing vehicle numbers, extending vehicle lives or changing vehicle specifications. Progress against this target will be monitored through the Constabulary's Strategic Vehicle Group



The Commissioner's estate currently consists of 39 premises (including police headquarters, larger police stations/territorial policing area HQ which include custody suites, smaller police stations and a small number of residual police houses). The capital programme sets out the expenditure and capital schemes to deliver the estates strategy. This is a programme of works to reduce the size of the estate to make savings and ensure estate assets are efficient in their running costs and meet operational requirements. The programme includes cyclical replacement of major estate components, for example

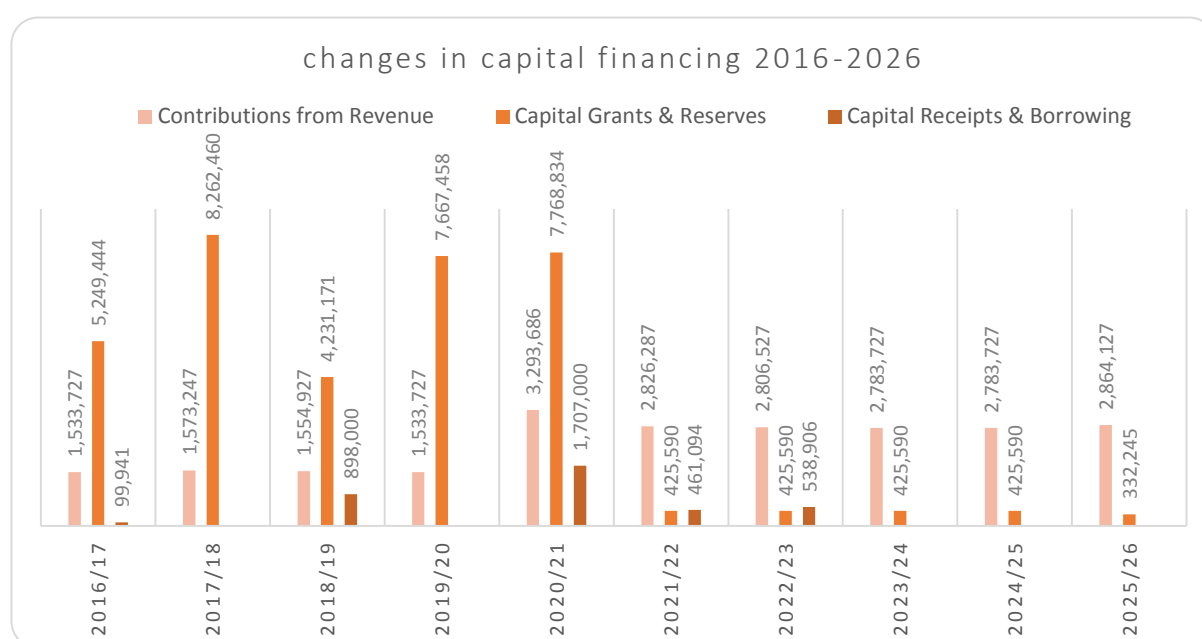
re-roofing, disposal of older property that is no longer fit for purpose and the build and/or lease of new buildings that meet modern performance and suitability standards. This includes ensuring custody facilities meet increasing regulatory requirements. Capital receipts from property disposals are recycled into the programme to fund new buildings.



The severe weather incidents in December 2015 identified a number of threats to resilience and business continuity arising at a number of sites across the Commissioner's estate. This has resulted in the development of capital schemes in the north and west of the county to manage the impact of a number of significant resilience risks, in particular to communications and ICT infrastructure, but also in respect of wider issues concerning deployment and custody. The scheme for the west of the county is still in the early stages of development and will be fully scoped during the 2016-17 financial year. The programme includes an indicative budget for likely costs estimated at around £15m. The scheme also aims to provide a long term solution to the arrangements regarding the PFI building at Workington.

Capital Financing

Our capital financing plans show how we intend to fund the capital programme over its 10 year life. It includes any capital receipts we expect to receive from the disposal of property and grant funding from the Home Office. The table below shows our plans for capital financing between 2016 and 2026.



Over the life of this medium term financial strategy funding for the capital programme is largely dependent on capital grants and capital reserves. This supports the revenue budget with direct revenue contributions being set at an annual amount of £1.2m. Beyond 2021 capital reserves and historic grants will be largely depleted. Over the same time the amount of annual capital funding from central government has been steadily eroded as a result of top-slicing to fund national projects. This has seen a 40% reduction in direct capital allocations to policing areas in 2016-17. This means that the capital programme going forward will be primarily funded from revenue after 2021 when historic capital grants and the reserves we have set aside for the programme have been fully utilised.

The chart below shows the expected movement in capital financing over the next 10 years. Significantly, in 2016-17 grants and reserves comprise 76% of funding for the capital programme with recurrent revenue contributions at 22%. During the last four years these respective contributions switch to 87% recurrent revenue funding and 13% from capital grant, rising to a 90%:10% ratio in 2025-26. This means that in the longer term capital expenditure will be in full competition with revenue expenditure for funding from formula grant and council tax income. From 2021 resource allocation mechanisms will need to manage these competing demands.

| Capital financing % | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Revenue | -22% | -16% | -23% | -17% | -26% | -76% | -74% | -87% | -87% | -90% |
| Grants & Reserves | -76% | -84% | -63% | -83% | -61% | -11% | -11% | -13% | -13% | -10% |
| Receipts & Borrowing | -1% | | -13% | | -13% | -12% | -14% | | | |

A summary of the full 10 year capital programme and financing is provided for information at **Annexe 1**. The annexe shows that the capital programme is in total fully funded over the ten year period to 2025/26. In individual financial years from years 5-10 of the programme there are some shortfalls and excesses which balance out over time. The detailed figures over the longer term will be subject to some refinement which will address these in year differences to ensure a fully balanced forecast for the relevant four year medium term financial strategy.

Annexe 1

| the budget for the Commissioner and the Chief constable | Budget 2015/16 | Budget 2016/17 | Budget 2017/18 | Budget 2018/19 | Budget 2019/20 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| | £000s | £000s | £000s | £000s | £000s |
| Constabulary Funding | | | | | |
| Police Officers - Pay | 57,452 | 56,303 | 57,851 | 58,799 | 58,117 |
| Police Officers - Police Pension | 18,006 | 18,134 | 21,577 | 22,095 | 24,010 |
| Police Officers - Ill Health & Injury Pensions | 889 | 889 | 900 | 915 | 931 |
| Police Community Support Officers | 2,811 | 2,814 | 3,031 | 3,023 | 3,120 |
| Police Staff | 18,556 | 18,993 | 18,369 | 18,533 | 18,698 |
| Other Employee Budgets | 803 | 672 | 534 | 544 | 555 |
| Transport Related Expenditure | 2,470 | 2,134 | 2,193 | 2,255 | 2,318 |
| Supplies & Services | 9,878 | 9,675 | 9,062 | 9,314 | 9,442 |
| Third Party Related Expenditure | 1,616 | 1,630 | 1,660 | 1,692 | 1,724 |
| Total Constabulary Expenditure | 112,480 | 111,244 | 115,178 | 117,170 | 118,916 |
| Earned Income | (3,967) | (4,639) | (4,565) | (3,952) | (4,004) |
| Total Constabulary Funding | 108,513 | 106,605 | 110,612 | 113,218 | 114,912 |
| Commissioners Budgets | | | | | |
| Office of the Commissioner | 799 | 759 | 768 | 777 | 786 |
| Commissioned Services Budget | 2,699 | 2,250 | 1,850 | 2,000 | 2,000 |
| Sexual Assault Support Service | 0 | 333 | 233 | 83 | 83 |
| Premises Related Costs | 3,717 | 3,529 | 3,610 | 3,694 | 3,780 |
| LGPS Past Service Costs | 799 | 799 | 1,199 | 1,199 | 1,199 |
| Insurances and Management of Change | 2,533 | 767 | 795 | 803 | 833 |
| Accounting and Capital Financing | 5,748 | 6,304 | 4,960 | 4,936 | 9,836 |
| Contributions to Revenue Reserves | 1,890 | 50 | 50 | 50 | 50 |
| Contributions to Capital Reserves | 0 | 3,473 | 0 | 0 | 2,000 |
| Grants: Home Office Pension | (18,006) | (18,134) | (21,577) | (22,095) | (24,010) |
| Grants & Contributions - Other | (7,448) | (6,958) | (6,961) | (6,963) | (6,966) |
| Interest/Investment Income | (125) | (100) | (135) | (170) | (170) |
| Total Commissioners Budget | (7,394) | (6,928) | (15,207) | (15,687) | (10,579) |
| Revenue Reserve Drawdown | (4,127) | (697) | (337) | (100) | 0 |
| Capital Reserve Drawdown | (2,121) | (3,305) | (1,927) | (1,928) | (6,857) |
| Total Use of Reserves | (6,248) | (4,002) | (2,264) | (2,028) | (6,857) |
| Budget Requirement | 94,871 | 95,675 | 93,142 | 95,503 | 97,477 |
| General Police Grant | (59,884) | (59,543) | (49,643) | (49,643) | (49,643) |
| Council Tax Precepts | (34,987) | (36,132) | (36,830) | (37,812) | (38,821) |
| Total Formula Grant & Council Tax Income | (94,871) | (95,675) | (86,473) | (87,454) | (88,464) |
| Net Deficit/Savings Requirement | 0 | (0) | 6,669 | 8,048 | 9,013 |
| Council Tax per Band D Property | £208.62 | £212.58 | £216.64 | £220.78 | £225.02 |
| Increase over previous year | £3.96 | £3.96 | £4.06 | £4.14 | £4.24 |
| Percentage Increase | 1.93% | 1.90% | 1.91% | 1.91% | 1.92% |

Capital Expenditure and Financing 10 years 2016-17 to 2025-26

| Capital Programme | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 1-10 |
|---------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|
| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | Total |
| | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's |
| Capital Expenditure | | | | | | | | | | | |
| ICT Schemes | 4,440 | 4,753 | 1,398 | 1,759 | 4,940 | 1,749 | 1,202 | 2,934 | 569 | 2,494 | 26,238 |
| Fleet Schemes | 799 | 1,449 | 529 | 637 | 2,161 | 1,364 | 1,473 | 1,085 | 806 | 1,121 | 11,424 |
| Estates Schemes | 1,591 | 3,634 | 4,757 | 6,805 | 6,600 | 0 | 0 | 0 | 150 | 620 | 24,156 |
| Other Schemes | 54 | 0 | 0 | 0 | 0 | 600 | 0 | 0 | 0 | 0 | 654 |
| | | | | | | | | | | | |
| Total Capital Expenditure | 6,883 | 9,836 | 6,684 | 9,201 | 13,701 | 3,713 | 2,675 | 4,019 | 1,525 | 4,235 | 62,473 |
| | | | | | | | | | | | |
| Capital Financing | | | | | | | | | | | |
| Capital Receipts | 0 | 0 | 898 | 0 | 1,707 | 461 | 539 | 0 | 0 | 0 | 3,605 |
| Revenue Contributions | 1,534 | 1,573 | 1,555 | 1,534 | 3,294 | 2,826 | 2,807 | 2,784 | 2,784 | 2,864 | 23,554 |
| Capital Grants | 1,945 | 6,336 | 2,303 | 811 | 426 | 426 | 426 | 426 | 426 | 332 | 13,854 |
| Capital Reserves | 3,305 | 1,927 | 1,928 | 6,857 | 7,343 | 0 | 0 | 0 | 0 | 0 | 21,360 |
| Borrowing | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 100 |
| | | | | | | | | | | | |
| Total Capital Financing | 6,883 | 9,836 | 6,684 | 9,201 | 12,770 | 3,713 | 3,771 | 3,209 | 3,209 | 3,196 | 62,473 |
| | | | | | | | | | | | |
| Funding Gap | 0 | 0 | (0) | (0) | (932) | 0 | 1,096 | (810) | 1,684 | (1,039) | (0) |

Objective Analysis Descriptions

- **Local Policing** – neighbourhood policing, incident management, community liaison, local command team and support overheads.
- **Dealing with the Public** – local call centre/front desk, central communications unit.
- **Criminal Justice Arrangements** – custody/prisoner handling, criminal justice arrangements, Police National Computer, civil disclosure/criminal records bureau, coroner assistance, fixed penalty scheme/central ticket office.
- **Road Policing** – traffic units, vehicle recovery, road safety partnership
- **Specialist Operations** – central operations command team and support overheads, underwater search/marine support, dogs sections, level 1 advanced public order, firearms unit, civil contingencies.
- **Intelligence** – central intelligence command team and support overheads, intelligence/threat assessments, covert policing.
- **Investigations** – crime support command team and support overheads, major investigations unit, economic crime, serious and organised crime unit, public protection, local investigation.
- **Investigative Support** – scenes of crime officers, external forensic costs, fingerprint/DNA bureau, photographic image recovery, other forensic services.
- **National Policing** – secondments (out of force), counter terrorism/special branch, ACPO projects/initiatives.
- **Corporate and Democratic Core Costs:** member expenses; officer time spent on appropriate advice activities; subscriptions to local authority associations etc.; costs of head of paid service; maintenance of statutory registers; statutory returns and statistics; external audit and inspections; treasury management; bank charges.
- **Central Costs:** Pension costs – past service costs, curtailments and settlements, depreciation costs and impairment losses in relation to assets under construction and surplus assets held for disposal.

Treasury Management Investment Counterparties: Credit Rating, Groups & Limits

| Credit Rating | Maximum | 1 | 2 | 3 | 4 | 5 |
|-------------------------------------|----------|-----------|-----------|-------------|------------|--------------|
| | | Banks | Banks | Government | Registered | Pooled |
| | | Unsecured | Secured | | Providers | Funds |
| Category Limit 2016/17 | Amount | £20m | £20m | Unlimited | £10m | £15m |
| Individual Institution/Group Limits | | | | | | |
| UK Government | Amount | N/A | N/A | £ unlimited | N/A | N/A |
| | Duration | | | 50 Years | | |
| AAA | Amount | £2m | £4m | £4m | £2m | £4m per fund |
| | Duration | 5 years | 20 years | 50 years | 20 years | |
| AA+ | Amount | £2m | £4m | £4m | £2m | |
| | | | | | | |
| | Duration | 5 years | 10 years | 25 years | 10 years | |
| AA | Amount | £2m | £4m | £4m | £2m | |
| | Duration | 4 years | 5 years | 15 years | 10 years | |
| AA- | Amount | £2m | £4m | £4m | £2m | |
| | Duration | 3 years | 4 years | 10 years | 10 years | |
| A+ | Amount | £2m | £4m | £2m | £2m | |
| | Duration | 2 years | 3 years | 5 years | 5 years | |
| A | Amount | £2m | £4m | £2m | £2m | |
| | Duration | 13 months | 2 years | 5 Years | 5 years | |
| A- | Amount | £2m | £4m | £2m | £2m | |
| | Duration | 6 months | 13 months | 5 years | 5 years | |
| None | Amount | N/A | N/A | £2m | £2m | N/A |
| | Duration | | | 25 years | 5 years | N/A |

Credit Rating Category Descriptions

| | | | |
|--|---|---|---|
| Long Term Rating | The Commissioner will confine investments to those institutions with a minimum rating of A-. | | |
| This category of ratings applies to investments over 12 months. The approved grading is in the range AAA, AA, A, | AAA Highest credit quality 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be affected by foreseeable events. | AA Very high credit quality 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. | A High credit quality 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. |

Explanation of Counterparty Groupings

Category 1 - Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a **bail-in** should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Commissioner's current account bank Nat West plc.

Category 2 - Banks Secured: Covered bonds, reverse repurchase agreements and other secured arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Category 3 - Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to **bail-in**, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Category 4 - Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are

tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Category 5 - Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value (NAV) will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Commissioner to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Commissioner's investment objectives will be monitored regularly.

Further Information

Further information on the arrangements for finance and financial governance can be found on the Commissioner's website under the tab headed Governance and Transparency. This includes the following webpages:

- Budget and Finance: budget reports, treasury management strategy, financial monitoring
- Joint Audit Committee: arrangements for the committee, annual report of the committee
- Statement of Accounts: financial statements, annual governance statements and code of local government
- Document Library: a facility to search for key documents and information e.g. financial regulations

We welcome your views on the Commissioner's medium term financial strategy. You can do this by using the contact information below:

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