

NON - CONFIDENTIAL FACTS AND ADVICE TO THE POLICE AND CRIME COMMISSIONER

INTRODUCTION AND BACKGROUND

PURPOSE

1. Following the meeting of the Police and Crime Panel on 1st February, and their subsequent report, this paper sets out the Police and Crime Commissioner's 2016/17 Revenue Budget and Precept and Capital Budget and Programme 2016/17 – 2019/20.

BACKGROUND

GOVERNMENT GRANT SETTLEMENT 2016/17

2. The final levels of Government Grant for 2016/17 were confirmed on the 4th February 2016. The following table summarises the final settlement for the West Midlands Police and Crime Commissioner:

	<i>2015/16</i>	<i>2016/17</i>	<i>Difference</i>	
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>%</i>
Police Grant	252.3	250.8	-1.5	-0.6
DCLG Formula Funding	181.3	180.3	-1.0	-0.6
Sub Total	433.6	431.1	-2.5	-0.6
Council Tax Support	19.0	19.0	0.0	0.0
Total	452.6	450.1	-2.5	-0.6

3. The points to note from the grant settlement are:
 - (a) The total level of Government Revenue Funding for Police in 2016/17 is 0.6% less than 2015/16, and all Police areas in England have been subject to the same percentage reductions;
 - (b) As the table in paragraph 2 shows, the total funding allocated to West Midlands is £450.1m, a reduction of £2.5m or 0.6% compared to 2015/16;
 - (c) The Home Office has continued to apply a number of top slices to force funding and the total amount top sliced has increased significantly, as summarised in the table below. This reduces the total amount that is available for allocation to individual forces.

2015/16 £m		2016/17 £m	Change £m
564	Counter Terrorism	640	76
70	Police Innovation Fund	55	-15
40	Major Programmes (i)	22	-18
15	Police Special Grant (ii)	25	10
30	IPCC	32	2
9	HMIC	9	0
5	College of Policing (Direct Entry)	5	0
5	Police Knowledge Fund	0	-5
738	Total	788	50
	Additional Home Office Allocations:		
0	Emergency Services Network	80	80
0	Transformation Fund (iii)	76	76
738	Total	944	206

- i. to fund future communications and data capability programmes
- ii. originally introduced in 2015/16 "To support police forces facing unplanned or unexpected additional pressures which might otherwise place them at financial risk"
- iii. to invest in cross force capabilities, new technology, armed policing capability and digital justice/investigations

4. The settlement only provided funding figures for 2016/17.

BALANCES AND RESERVES

5. The estimated levels of General Balances and Earmarked Reserves at 31st March 2016 are:

	Estimated Balance as at March 2016
Capital Reserve	17,800
Budget Reserve	26,357
Budget Resilience	25,492
Redundancy and Equal Pay Reserve	10,097
Self-funded Insurance Reserve	12,000
Devolved Budget Reserve	2,453
Uniform and Protective Equipment Reserve	3,000
Major Incident Reserve	2,153
POCA Income Reserve	1,082
Earmarked Reserves	101,456
General Reserve	12,042
TOTAL RESERVES	113,498

6. The Commissioner needs to maintain adequate General Reserve balance because:

- (a) As a single purpose entity, with turnover of £0.5 billion, there are no other such reserves to call on;
- (b) There are no budgeted contingencies for very major incidents, which may require significant resource levels for a long period;

PROPOSED REVENUE BUDGET 2016/17

7. The Commissioner is proposing a Revenue Budget for 2016/17 based on the following:-
 - (a) The level of resources required to deliver the Police and Crime Plan;
 - (b) The settlement from Government that is essentially a one year funding settlement due to a planned review of the police funding formula during 2016/17;
 - (c) The availability of reserves to support spending in 2016/17 and later years;
 - (d) The need to continue to address the "grant/precept ratio" issue;
 - (e) The implications of spending levels in later years and the uncertainty of funding settlements in future years;
 - (f) The results of the Public Consultation about the proposals;
 - (g) The outcome of the Statutory Consultation meeting with representatives of Business ratepayers, where no specific issues were raised;
 - (h) Any inherent risks and uncertainties;
 - (i) The impact on local Council Tax payers, and particularly balancing what needs to be spend to provide services with what it is reasonable to ask local council tax payers to pay;

8. The Revenue Budget for 2016/17 is based on the following:-
 - (a) The continued recruitment of 450 additional police officers, which is due for completion during 2016/17;
 - (b) The lifting of the need to use compulsory redundancy to achieve the reduction in PCSO numbers in the short term subject to any future revisions of the MWP2020 programme in light of the current settlement;
 - (c) A commitment of a two year allocation of Community Safety Funding with a reduction of 25% from April 2016 as previously discussed with partners. This is to reflect funding reductions that have already taken place across police funding since the start of the austerity programme;
 - (d) Existing budget commitments and inflationary pressures;
 - (e) Continued support for the Innovation and Integration Partnership (IIP) to deliver the WMP2020 programme, and the requirement for the programme to deliver significant savings in the medium term. The programme will help the Force to continually challenge the way services are provided, maximise innovation and rive efficiency and productivity;
 - (f) Savings from police officer and staff retirements and turnover, the rationalisation of the Birmingham Estate and other non-pay savings;
 - (g) A precept increase of £5 in line with the Council Tax referendum limit principles that applies to West Midlands Police;

- (h) The prudent use of reserves in 2016/17 recognising the future use of reserves beyond 2016/17 will be in line with an updated Medium Term Financial Plan to be developed during 2016/17.

9. Recognising that in the medium term:

- (a) There is considerable uncertainty about Government funding levels, there are likely to be further reductions in resources available for policing and crime;
- (b) There are significant cost pressures to the organisation including inflation, increases in employer National Insurance contributions and other cost pressures;
- (c) There is a need to strike a careful balance between spending levels, the use of reserves and a precept increase in 2016/17.

WEST MIDLANDS OFFICE OF THE POLICE AND CRIME COMMISSIONER

10. The proposed budget for the Office of the Police and Crime Commissioner for 2016/17, compared to the approved budget for 2015/16 is shown in the following table.

	Budget 2015/16 £000	Budget 2016/17 £000
Governance & Strategic Direction	315	326
Staff & Office Support Costs	1,257	1,274
Consultation, Statutory Notices etc**	190	121
Legally Qualified Chairs*	0	32
Community Initiative Fund	25	25
Subscriptions	54	45
Bank charges and External Audit fees	109	92
Custody Visiting	0	5
Professional Services including Legal fees	20	50
Total	1,970	1,970

* Requirement for legally qualified chairs of Police Conduct Panels from 2016

** Includes the costs of ICT and systems

POLICE GRANT - COMMUNITY SAFETY

11. The Commissioner has made a commitment of a two year allocation of the Police main grant to local councils for Community Safety with a reduction of 25% from April 2016, which has been discussed with partners. This means the Community Safety allocations for 2016/17 are as follows:

<i>District</i>	<i>Community Safety 2015/16</i>	<i>Community Safety 2016/17</i>
	<i>£</i>	<i>£</i>
<i>Birmingham</i>	2,497,583	1,873,187
<i>Coventry</i>	546,304	409,728
<i>Dudley</i>	396,364	297,273
<i>Sandwell</i>	530,190	397,643
<i>Solihull</i>	285,938	214,454
<i>Walsall</i>	402,203	301,652
<i>Wolverhampton</i>	492,495	369,371
Total	5,151,077	3,863,308

OPERATIONAL POLICING BUDGET

12. In accordance with the Scheme of Consent, it is necessary for the Commissioner to approve an operational policing budget which can be delegated as detailed within the Scheme of Consent. It is consistent with the policies and priorities included in the Police and Crime Plan. The proposed operational policing budget is set out in Appendix 3 and 3a. This represents, in more detail, a cost centre based view of Operational and non-Operational policing in the West Midlands.

STAFFING BUDGETS 2016/17

13. The implications for staffing budgets are shown below:

	Police Officer	Police Staff	PCSOs	Total
1st April 2016: Revised Budgeted Establishment	6,812	3,250	519	10,581
New Recruits	190			190
Forecast Leavers / Programme of Work 2016/17	-362	-186	-72	-620
1st April 2017: Budgeted Establishment	6,640	3,064	447	10,151
New Recruits	10			10
Forecast Leavers / Programme of Work 2017/18	-290	-290	-72	-652
1st April 2018: Budgeted Establishment	6,360	2,775	375	9,510

14. The forecast leavers assumed within the budget represent anticipated turnover of staff. For police officers this forecast is based on assumptions of the amount who will leave upon reaching 30 years service, plus additional leavers from resignation or transfers to other forces.

THE BUDGET RESERVE

15. There are a number of specific issues which need to be taken into account in considering how much of the Budget Reserve should be used in 2016/17, including:
- (a) retaining the maximum levels possible to support spending in 2016/17 and later years when resource levels will be significantly constrained;
 - (b) striking a fair balance between how much should be used to support spending over the planning period and therefore limit the impact on local taxpayers, and by how much the precept should increase;
 - (c) risks and uncertainties in key budget assumptions, given that any over or additional spending in 2016/17 which cannot be met from in year redirections would have to be met from the Budget Reserve;
16. Given these considerations and assuming a precept increase at the maximum permitted without a referendum it will be necessary to use £9.1m of the Budget Reserve to support revenue spending in 2016/17.
17. The proposed net budget requirement for 2016/17, compared to 2015/16 would therefore be calculated as follows:

	2015/16 £'m	2016/17 £'m
<i>Total revenue spending</i>	541.1	536.3
<i>Use of Budget Reserve</i>	-17.5	-9.1
<i>Revenue Expenditure</i>	523.6	527.2

MEDIUM TERM FINANCIAL PLAN (MTFP)

18. Following receipt of the provisional grant settlement, the Commissioner is now in the process of revising the Medium Term Financial Plan (MTFP). A refresh of the WMP2020 blueprint is due for completion at the end of March 2016. This will form the basis of the financial strategy and the proposed use of reserves over the next 4 years. The outcome of the MTFP review will be reported back to the Police and Crime Panel in September 2016 and will also incorporate the outcome of the police funding formula as it is developed nationally over the same period.

CAPITAL PROGRAMME 2016/17 – 2019/20

19. The Capital Programme to 2019/20 (including the current year) is shown at Appendix 2 and includes provision for the force change programmes, estates and ICT strategies. In addition to these, the annual replacement requirement in relation to ICT and vehicles has been modelled and included within the programme. The programme constructed lists the priorities that are currently known but it is important to acknowledge that the timescales, magnitude and content of schemes may alter over the life of the programme.
20. The programme has been prepared with the medium term strategic context in mind, and as such is structured in the following way:
- **Section 1 (WMP2020 Programme)** represents schemes that have been

incorporated into the WMP2020 programme of work, some have an approved business case, others are an outline and will need more definition before they can be written into a business case format.

- **Section 2 (Business as usual)** represents schemes that are for the replacement of assets.
- **Section 3 (funded by)** this shows how the total spend of the capital programme will be funded over the medium term. The exact combination of funding sources will depend upon:-
 - The extent to which reserves will be required to support total revenue spending over the medium term
 - The outcome of detailed business cases particularly for invest to save schemes, where the use of one-off reserves to generate recurring savings makes good sense
 - The long term costs of borrowing and the impact of borrowing costs on total revenue spending, although the proportion of the total budget allocated to capital financing charges is significantly lower than similar force areas.
 - The use of short term internal borrowing where cash surpluses are not invested to delay the need to borrow in the low interest rate environment.

21. The proposed funding plan will be reviewed and updated as necessary in accordance with changes to the Treasury Management Strategy and emerging market conditions. It may be advantageous to borrow long term for the purchase of land or the creation of buildings to maximise value for money scenarios as they present themselves further into the programme.

PRUDENTIAL GUIDELINES

22. In relation to capital financing the Commissioner is required to set a number of prudential indicators and these are covered in detail in Appendix 6.

RISKS AND UNCERTAINTIES

23. Details of the risks and uncertainties inherent in these Budget proposals are summarised in Appendix 7.

PRECEPT IMPLICATIONS

24. The table below shows a summary of the precept calculation including the notified Collection Fund net surplus, and compares the precept level with last year's figures:

Summary Precept Calculation	2015/16	2016/17
	£'m	£'m
Revenue Expenditure	541.11	536.30
Contribution from Reserves	-17.47	-9.07
Net Budget Requirement	523.64	527.23
Police Grant	-252.26	-250.82
DCLG Formula Funding	-181.31	-180.28
Council Tax Support Grant	-19.02	-19.02
Surplus/Deficit on Collection Fund	-0.82	-1.70
Precept Requirement	70.23	75.41
Total Tax Base	659,148	675,989
Band D Precept	£106.55	£111.55

An increase of £5.00 per annum

25. This produces a charge for each property for 2016/17 as follows:

	Statutory Proportion	2015/16	2016/17	Change	Change
		Precept	Precept	Annual	Weekly
		£ : p	£ : p	£ : p	£ : p
A	6/9	71.03	74.36	3.33	0.06
B	7/9	82.87	86.76	3.89	0.07
C	8/9	94.71	99.15	4.44	0.09
D	9/9	106.55	111.55	5.00	0.10
E	11/9	130.23	136.34	6.11	0.12
F	13/9	153.91	161.13	7.22	0.14
G	15/9	177.58	185.91	8.33	0.16
H	18/9	213.10	223.10	10.00	0.19

26. The statutory calculations required by Local Government Finance Act, 1992 are shown in Appendix 4.

FINANCIAL IMPLICATIONS

27. Are as detailed in this report.

LEGAL IMPLICATIONS

28. Section 40 of the Local Government Finance Act, 1992, requires the Commissioner to set budget and precept by 1st March each year.
29. The Commissioner must ensure that the precept is sufficient to provide for the expenditure estimates it will incur in the year in performing functions, defraying outstanding expenditure incurred earlier, any expenditure before precepts become sufficiently available and any payments into reserves.
30. The Localism Act 2011 has abolished the council tax capping regime and replaced it with the requirement for Authorities to hold a taxpayers referendum if excessive increases are proposed. For the West Midlands an excessive increase would 1% or greater.
31. Section 25 of the Local Government Act 2003 requires the CFO to report to the Commissioner on the robustness of the estimates made for the purposes of the statutory budget calculations and the adequacy of financial reserves and the Commissioner must have regard to that report when making decisions about the statutory budget calculations.
32. Section 19 of the Police Act 1996 makes special provision covering the Commissioner's decision, in respect of the precept it proposes to levy for the forthcoming year.

EQUALITY IMPLICATIONS

33. The budget provides for the continuation and development of policing services for all people in the West Midlands, irrespective of their protected characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. Both the Commissioner and the Force are committed to delivering the principles, strategies and priorities of their respective Equality Schemes.

SCHEDULE OF BACKGROUND PAPERS

Appendix 1 – Summary of Revenue Budget 2016/17

Appendix 2 – Capital Programme 2015/16 – 2019/20

Appendix 3 – Operational Budget 2016/17

Appendix 4 - Statutory Council Tax calculation 2016/17

Appendix 5 – Report of the Chief Financial Officer

Appendix 6 – Statement of Prudential Indicators

Appendix 7 – Risk Assessment

REVENUE BUDGET 2016/17

	Base Budget 2016/17 £,000
<i>Police pay</i>	349,134
<i>Police Community Support Officers</i>	13,367
<i>Support staff pay</i>	100,829
<i>Other employees expenses</i>	1,994
<i>Sub total</i>	465,324
<i>Premises</i>	17,543
<i>Transport</i>	7,911
<i>Supplies and services</i>	41,529
<i>Agency</i>	5,260
<i>Capital Financing Costs</i>	3,195
<i>External income</i>	-25,058
<i>WMP2020 Project Costs</i>	13,475
<i>Police Force</i>	529,179
<i>Office of the Police & Crime Commissioner</i>	1,970
<i>CSF Expenditure (LA's)</i>	3,863
<i>Other Commissioning</i>	1,288
<i>Victim Services Expenditure</i>	3,089
<i>Victim Services Income</i>	-3,089
<i>Total Office of the PCC</i>	7,121
<i>Total Revenue Budget</i>	536,300

CAPITAL BUDGET AND PROGRAMME 2016/17 – 2019/20

	*2015/16	2016/17	2017/18	2018/19	2019/20	Total
	Budget	Budget	Budget	Budget	Budget	Prog
	£m	£m	£m	£m	£m	£m
WMP2020:						
NWOW (inc Lloyd House)	17.8	15.2	0.0	0.0	0.0	33.0
Criminal Justice	13.4	0.0	0.0	0.0	0.0	13.4
Next Generation Enabling Services	0.0	4.2	0.0	0.0	0.0	4.2
Operational Policing Solution	0.0	8.1	2.9	0.0	0.0	11.0
Predictive Analytics	0.2	0.0	5.8	0.0	0.0	6.0
Estates Rationalisation	2.5	3.0	2.0	0.0	0.0	7.5
Other WMP2020	3.6	11.6	3.4	0.4	0.2	19.2
Total WMP2020	37.5	42.1	14.1	0.4	0.2	94.3
Business As Usual:						
Fleet	3.0	4.2	3.0	3.0	3.0	16.2
ICT	1.7	0.5	0.6	0.5	0.6	3.9
Equipment	0.2	0.2	0.2	0.2	0.2	1.0
CTU	2.3	0.0	0.0	0.0	0.0	2.3
Total BAU	7.2	4.9	3.8	3.7	3.8	23.4
Total Spend	44.7	47.0	17.9	4.1	4.0	117.7
Funded By:						
Capital Grant (estimated)						-26.3
Capital Receipts						-42.4
Reserves/Borrowing						-45.9
Police Innovation Funding						-0.8
CTU Funding						-2.3
Total Funding						-117.7
Net Surplus/Deficit						0.0

*2015/16 included for information only

OPERATIONAL BUDGET

2016/17	
£m	
Police Pay & Allowances	349.134
Police Staff & Allowances	114.197
Other Employee Expenses	1.994
Total Employee Costs	465.324
Running Costs	72.242
Income	-
	25.058
Total Operational Budget	512.508
WMP2020 Project Costs	13.475
Capital Financing	3.195
TOTAL	529.178

2016/17	
£m	
Community Justice & Custody	24.450
CTU	2.707
Force CID	35.580
Force Contact	33.750
Forensics	10.799
Intelligence	26.106
Operations	18.535
Public Protection	37.875
CMPG	11.466
ROCU	2.359
Support Services	80.207
Departments Total	283.833
LPU's	200.873
Central Costs	27.804
Operational Total	512.510
WMP2020 Project Costs	13.475
Capital Financing*	3.193
TOTAL	529.178

**differs from table above as £0.002 is included within Intelligence budgets*

OPERATIONAL ANALYSIS

Support Services Analysis	2016/17 £m
Business Transformation	2.963
Command Team	2.044
Corporate Asset	30.235
Corporate Communications	1.469
Finance & Shared Services	9.032
Human Resources	3.026
Information Management	2.316
Insurance	3.488
Learning & Development	6.841
Legal Services	1.503
Professional Standards	2.646
Technology Services	14.645
TOTAL	80.207

LPU Analysis	2016/17 £m
Birmingham East	21.836
Birmingham North	13.979
Birmingham South	18.110
Birmingham West & Central	30.923
Coventry	23.945
Dudley	16.030
Sandwell	21.573
Solihull	12.835
Walsall	18.846
Wolverhampton	22.795
TOTAL	200.873

WEST MIDLANDS POLICE AND CRIME COMMISSIONER PRECEPT CALCULATION 2016/17

	£
Gross Budget Requirement	536,300,000
Less: Balances and Reserves	(9,072,000)
Net Budget Requirement	527,228,000
Less: Police Grant	(250,823,694)
Legacy Council Tax Grant	(19,025,734)
DCLG Formula Funding	(180,276,115)
Gross Council Tax Requirement	77,102,457
Add/Less: Balance on Collection Funds	(1,695,855)
Net Council Tax Requirement	75,406,602

Apportioned on the relevant tax base as follows:

	Relevant Tax base	Total Precept £	April-Feb £	Monthly Instalments March £
Birmingham	239,042.00	26,665,127	2,222,094	2,222,093
Coventry	77,525.10	8,647,922	720,660	720,662
Dudley	88,126.08	9,830,461	819,205	819,206
Sandwell	69,913.98	7,798,902	649,909	649,903
Solihull	73,456.00	8,194,014	682,835	682,829
Walsall	67,520.37	7,531,895	627,658	627,657
Wolverhampton	60,405.94	6,738,281	561,523	561,528
	675,989.47	75,406,602	6,283,884	6,283,878
				Monthly Instalment x 11 69,122,724
				Total Precept 75,406,602
				Net Precept for Band D property £111.55

	Proportion of Band D £	Calculated Value £	Rounded Value £
Band A	6/9	74.3667	74.37
Band B	7/9	86.7611	86.76
Band C	8/9	99.1556	99.16
Band D	9/9	111.5500	111.55
Band E	11/9	136.3389	136.34
Band F	13/9	161.1278	161.13
Band G	15/9	185.9167	185.92
Band H	18/9	223.1000	223.10

REPORT OF THE CHIEF FINANCIAL OFFICER AS REQUIRED BY SECTION 25 OF THE LOCAL GOVERNMENT ACT 2003

1. Section 25 of the Local Government Act 2003 requires the designated Chief Finance Officer of the Commissioner to report to it on the following matters:
 - (a) the robustness of the estimates made for the purposes of the statutory budget calculations;
 - (b) the adequacy of the proposed financial reserves;
2. The Commissioner must then have regard to that report when making decisions about the statutory budget calculations.
3. Appendix 7 analyses the risks and implications if key budget assumptions vary during the year. Any overspendings which cannot be contained within approved budget levels will have to be financed from the Budget Reserve.
4. Details of the Commissioner's general balances and reserves are set out in paragraphs 5 and 6 of the report. I am recommending that the level of General Balances remains at £12m.
5. The 2016/17 Revenue Budget and Medium Term Financial Plan requires the use of a significant proportion of the Budget Reserve. I have advised the Commissioner that I believe this represents an entirely reasonable, balanced and prudent approach, given current levels of crime and anti-social behaviour, the priorities set out in the Police and Crime Plan and the levels of Government resources likely to be available in the medium term.
6. The Insurance Fund will continue to be maintained at a level consistent with the insurance cost borne by the Commissioner's reserve and the level of outstanding self-funding insurance claims at any time. Financing for the Capital Programme includes the full use of the increased Capital Reserve over the Programme period. Other earmarked reserves will be applied as expenditure levels and service requirements dictate.
7. It will be necessary to retain as much flexibility as possible over the levels of reserves, including maximising the level of the Budget Reserve and prudent use over the plan period.
8. The total level of revenue reserves is estimated to be around £113m by 31st March 2016, depending on the use of earmarked reserves and the other factors influencing the use of the Budget Reserve in 2015/16.
9. I am therefore able to confirm that, in my professional opinion:
 - (a) the estimates made for the purposes of the calculations of the commissioner's budget requirement for 2016/17, under Section 32 of the Local Government Finance Act 1992 contained in the report, are robust;
 - (b) the financial reserves that will remain available to the Commissioner, as a result of agreeing the proposals contained in this report, are adequate;

Mark Kenyon
Chief Finance Officer

STATEMENT OF PRUDENTIAL INDICATORS

1. The Prudential Code for Capital Finance in Local Authorities (Prudential Code) is applicable to the Police and Crime Commissioner and has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide a code of practice to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003. PCCs, like Local Authorities, are free to determine their own level of capital investment controlled by self-regulation.
2. The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.
3. The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the PCC should operate to ensure the objectives of the Prudential Code are met.
4. The Prudential Indicators for which the PCC is required to set limits are as follows:

Capital Expenditure

5. This indicator forms the background to all other indicators, given that the overall rationale of the prudential system is to provide flexibility for borrowing to fund capital investment.
6. The actual amount of capital expenditure that was incurred during 2014/15, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2016/17 Budget are as follows:

	<i>2014/15</i>	<i>2015/16</i>	<i>2016/17</i>	<i>2017/18</i>	<i>2018/19</i>	<i>2019/20</i>
	<i>Actual</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
	<i>£'000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£'000</i>	<i>£'000</i>
<i>Capital Expenditure</i>	34,138	44,742	46,935	17,907	4,194	3,989

Net Borrowing and the Capital Financing Requirement (CFR)

7. This Prudential Indicator provides an overarching requirement that all the indicators operate within and is described in the Prudential Code as follows:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the PCC should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years”.

8. In considering the proposed capital programme for 2016/17, the anticipated future borrowing requirements are considered in the context of overall capital resources and the impact on the revenue budget.

	31st March 2015	31st March 2016	31st March 2017	31st March 2018	31st March 2019
	£'m	£'m	£'m	£'m	£'m
<i>Capital financing requirement (CFR)</i>	47.6	46.1	44.7	43.3	42.0
<i>External borrowing</i>	-49.2	-47.2	-47.2	-47.2	-47.2
<i>Variance</i>	-1.6	-1.1	-2.5	-3.9	-5.2

Note: The CFR increases when expenditure is incurred and reduces when provision is made to repay debt.

Ratio of Financing Costs to Net Revenue Stream

9. This indicator is intended to demonstrate the affordability of capital investment decisions in terms of the ratio of capital financing costs to overall resources, expressed as a percentage.
10. Financing Costs include the amount of interest payable in respect of borrowing or other long-term liabilities and the amount the PCC is required to set aside to repay debt, less interest and investments income.
11. The Net Revenue Stream is the amount to be met from government grants and local taxation. The prediction of the Net Revenue Stream for future years assumes decreases in the PCC's funding from government and the local taxpayer consistent with expectations in the Medium Term Financial Plan.
12. The estimates of the ratio of financing costs to net revenue stream, which are at very low levels, are as follows:

	2015/16	2016/17
	Actual	Estimate
	£m	£m
<i>Financing Costs</i>	3.8	3.2
<i>Net Revenue Stream</i>	523.6	527.2
<i>Ratio</i>	0.73%	0.61%

Capital Financing Requirement

13. The capital financing requirement is a measure of the extent to which the PCC needs to borrow to support capital expenditure and does not include any temporary borrowing to support day to day cash flow.
14. The estimates of the end of year capital financing requirement are as follows:

	2014/15	2015/16	2016/17	2017/18	2018/19
	<i>Actual</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
	£'000	£'000	£'000	£'000	£'000
<i>Capital Financing Requirement at 31st March</i>	47,589	46,112	44,693	43,325	42,003

Authorised Limit, Operational Boundary and Actual External Debt

15. These indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The Authorised Limit for external debt is a statutory limit that should not be breached under any circumstances. The proposed limits set out below have been calculated to take account of the current PCC's Capital Expenditure and Financing Plans and allowing for the possibility of unusual cash movements. If this limit is likely to be breached, it would be necessary for the PCC to determine if it is prudent to raise the limit or to instigate procedures to ensure that such a breach does not occur.
16. The Operational Boundary for External Debt is a management tool for day to day monitoring and has been calculated with regard to the PCC's Capital Expenditure and Financing Plans allowing for the most likely, prudent, but not worst case scenario for cash flow. Temporary breaches of the Operational Boundary, due to variations in cash flow, will not be regarded as significant.
17. The following limits are recommended:

	2016/17	2017/18	2018/19
	£'m	£'m	£'m
<i>Authorised Limit for external debt:</i>			
<i>Borrowing</i>	100.0	100.0	100.0
<i>Operational Boundary:</i>			
<i>Borrowing</i>	90.0	90.0	90.0

The PCC's actual external debt as at 31/03/16 will be £47.2m, excluding transferred debt managed by Dudley MBC.

The Incremental Impact of Capital Investment Decisions on the Council Tax

18. This indicator is intended to demonstrate the affordability of capital investment decisions in terms of their impact on the precept.
19. As per the Capital Programme, the PCC may propose to undertake borrowing to fund capital investment, the incremental impact on the precept is shown below.

	2015/16	2016/17	2017/18	2018/19	Total
	£m	£m	£m	£m	£m
<i>Total borrowing</i>	0.0	0.0	0.0	10.0	10.0
<i>Interest (3.36%)</i>	0.0	0.0	0.0	0.34	0.34
<i>Repayment of Principal (25yrs)</i>	0.0	0.0	0.0	0.40	0.40
<i>Revenue consequences</i>	0.0	0.0	0.0	0.50	0.50
Total revenue effect	0.0	0.0	0.0	1.24	1.24

20. There will also be a reduction in interest earnings as capital grants, capital receipts and the capital reserve are used to finance capital in the plan period, and some additional revenue costs resulting from capital investment, the effects of which are included in the medium term revenue forecasts.

Prudential Indicators For Treasury Management

21. The following prudential indicators will be included in the PCC's 2016/17 Treasury Management Strategy that will be reported in March.

Treasury Management Code of Practice

22. The PCC has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA): Code of Practice for Treasury Management in the Public Services.

Fixed Interest Rate Exposures

23. It is recommended that the PCC sets an upper limit on fixed interest rate exposures as follows.

Upper limits for net principal sums outstanding at fixed rates

	2016/17	2017/18	2018/19
Fixed Interest Exposure	%	%	%
<i>Upper Limit</i>	100	100	100

This represents the position that all of the PCC's authorised external borrowing may be at a fixed rate at any one time.

Variable Interest Rate Exposures

24. It is recommended that the PCC sets an upper limit on variable interest rate exposures as follows.

Upper limits for net principal sums outstanding at variable rates

	2016/17	2017/18	2018/19
Variable	%	%	%
<i>Upper Limit</i>	20	20	20

This is the maximum external borrowing judged prudent that the PCC should expose to variable rates.

Maturity Structure of Borrowing

25. It is recommended that the upper and lower limits for the maturity structure of borrowings are as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Upper Limit	Lower Limit
Period of Maturity	%	%
<i>Under 12 months</i>	25	0
<i>12 months and within 24 months</i>	25	0
<i>24 months and within 5 years</i>	50	0
<i>5 years and within 10years</i>	75	0
<i>10 years and above</i>	100	25

Investments for longer than 364 days

26. It is recommended that the upper limits of total principal sums invested for periods longer than 364 days are £60.0 million for 2016/17, 2017/18, 2018/19 and 2019/20.

Risk Assessment

Risk	Likelihood	Impact	Comment
<i>The IIP programme costs are significantly higher than planned. Also the planned savings from the IIP and other savings included within the 2016/17 budget are not achievable.</i>	<i>Low</i>	<i>Medium</i>	<i>IIP governance structures in place to deliver the IIP programme. In addition Budget Managers have considered the planned savings and confirmed they believe them to be achievable, however if circumstances change and the planned level of savings is not achievable alternatives will be sought in year from the devolved budget. If these cannot be found any shortfall would become a call on the Budget Reserve.</i>
<i>The Capital Programme requirement changes as work streams develop.</i>	<i>Medium</i>	<i>Medium</i>	<i>The programme has been written with some flexibility built in but should strategic choices vary significantly the programme would be reviewed and re-shaped in line with the new requirement.</i>
<i>Pay awards in the future differ from the assumptions in our financial planning</i>	<i>Low</i>	<i>Medium</i>	<i>Current assumptions are in line with pay award offers to Police Officers and Staff. If pay awards are higher than this, the savings requirement will increase.</i>
<i>Increase in volume and/or cost of policing public order incidents linked to the general economic conditions or other factors</i>	<i>Medium</i>	<i>Medium</i>	<i>Depending on the volume and complexity of any incidents, this could place a significant strain on current contingency budgets. The Commissioner has a Major Incidents Reserve which would need to be used if any overspendings could not be contained within the overall devolved budget.</i>
<i>Interest rates increase</i>	<i>Low</i>	<i>Medium</i>	<i>The budget reflects the low rates of interest being received on investments. Forecasts from our Treasury Management advisers suggest that borrowing rates are likely to increase which will add to the costs of financing the capital programme should borrowing be required over the medium term.</i>
<i>General inflation is different to the assumptions included in the budget. We have only assumed general price inflation on Gas, Electricity & Water of 5% and Fuel of 2% for 2016/17.</i>	<i>Medium</i>	<i>Medium</i>	<i>A 1% increase would cost around £0.5m. Significant increases in building costs in the medium capital programme period could have an impact on some estimates.</i>
<i>Income levels not achieved</i>	<i>Low</i>	<i>Low</i>	<i>A 1% loss of income (excluding grants & interest) would cost around £0.2m.</i>

Public Access to Information

Information contained in this decision is subject to the Freedom of Information Act 2000 and other legislation. This decision will be made available on the Commissioner's website.

