

WEST MIDLANDS POLICE AND CRIME COMMISSIONER

NON-
CONFIDENTIAL

NOTICE OF DECISION

002/2014

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Title: 2014/15 Revenue Budget and Precept and Capital Budget and Programme 2014/15 to 2017/18

EXECUTIVE SUMMARY

This report sets out the Police and Crime Commissioner's 2014/15 Revenue Budget and Precept and Capital Budget and Programme 2014/15 to 2017/18.

DECISION

- (a) That, for 2014/15, a total revenue expenditure level of **£553,422,000** be approved;
- (b) That, net contributions from Reserves to support the precept of **£9,866,000** be made in 2014/15;
- (c) That, a net budget requirement for 2014/15 of **£543,556,000** be approved;
- (d) That the Commissioner's General Reserve remains at **£12,042,000**;
- (e) That the capital budget and programme as set out in **paragraphs 22 – 28 and Appendix 2** be approved;
- (f) That the offer of the Council Tax Freeze Grant for 2014/15 should not be accepted for the reasons set out in **paragraph 31**;
- (g) That the Band D precept for 2014/15 should be set at **£104.47** an increase of 1.99% compared to 2013/14;
- (h) That, a total precept on the District Councils of the West Midlands be approved and apportioned between such Districts, on the basis of relevant tax base as determined by the District Councils and set out in **Appendix 4**;
- (i) That, District Councils be required to make payments on account of such precept upon them, by way of twelve equal instalments on or before the last banking day of each month, commencing in April 2011;
- (j) That the Community Safety Fund should be allocated as set out in **paragraph**

12;

- (k) That, the Operational Budget for 2014/15, be delegated in accordance with the Scheme of Consent, as set out in **Appendix 3**;
- (l) That the Office for the Police and Crime Commissioner's budget be delegated to the Chief Executive in accordance with **paragraph 11**;
- (m) That the Prudential Guidelines and Indicators set out in **Appendix 6** be approved;
- (n) That, the CFO to the Commissioner be authorised to arrange the necessary financing for the Capital Programme, in accordance with the approved Treasury Management Strategy and the CIPFA Code of Treasury Management;

West Midlands Police and Crime Commissioner

I confirm that I do not have any disclosable pecuniary interests in this decision and take the decision in compliance with the Code of Conduct for the West Midlands Office for Policing and Crime. Any interests are indicated below.

Signature.....Bob Jones.....

Date.....13th February 2014.....

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 3 February, and their subsequent report, this paper sets out the Police and Crime Commissioner's 2014/15 Revenue Budget and Precept and Capital Budget and Programme 2014/15 - 2017/18.

BACKGROUND

GOVERNMENT GRANT SETTLEMENT 2014/15

2. The final levels of Government Grant for 2014/15 were confirmed on the 5th February 2015. The following table summarises the final settlement for the West Midlands Police and Crime Commissioner:

2013/14 £m		2014/15 £m	Difference	
			£m	%
282.3	Police Grant*	268.7	-13.6	-4.8
197.5	DCLG Formula Funding	188.2	-9.3	-4.7
19.0	Council Tax Grants	19.0	0.0	0.0
498.8		475.9	-22.9	-4.6

* Includes Community Safety Fund (CSF) which was paid as a separate grant in 2013/14

3. The points to note from the funding settlement are:
 - (a) A total reduction in funding compared to 2014/15 of £22.9m or 4.6%, however this comprises of a 4.8% reduction in core funding (i.e. funding that is subject to damping) compared to a total Government Revenue Funding for Police in 2014/15 that is 3.3% less than 2013/14;
 - (b) This is because of "top slicing" for the Innovation Fund (£50m), the IPCC (£18m), new funding streams for the College of Policing (£3m for direct entry schemes), HMIC (£9.4m to fund a new annual programme of all force inspections) and the City of London Police (£2m in recognition of the national and international capital city functions carried out);
 - (c) As announced last year the Community Safety Fund has been included within main grant for 2014/15;
 - (d) As has been the case in previous years, formula damping (also known as floors and ceilings) has remained unchanged, which means that every police force area faces the same percentage reduction in core Government funding;
 - (e) The Home Secretary expects it to take three years for the IPCC to reach full capacity, so it is likely that there will be further additional "top slicing" in 2015/16 and 2016/17;
 - (f) Despite the Chancellor's announcement in his Autumn Statement of further reductions to Departmental Budgets in 2014/15 and 2015/16, the Home Secretary has decided that Government funding to the police will be protected in

2014/15 from further reductions, but decisions on the impact of the Autumn Statement on police funding in 2015/16 will be made “at a later date after careful consideration of all Home Office Budgets”;

(g) From 2014/15 council tax freeze grants relating to the 2011/12 and 2013/14 schemes and Local Council Tax Support Grant of £19m will be paid to the Commissioner by the Home Office rather than the DCLG as in previous years;

4. Despite previous Government commitments to provide at least indicative grant figures for more than one year to help with medium term planning, no provisional or indicative figures have been announced for 2015/16 onwards which leads to an increasing amount of future uncertainty.

BALANCES AND RESERVES

5. Following a detailed review by the Joint Audit Committee, and taking account of the likely revenue outturn in the current year the estimated levels of General Balances and Earmarked Reserves at 31st March 2014 are:

	<i>Estimated</i>
	31.3.14
	<i>£'m</i>
<i>Insurance Fund</i>	13.0
<i>Capital Reserve</i>	40.4
<i>Budget Reserve</i>	75.0
<i>Redundancy & Equal Pay Reserve</i>	4.0
<i>Other earmarked, incl. uniform, major incidents</i>	9.0
Total Earmarked	141.4
<i>General Balances</i>	12.0
Total	153.4

6. The Commissioner needs to maintain adequate General Balances because:

(a) As a single purpose entity, with turnover of £0.6 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 2014/15

7. In formulating the budget proposals for 2014/15, the Commissioner has been particularly mindful of the following factors:

(a) Matching resources to the emerging priorities from the Police and Crime Plan;

(b) That a “tipping point” between reduced policing resources (as a result of reductions in Government grant) and the levels of crime and anti-social behaviour is in danger of being reached and action needs to be taken to redress the balance;

(c) The demographic and age profile of the current workforce, and the need to continue to ensure the workforce appropriately reflects the community it

serves;

- (d) The current workforce mix of police officers and police staff and opportunities for further civilianisation to release more officers for operational duties;
- (e) The need to support the Innovation and Integration Partnership (IIP) Project;
- (f) Opportunities for Invest to Save Schemes;
- (g) The desirability of maintaining Community Safety Funding at the same levels as 2013/14;

8. The Revenue Budget for 2014/15 is therefore based on the following principles:

- (a) The recruitment of 250 additional Police Officers in 2014/15 replacing broadly the number of officers who are likely to retire or otherwise leave the force in 2014/15 and subject to a review of resource levels, a further 200 additional Police Officers in 2015/16;
- (b) Establishing a further 100 new police staff posts to release police officers for more operational duties;
- (c) Maintaining allocations of Community Safety Funding at the same level as 2013/14 (excluding one off allocations), despite the reduction in Central Government Support;
- (d) Continuing the Forces' existing cost reduction programme as part of the Medium Term Financial Strategy in addition to savings that the IIP may bring;
- (e) Setting a budget for the Office of the Police and Crime Commissioner which takes account of new and emerging responsibilities and demands and the Stage 2 Transfers;
- (f) The prudent use of the Budget Reserve;
- (g) Increasing Precept broadly in line with inflation and in keeping with referendum principles;

9. Recognising that in the medium term:

- (a) There is considerable uncertainty about Government funding levels, there are likely to be further significant reductions in resources available for policing and crime;
- (b) There is a need to strike a careful balance between spending levels, the use of reserves and a precept increase in 2014/15;

WEST MIDLANDS OFFICE OF THE POLICE AND CRIME COMMISSIONER

10. The Budget for the Office of the Police and Crime Commissioner includes provision for existing staffing levels and activities, together with the cost of twelve posts which will continue to be employed by the PCC but will transfer from under the direction and control of the Chief Constable, where budget provision was previously made. All other police staff will transfer to the employment of the Chief Constable at 1 April in accordance with the terms of the Stage 2 Transfer arrangements which have been

approved by the Home Secretary.

11. The 2014/15 budget for the Office of the Police and Crime Commissioner is shown in the following table:

	<i>Original</i> <i>2013/14</i> <i>£'000</i>	<i>Proposed</i> <i>2014/15</i> <i>£'000</i>
<i>Governance & Strategic Direction</i>	315	315
<i>Staff & Office Support Costs</i>	1,145	1,145
<i>Stage 2 Adjustments</i>	0	425
<i>Consultation, Publicity etc.</i>	236	236
<i>Community Initiative Fund</i>	25	25
<i>Subscriptions</i>	54	54
<i>Bank charges and External Audit fees</i>	109	109
Total	1,884	2,309

COMMUNITY SAFETY FUND

12. The Commissioner has made a commitment that Community Safety Funding levels remain the same in 2014/15 as those in 2013/14, with the exception of any one-off funding allocations. This means that the allocations for 2014/15 are as follows:

<i>District</i>	<i>2014/15</i> <i>Allocation</i> <i>£</i>
<i>Birmingham</i>	2,497,583
<i>Coventry</i>	546,304
<i>Sandwell</i>	530,190
<i>Wolverhampton</i>	492,495
<i>Walsall</i>	402,203
<i>Dudley</i>	396,364
<i>Solihull</i>	285,938
<i>West Midlands Police</i>	1,817,923
Total	6,969,000

SUMMARY OF BUDGET PROPOSALS

13. In summary, the revenue budget for 2014/15 is calculated as follows:

	<i>£m</i>	<i>£m</i>
<i>2013/14 Approved revenue Budget</i>		<i>559.0</i>
<i>Changes in treatment of Government Funding</i>		<i>6.9</i>
Add		
<i>Pay Awards</i>	<i>9.6</i>	
<i>New Recruits</i>	<i>3.0</i>	
<i>IIP</i>	<i>10.0</i>	
<i>Invest to Save</i>	<i>5.0</i>	
<i>Transfer to West Midlands Office of the PCC for Stage 2</i>	<i>0.4</i>	
<i>Other</i>	<i>0.5</i>	
Less		
<i>Vacant Posts</i>	<i>-10.8</i>	
<i>Police, Staff & PCSO Leavers</i>	<i>-11.5</i>	
<i>Workforce Mix</i>	<i>-7.5</i>	
<i>5Ci</i>	<i>-5.2</i>	
<i>Budget Review</i>	<i>-5.6</i>	
<i>Transfer from CC for Stage 2</i>	<i>-0.4</i>	
2014/15 Proposed Revenue Budget		553.4

OPERATIONAL POLICING BUDGET

14. 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 2014/15

15. The implications for staffing budgets are shown below:

	Police Officer	Police Staff	PCSO	Total
1st April 2013 : Budgeted establishment	7,688	3,223	787	11,698
<i>Workforce Mix</i>	-100	0	0	-100
<i>5Ci</i>	-93	10	0	-83
<i>Vacant Posts</i>	-94	-120	-97	-311
<i>Forecast Leavers 2013/14</i>	-214	0	0	-214
1st April 2014 : Budgeted establishment	7,187	3,113	690	10,990
<i>Forecast Leavers 2014/15</i>	-250	-100	-21	-371
<i>New Recruits / Workforce Mix</i>	250	100	0	350
1st April 2015 : Budgeted establishment	7,187	3,113	669	10,969

16. 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

17. As paragraph 5 says, it is estimated the Commissioner will have a total of £75m in the Budget Reserve available to support revenue and capital spending in 2014/15 and future years. The Budget reserve, which was first established some years ago by the former Police Authority when the Home Office changed the funding arrangements for Police Pension costs and a reserve which had been established to equalise the varying annual costs of police pension lump sum payments was no longer required, has increased in recent years as a result of savings being made earlier than planned and budgeted.

18. 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 2014/15, including:

- (a) retaining the maximum levels possible to support spending in 2015/16 and later years when resource levels will be significantly constrained;
- (b) funding invest to save schemes that will deliver revenue cost reductions in the future, especially through the capital programme;
- (c) 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;
- (d) risks and uncertainties in key budget assumptions, given that any over or additional spending in 2014/15 which cannot be met from in year redirections would have to be met from the Budget Reserve;

19. Given these considerations and assuming a precept increase at the maximum permitted without a referendum it will be necessary to use £9.9m of the Budget Reserve to support revenue spending in 2014/15.

20. The proposed net budget requirement for 2014/15, compared to 2013/14 would therefore be calculated as follows:

	2013/14 £'m	2014/15 £'m
<i>Total revenue spending</i>	559.0	553.4
<i>Use of Budget Reserve</i>	-2.3	-9.9
Revenue Expenditure	556.7	543.6

MEDIUM TERM IMPLICATIONS

21. Although it has become increasingly more difficult to predict Government grant levels in future years with any degree of accuracy, all the indications suggest further reductions in excess of existing publicly announced levels will be made. Assuming precept increases in future years broadly in line with inflation it is forecast that some £32-£35m (of the £75m now expected to be available in the Budget Reserve at 31 March 2014) will be required to support the MTFP up to 2016/17. It will be necessary to monitor and revise the MTFP as further information about Government funding levels, spending pressures and opportunities for savings become available. Given the use of the Budget Reserve over the medium term it is, of course, likely that there will continue to be a gap between underlying spending levels and Government funding and precept income in the years after 2016/17. There should, however, be sufficient flexibility from continuing police officer and staff turnover levels, other savings including those from the IIP, and the balance of the Budget Reserve, to manage the MTFP into the longer term.

CAPITAL PROGRAMME 2014/15 – 2017/18

22. The 2014/15 to 2017/18 Capital Budget and Programme 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.
23. The programme has been prepared with the medium term strategic context in mind, and as such is structured in the following way:
- **Section 1 (approved schemes)** represents schemes that are on-going replacement of assets or new schemes that will generate a benefit in the short term or represent good alignment with the medium term strategy. These schemes will have approved business cases to support them.
 - **Section 2 (business case required)** includes schemes which have been identified only as an outline and will need more definition before they can be written into a business case format. This includes some major system replacements and funding for estates rationalisation over the medium term.
24. The capital programme includes major building schemes which after a significant planning period are about to enter the construction phases. As such it will be necessary to review the capital programme to ensure that costing's included in the programme accurately reflect the current market conditions. Where market buoyancies have altered costs it is proposed that any in-year underspend should be

specifically ear-marked to contribute to the capital programme to reduce the need for expensive borrowing and maintain specific reserves at the level anticipated in paragraph 5.

Capital Financing

25. 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;
26. For planning purposes the Commissioner has set aside a Reserve of £30m to support the capital programme.
27. The proposed funding plan will be reviewed and updated as necessary in accordance with changes to the Treasury Management Strategy and emerging market conditions.
28. The table below shows the forecast of capital resources that will be available over the programme period:

Funding Source	Brought Forward (£m)	Estimated for 2014-18 (£m)	Total (£m)
<i>Capital Receipts</i>	22.6	2	24.6
<i>Capital Grant</i>	18.1	23.6	41.7
Subtotal – capital resources	40.7	25.6	66.3
<i>Reserves / borrowing</i>			43.9*
Total requirement			110.2

*includes the Reserve of £30m

PRUDENTIAL GUIDELINES

29. 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

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

PRECEPT IMPLICATIONS

31. The Commissioner has given careful consideration to the offer of the freeze grant for 2014/15 worth the equivalent of a 1% precept increase in 2014/15 and which would also be paid in 2015/16, but has decided not to accept the offer because of:

- (a) The impact on the total resource base beyond 2015/16, particularly in the light of

decisions by the former Police Authority to accept freeze grants in earlier years for which there is no commitment from Government, at this stage, to pay after 2014/15

- (b) The need to continue to address the current “precept/grant ratio” issue, where areas, like the West Midlands, with very high proportions of spending funded by Government grants and low precept levels, suffer disproportionately from across the board reductions in Government grants.
32. Instead the Commissioner believes that action should continue to be taken to establish a stable resource base for precept income and that, given all of the factors set out in this report it would be reasonable to increase the precept in 2014/15 broadly in line with current inflation levels and at the maximum permitted by the “Referendum Rules”.
33. 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	2013/14	2014/15
	£'m	£'m
<i>Revenue Expenditure</i>	559.02	553.42
<i>Contribution from Reserves</i>	-2.35	-9.86
Net Budget Requirement	556.67	543.56
<i>Police Grant</i>	-275.35	-268.71
<i>DCLG Formula Funding</i>	-199.45	-188.21
<i>Council Tax Support Grant</i>	-16.98	-19.02
<i>Surplus/Deficit on Collection Fund</i>	0.12	-0.29
Precept Requirement	65.01	67.32
<i>Total Tax Base</i>	634,664	644,377
Band D Precept	£102.43	£104.47

An increase of £2.04 per annum or 1.99%

34. This produces a charge for each property for 2014/15 as follows:

Band	Statutory Proportion	2013/14	2014/15	Change Annual	Change Weekly
		Precept	Precept		
		£ : p	£ : p		
A	6/9	68.29	69.65	1.36	0.03
B	7/9	79.67	81.25	1.58	0.03
C	8/9	91.05	92.86	1.81	0.03
D	9/9	102.43	104.47	2.04	0.04
E	11/9	125.19	127.69	2.50	0.05
F	13/9	147.95	150.90	2.95	0.06
G	15/9	170.72	174.12	3.40	0.07
H	18/9	204.80	208.94	4.08	0.08

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

FINANCIAL IMPLICATIONS

36. Are as detailed in this report.

LEGAL IMPLICATIONS

37. Section 40 of the Local Government Finance Act, 1992, requires the Commissioner to set budget and precept by 1st March each year.
38. 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.
39. 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 2% or greater.
40. 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.
41. 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

42. 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 2014/15

Appendix 2 – Capital Programme 2014/15 – 2017/18

Appendix 3 – Operational Budget 2014/15

Appendix 4 - Statutory Council Tax calculation 2014/15

Appendix 5 – Report of the Chief Financial Officer

Appendix 6 – Statement of Prudential Indicators

Appendix 7 – Risk Assessment

REVENUE BUDGET 2014/15

	Base Budget 2013/14 £,000	Base Budget 2014/15 £,000
<i>Police pay</i>	371,814	352,479
<i>Police Community Support Officers</i>	20,971	18,309
<i>Support staff pay</i>	97,187	95,065
<i>Other employees expenses</i>	1,652	1,804
Sub total	491,624	467,657
<i>Premises</i>	22,103	22,240
<i>Transport</i>	9,061	7,794
<i>Supplies and services</i>	43,807	45,049
<i>Agency</i>	3,902	4,357
<i>Capital Financing Costs</i>	5,628	3,814
<i>External income</i>	-21,960	-24,409
<i>CTU</i>	2,621	2,642
Police Force	556,786	529,144
<i>IIP</i>	0	10,000
<i>Invest to Save</i>	0	5,000
<i>Office of the Police & Crime Commissioner</i>	1,884	1,884
<i>Stage 2 Transfer</i>	0	425
<i>CSF Expenditure</i>	7,319	6,969
<i>Restorative Justice & Victim Support Expenditure</i>	879	1,428
<i>Restorative Justice & Victim Support Income</i>	-879	-1,428
Total Revenue Budget	559,020	553,422

CAPITAL BUDGET AND PROGRAMME 2014/15 – 2017/18

	2014/15	2015/16	2016/17	2017/18	Total
	£'000	£'000	£'000	£'000	£'000
Section 1 (Approved schemes)					
<i>New Ways of Working (NWOW)</i>	22,850	7,550	900	0	31,300
<i>Central Justice Services</i>	20,180	5,300	0	0	25,480
<i>Vehicles</i>	3,000	4,150	3,000	3,000	13,150
<i>ICT - Infrastructure</i>	3,155	595	550	450	4,750
<i>ICT – Projects</i>	3,080	0	0	0	3,080
<i>Equipment</i>	200	200	200	200	800
	52,465	17,795	4,650	3,650	78,560
Section 2 (Business Case required)					
<i>General Provision</i>	3,000	4,500	4,500	3,000	15,000
<i>Estates Strategy</i>	2,487	3,013	3,000	0	8,500
<i>Operational Policing</i>	150	2,500	2,000	1,500	6,150
<i>Driver Standards (Black Box)</i>	1,200	0	0	0	1,200
<i>Central Justice Services</i>	485	350	0	0	835
	7,322	10,363	9,500	4,500	31,685
TOTAL PROGRAMME	59,787	28,158	14,150	8,150	110,245

OPERATIONAL BUDGET

	2013/14	2014/15	Change
	£'m	£'m	£'m
<i>Police Pay and Allowances</i>	371.8	352.5	-19.3
<i>Police Staff Pay and Allowances</i>	118.2	113.4	-4.8
<i>Other Employee Expenses</i>	1.6	1.8	0.2
Total Employee Costs	491.6	467.7	-23.9
<i>Running Costs</i>	81.5	82.1	0.6
<i>Income</i>	-22.0	-24.4	-2.4
Total Operational Budget	551.1	525.4	-25.7
<i>Capital Financing</i>	5.6	3.8	-1.8
TOTAL	556.7	529.2	-27.5

	2014/15
Budget 2014/15	£'m
<i>Operations Dept.</i>	24.83
<i>Force CID Dept.</i>	34.294
<i>Forensics</i>	12.202
<i>Public Protection Dept.</i>	22.708
<i>Intelligence Dept.</i>	24.468
<i>Community Justice & Custody Dept.</i>	20.523
<i>CTU</i>	2.642
<i>Force Contact</i>	44.087
<i>Support Services Depts.</i>	89.452
Departments Total	275.206
<i>LPU's</i>	229.155
<i>Central Costs</i>	20.969
Operational Total	525.33
<i>Capital Financing</i>	3.814
TOTAL	529.144

OPERATIONAL ANALYSIS

Support Services Analysis	2014/15 £'000	LPU Analysis	2014/15 £'000
<i>Property Services</i>	22.276	<i>Birmingham East LPU</i>	27.743
<i>Technology Services</i>	15.280	<i>Birmingham North LPU</i>	15.99
<i>Shared Service Centre</i>	7.801	<i>Birmingham South LPU</i>	22.495
<i>Fleet Services</i>	6.768	<i>Birmingham Central and West LPU</i>	35.896
<i>Learning and Development</i>	6.451	<i>Coventry LPU</i>	27.253
<i>Corporate Services</i>	5.443	<i>Dudley LPU</i>	18.537
<i>Professional Standards</i>	2.629	<i>Solihull LPU</i>	24.102
<i>Organisation and Service Development</i>	4.557	<i>Sandwell LPU</i>	14.36
<i>Human Resources</i>	3.160	<i>Walsall LPU</i>	19.496
<i>Finance and Procurement</i>	1.851	<i>Wolverhampton LPU</i>	23.283
<i>Insurance</i>	3.412		
<i>Command Team</i>	2.090		
<i>Information Management</i>	3.763		
<i>Legal Services</i>	2.656		
<i>Corporate Communications</i>	1.315		
TOTAL	89.452	TOTAL	229.155

WEST MIDLANDS PCC PRECEPT CALCULATION 2014/15				
				£
		<i>Gross Budget Requirement</i>		553,422,000
		<i>Less: Balances and Reserves</i>		(9,866,000)
		<i>Net Budget Requirement</i>		543,556,000
		<i>Less: Police Grant</i>		(268,708,193)
		<i>Council Tax Support Funding</i>		(19,025,734)
		<i>NNDR & RSG</i>		(188,211,771)
		<i>Gross Council Tax Requirement</i>		67,610,302
		<i>Add/Less: Balance on Collection Funds</i>		(292,263)
		<i>Net Council Tax Requirement</i>		67,318,039
<i>Apportioned on the relevant tax base as follows:</i>				
	<i>Relevant</i>	<i>Total</i>	<i>Monthly Instalments</i>	
	<i>Tax base</i>	<i>Precept</i>	<i>April-Feb</i>	<i>March</i>
		£	£	£
<i>Birmingham</i>	230,432.00	24,073,208	2,006,101	2,006,097
<i>Coventry</i>	73,201.00	7,647,301	637,275	637,276
<i>Dudley</i>	84,087.69	8,784,632	732,053	732,049
<i>Sandwell</i>	66,874.40	6,986,362	582,197	582,195
<i>Solihull</i>	71,229.00	7,441,286	620,107	620,109
<i>Walsall</i>	61,523.32	6,427,335	535,611	535,614
<i>Wolverhampton</i>	57,029.97	5,957,915	496,493	496,492
	644,377.38	67,318,039	5,609,837	5,609,832
			<i>Monthly Instalment x 11</i>	61,708,207
			<i>Total Precept</i>	67,318,039
			<i>Net Precept for Band D property</i>	£104.47
	<i>Proportion</i>	<i>Calculated</i>	<i>Rounded</i>	
	<i>of Band D</i>	<i>Value</i>	<i>Value</i>	
	£	£	£	
<i>Band A</i>	6/9	69.6466	69.65	
<i>Band B</i>	7/9	81.2544	81.25	
<i>Band C</i>	8/9	92.8621	92.86	
<i>Band D</i>	9/9	104.4699	104.47	
<i>Band E</i>	11/9	127.6854	127.69	
<i>Band F</i>	13/9	150.9010	150.90	
<i>Band G</i>	15/9	174.1165	174.12	
<i>Band H</i>	18/9	208.9398	208.94	

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. The estimates have been completed by the Director of Resources and Force personnel based on a set of guidelines agreed with me, and reflect the need to make significant savings across the CSR period and some £25m of base budget reductions in 2014/15.
4. 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.
5. 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.
6. The 2014/15 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.
7. The Insurance Fund will continue to be maintained at a level consistent with the insurance cost borne by the Commissioner's 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.
8. 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.
9. The total level of revenue reserves is estimated to be around £153m by 31st March 2014, depending on the use of earmarked reserves and the other factors influencing the use of the Budget Reserve in 2014/15.
10. 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 2014/15, 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;

Mike Williams
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. The Commissioners, 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 Commissioner should operate to ensure the objectives of the Prudential Code are met.
4. The Prudential Indicators for which the Commissioner is required to set limits are as follows:

Capital Expenditure

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.

7. The actual amount of capital expenditure that was incurred during 2012/13, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2014/15 Budget are as follows:

	<i>2012/13</i>	<i>2013/14</i>	<i>2014/15</i>	<i>2015/16</i>	<i>2016/17</i>	<i>2017/18</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>	8,368	14,275	59,787	28,158	14,150	8,150

Net Borrowing and the Capital Financing Requirement (CFR)

8. 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 Commissioner 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”.
9. In considering the proposed capital programme for 2014/15, the anticipated future borrowing requirements are considered in the context of overall capital resources and the impact on the revenue budget.

	31st March 2013 £'m	31st March 2014 £'m	31st March 2015 £'m	31st March 2016 £'m	31st March 2017 £'m
<i>Capital financing requirement (CFR)</i>	51.6	50.1	54.2	52.8	51.3
<i>External borrowing</i>	-49.2	-49.2	-49.2	-47.2	-47.2
<i>Variance</i>	2.4	0.9	5.0	5.6	4.1

N.B. The CFR increases when expenditure is incurred and reduces when provision is made to repay debt.

Ratio of Financing Costs to Net Revenue Stream

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.

Financing Costs include the amount of interest payable in respect of borrowing or other long-term liabilities and the amount the Commissioner is required to set aside to repay debt, less interest and investments income.

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 increases in the Commissioner's funding from government and the local taxpayer consistent with expectations in the Medium Term Financial Plan.

10. The estimates of the ratio of financing costs to net revenue stream, which are at very low levels, are as follows:

	2013/14 Actual £m	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
<i>Financing Costs</i>	5.6	3.8	3.8	3.8	3.8
<i>Net Revenue Stream</i>	559.0	553.4	530.7	524.4	517.9
<i>Ratio</i>	1.0%	0.7%	0.7%	0.7%	0.7%

Capital Financing Requirement

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

	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement at 31st March	51,649	50,062	54,231	52,754	51,335

Authorised Limit, Operational Boundary and Actual External Debt

13. 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 Commissioner'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 Commissioner to determine if it is prudent to raise the limit or to instigate procedures to ensure that such a breach does not occur.
14. The Operational Boundary for External Debt is a management tool for day to day monitoring and has been calculated with regard to The Commissioner'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.
15. The following limits are recommended:

	2014/15	2015/16	2016/17
	£'m	£'m	£'m
Authorised Limit for external debt:			
<i>Borrowing</i>	100.0	100.0	100.0
Operational Boundary:			
<i>Borrowing</i>	90.0	90.0	90.0

16. The Commissioner's actual external debt as at 31/03/13 was £49.2m, excluding transferred debt managed by Dudley.

The Incremental Impact of Capital Investment Decisions on the Council Tax

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

	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
<i>Total borrowing</i>	0.0	0.0	0.0	15.0	15.0
<i>Interest (4%)</i>	0.0	0.0	0.0	0.6	0.6
<i>Repayment of Principal (20yrs)</i>	0.0	0.0	0.0	0.8	0.8
<i>Revenue consequences</i>	0.5	0.5	0.5	0.5	2.0
Total revenue effect	0.5	0.5	0.5	1.9	3.4

19. 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

20. The following prudential indicators will be included in the Commissioner's 2014/15 Treasury Management Strategy that will be reported in March.

Treasury Management Code of Practice

21. The Commissioner 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

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

Upper limits for net principal sums outstanding at fixed rates			
	2014/15	2015/16	2016/17
Fixed Interest Exposure	%	%	%
<i>Upper Limit</i>	100	100	100

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

Variable Interest Rate Exposures

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

Upper limits for net principal sums outstanding at variable rates			
	2013/14	2014/15	2015/16
Variable	%	%	%
<i>Upper Limit</i>	20	20	20

24. This is the maximum external borrowing judged prudent that the Commissioner 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.

<i>Period of Maturity</i>	<i>Upper Limit</i> %	<i>Lower Limit</i> %
<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 2014/15, 2015/16 and 2016/17.

Risk Assessment

Risk	Likelihood	Impact	Comment
<i>Savings required within the financial strategy to balance the medium term budget are not achievable.</i>	<i>High</i>	<i>High</i>	<i>The level of savings required is extremely challenging and a number of work streams are underway to identify savings. If these cannot be found any remaining gap would need to be covered by reserves or council tax increases.</i>
<i>Savings included within the 2014/15 budget are not achievable.</i>	<i>Low</i>	<i>Medium</i>	<i>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>The Government has announced pay award capping of 1%. 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 assumed no general price inflation increase for 2014/15. However, an allowance has been made for some specialist costs reflecting current market conditions</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. Utility and fuel costs could increase further</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 £0.1m.</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.