

WEST MERCIA BUDGET 2016/17

MEDIUM TERM FINANCIAL PLAN 2016/17 TO 2019/20

Report of the Treasurer, Director of Finance, Chief Executive and

Chief Constable

Recommendations

The Commissioner is recommended to approve:

- a) *A Net Revenue Budget after savings of £207.576m*
- b) *£4.690m of budget reserve is used within year to manage reductions*
- c) *A net budget requirement of £202.886m*
- e) *A Council Tax for a Band D property at £189.60, an increase of 1.99%.*
- f) *A Council Tax for a Band D property calculated as follows:*

	£'m
<i>Budget Requirement</i>	202.886
<i>Less Police Grant</i>	66.347
<i>Less Revenue Support Grant</i>	43.388
<i>Less Council Tax Support Grant</i>	9.200
<i>Less council tax freeze grant:</i>	
<i>2013/14</i>	0.800
<i>2011/12</i>	1.976
<i>Sub Total</i>	81.175
<i>Less: Collection Fund Surplus</i>	1.689
<i>Amount to be raised by Council Tax</i>	79.486
<i>Divided by Aggregate Council Tax Base- subject to verification and change</i>	419,220.93
<i>Basic Amount of Council Tax at Band D - allowable</i>	max £189.60

g) *The consequential Council Tax for each property band will be as follows:*

<i>Band A (6/9th)</i>	<i>£126.402581</i>
<i>Band B (7/9th)</i>	<i>£147.469677</i>
<i>Band C (8/9th)</i>	<i>£168.536774</i>
<i>Band D</i>	<i>£189.603871</i>
<i>Band E (11/9th)</i>	<i>£231.738065</i>
<i>Band F (13/9th)</i>	<i>£273.872258</i>
<i>Band G (15/9th)</i>	<i>£316.006452</i>
<i>Band H (18/9th)</i>	<i>£379.207742</i>

h) *That the Chief Executive to the Office of the Police and Crime Commissioner for West Mercia be authorised to issue Precepts Notices on the West Mercia billing authorities as follows:*

<i>Bromsgrove District Council</i>	<i>£6,712,900</i>
<i>Herefordshire Council</i>	<i>£12,679,380</i>
<i>Malvern Hills District Council</i>	<i>£5,569,282</i>
<i>Redditch Borough Council</i>	<i>£4,767,493</i>
<i>Shropshire Council</i>	<i>£19,891,721</i>
<i>Telford and Wrekin Council</i>	<i>£8,908,595</i>
<i>Worcester City Council</i>	<i>£5,810,031</i>
<i>Wychavon District Council</i>	<i>£8,941,343</i>
<i>Wyre Forest Council</i>	<i>£6,205,166</i>
TOTAL	£79,485,911

i) *The reserve strategy set out in section 6*

j) *The outline capital budget in section 7*

k) *All Officers be instructed to exercise tight budgetary control. No over-spending of the aggregate 2016/17 budget will be authorised and caution will*

be exercised in entering into expenditure which creates additional commitments in future years. The PCC will be kept fully informed of the financial position throughout the year.

- l) The prudential indicators at appendix E*
- m) In approving the budget, the PCC notes the Treasurer's comments in section 8 in respect of the robustness of the budget and the adequacy of reserves.*

1. Introduction and background

The purpose of this report is to set out the proposed budget and precept proposals for decision by the Police and Crime Commissioner. It is the fourth budget report for the Police and Crime Commissioner (PCC) for West Mercia and will deliver one of the key responsibilities of the PCC under the Police Reform and Social Responsibility Act 2011.

The report sets out the:

- Net budget requirement for 2016/17
- Proposed precept for 2016/17
- Proposed medium term financial plan 2016/17 to 2019/20
- Outline capital budget 2016/17 to 2019/20.

Setting the budget for the next financial year is one of the most important decisions that the Commissioner has to make. It is important therefore to set out the issues that influence and contribute to the build of the budget for 2016/17 and the medium term financial plan, having taken into consideration the plans of the Commissioner.

In determining his budget proposals the Commissioner has to have regard to:

- National targets and objectives including the Strategic Policing Requirement
- The priorities within the police and crime plan and any likely changes to these for 2016/17
- The outcome of public consultation
- The plans and policies of other partner agencies relating to community safety and crime reduction
- The policy of the Government on public spending as set out by the chancellor in the 2015 Comprehensive Spending Review and the funding framework that arises from this
- The medium term financial obligations

- Prudent use of the financial reserves
- The constant drive for continuous improvement and value for money
- The commitment to support the strategic alliance with Warwickshire PCC and the delivery of existing savings plans

As last year the policing element of this budget, which is the considerable majority of the budget, has been prepared for the Strategic Alliance with Warwickshire as a whole, and the budget requirement apportioned to each Force in accordance with the agreed cost sharing approach.

2. Service Proposals

For the coming year existing policing capabilities, including those developments included within the Commissioner's first three budgets, are to be funded entirely from within existing resources.

Prior year developments include:

Policing

- Strengthening and deepening of the strategic alliance between Warwickshire and West Mercia Police Forces
- The provision of an additional 49 Police Community Support Officers over and above the number planned by the former Police Authority.
- A significant increase in the number of Special Constables within the Force.
- The acceleration of recruitment to avoid prolonged vacancies in Neighbourhood Policing Teams
- Deployment of additional police officers and staff to investigate Child Sexual Exploitation (CSE).

Crime

- An increase in the amount available for making Community Safety Grants to organisations actively working within local communities to reduce crime.
- A five year investment in the priority areas of cyber, rural and business crime.
- The creation of the Crime Reduction Fund (now incorporated in the Commissioners' Grant Scheme) to support initiatives to reduce and prevent crime. These may be early interventions to stop people committing crime or anti-social behaviour, rehabilitation to help those who already commit crime to desist, or education and support for the wider public to help reduce their likelihood of becoming a victim.
- Development of Integrated Offender Management.

Commissioning

- Effective commissioning for support facilities for victims of crime, ensuring compliance with the Victims Code and European Directive for Victims.
- Investment in Independent Domestic Violence Advisors and Sexual Violence Advisors
- Improved working arrangements with Local Authorities, the NHS and Public Sector Partners, for example on Women's Aid and Health and Wellbeing
- Development of a Commissioning Framework for Community Safety Partnerships

Public Engagement

- The appointment of a number of Community Ambassadors, to improve liaison with communities and community groups.
- The development of arrangements for public engagement including the Forward Together Showcase and Rural and Business Crime Conferences
- Greater involvement of young people through the Police Cadets Programme and the Schools "Stay Safe : Be Aware" Competition

OPCC Office

- Development of the role of the Police and Crime Commissioner
- Creation of the Office of the Police and Crime Commissioner
- Establishment of Place Partnership Limited (PPL) with public sector partners

Since 2010 Police Forces have faced significant reductions in resources because of the Government's austerity programme whilst at the same time the nature of crime and its consequent demands have changed significantly particularly regarding cyber crime, child sex exploitation and terrorism. During the period of the previous and current Comprehensive Spending Review West Mercia has implemented spending reductions of £36.9m. In addition an Invest to Save fund has been established to deliver savings. Despite the significant budget reduction, the proportion of police officers on operational front line duty during March 2010 was 92% and during March 2015 had risen to 95%. The PCC has therefore honoured his commitment to protect the front line services during his term of office.

On 25th November 2015 the Chancellor announced that "there will be no cuts in the police budget at all. There will be real terms protection for police funding. The police are going to protect us and we are going to protect the Police". That same day the Home Secretary wrote to Chief Constables and Police and Crime Commissioners. In her letter the Home Secretary said that "the total central government resource funding to policing, including funding for counter-terrorism, would be reduced by 1.3% in real terms over four years. Taking into account the scope that you have to

raise local Council Tax, this means a flat real settlement for policing as a whole". The Home Office grant for West Mercia in 2016/17 is £600,000 less than in 2015/16.

More details have been given in the 2016/17 Police Grant Report and a covering written Ministerial Statement (published on 17th December 2015). The statement re-emphasises the Government's commitment to protect the public and protect the overall spending envelope for the police, while finishing the job of police reform. It is clear that the Government believes that there are further efficiencies to be made from improved and better use of IT, from greater collaboration between forces and with other public services and from improving workforce productivity. The Government states that it trusts that Police and Crime Commissioners and Chief Constables will do everything in their power to drive those efficiencies, safeguard the quality of policing and continue to reduce crime. The alliance is well placed to meet these challenges.

The Minister states that "for 2016/17, direct resource funding for each PCC, including precept, will be protected at flat cash levels, assuming that precept income is increased to the maximum amount available. This means that no PCC will face a reduction in cash funding next year compared to this year and the majority will see marginal increases in funding". He states that PCCs in England will face a 2.0% referendum threshold each year.

The 2016/17 budget, the Medium Term Capital Programme and the Medium Term Financial Plan address these challenges. West Mercia faces a savings target of £6.0m, whilst at the same time the Commissioners needs to ensure that policing arrangements continue to be fit for purpose. Policing therefore must be both efficient and effective, address changes in demand and meet public expectations. He therefore intends to:

- Improve the way in which the police listen to and respond to the public
- Invest significantly in the estate including ANPR cameras and a new OCC at Hindlip
- Improve the ICT infrastructure including a new telephony system and the implementation of the Athena system leading to further efficiency savings
- Procure a strategic partner to support the Chief Constable in transforming policing in West Mercia to adapt to changing demands and the changing nature of crime
- Work with the four upper tier local authorities to create a single integrated Youth Offending Service across West Mercia
- Commission "One Place" reviews with PPL
- Work with partners to develop specialist capabilities where they are needed to better protect the public

This new investment together with existing initiatives will enable the following savings targets to be achieved:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Total Budget Gap	4.690	6.139	2.177	(0.424)
Funded by:				
Use of / Transfer to Budget Reserve	(4.690)	(2.627)	(0.012)	0.769
Savings Plan:				
Procurement savings		(0.345)	(0.345)	(0.345)
OCC		(1.185)		
Athena		(0.326)	(0.440)	
PPL		(0.276)		
Transitional and transactional programme		(1.380)	(1.380)	
	0.000	0.000	(0.000)	0.000

These plans will be developed further over the coming months.

As stated, policing and community safety partners are also facing the prospect of having to deliver considerable budget savings over the coming years, and services can only be improved or maintained if demand for their services reduces. The precept is therefore being raised this year to protect the front line and to provide additional resource which will be used to support and maintain existing policing arrangements in West Mercia and allow the Force to meet the challenges of the growing demand in areas such as Cybercrime, CSE, Fraud and Terrorism.

3. How the PCC plans to fund this

Self-evidently, any proposal from the Commissioner has to be funded. It is intended that the proposals contained in this document will be funded from a variety of sources.

1. Through the use of available Government Grants. The Commissioner receives a number of grants from the Government. The principal grants are:
 - Police and Revenue Support Grant
 - Council Tax Support Grant
 - Council Tax Freeze Grants from 2011/12 and 2013/14
 - Victims Support Grants from the Ministry of Justice

A fuller breakdown of the financial settlement from the Government is contained in appendix A.

2. By increasing the Council Tax by 1.99%. This increase, coupled with changes in the tax base to reflect new house building, and including the collection fund surplus, is expected to increase income from Council Tax by £3.290m.

3. Savings of £6.503m in the West Mercia budget in 2016/17 are already implemented. It is now expected there will be a further savings requirement over the period to the end of 2019/20 of £6.0m for West Mercia.
4. By using the accumulated reserves of the PCC. The Commissioner's reserves are expected to be £57.503m at the start of 2016/17. He plans to use £29.940m of these reserves over a four year period, and on a prudent basis, to support each year's budget. It is possible that under-spends may occur in some years, as the Force has a track record in delivering its savings targets early. Where this happens, the Commissioner's strategy for the use of these under-spends, which would otherwise increase reserves, will be to seek to further minimise the need to use borrowing to fund capital expenditure. The PCC will continue to drive efficiency and value for money across all areas of policing.

4. The Revenue Budget

The following table analyses the changes to the base budget for the West Mercia PCC between 2015/16 and 2016/17 and incorporates the apportionment of costs between the two areas. Appendix B outlines a summary of the gross expenditure.

Analysis of movement from 2015/16 to 2016/17

	£m	£m
2015/16 Base Budget		204.079
Pay & Price Inflation:		
Officer Pay Inflation	1.892	
Officer Increase in NI rate	2.361	
Staff Pay Inflation	1.194	
Staff Increase in NI rate	1.000	
Non Pay Inflation	0.170	
Total Pay & Price	<hr/>	6.617
Growth Bids:		
<u>Officer Pay:</u>		
Temporary Posts over and Above Blueprint	0.255	
Funding for Temporary and Acting Cover	0.219	
Increase to Overtime Budgets	0.203	
Bear Scotland Increase	0.314	
Growth to CJ Blueprint	0.039	
Prevent	0.004	
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	1.034	
<u>Staff Pay:</u>		
Agency Cover in Finance	0.062	

Bear Scotland Increase	0.311	
Removal of one off growth for temporary posts	-0.334	
Removal of one off growth for Estates extra staff	-0.425	
PVP Uplift	0.207	
Crime Bureau Manager	0.028	
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	-0.151	
<u><i>NON-Pay & Income</i></u>		
Mileage Increase	0.160	
Pension Growth	0.385	
ICT Growth	0.046	
Legal Claims Growth	0.086	
Forensic Growth - drug testing kits	0.069	
Integrated Offender Management	0.122	
Other Growth	0.293	
Income Growth	0.158	
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	1.319	
<u><i>Business Case Growth</i></u>		
PSD Growth Bid	0.249	
Specials Training Bid / Recruitment Bid	0.292	
Pension Service Business Case	0.104	
Senior Learning & Development Manager	0.048	
ANPR	0.193	
Other	0.295	
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	1.181	
Total Growth		3.383
Savings:		
Budget Review Savings:		
Reduction in crime reduction grants	-0.500	
Reduction in forensic services expenditure	-0.276	
Reduction in officer allowances	-0.417	
Deletion of CI post	-0.089	
Loan investment income	-0.105	
IT software and hardware	-0.250	
Prosecution witness income	-0.095	
Sale on vehicles	-0.300	
Vehicle fuel, repairs and maintenance	-0.287	
Speed awareness income	-0.128	
Income from firearms certificates	-0.075	
Other budget review savings	-0.603	
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Total budget review savings	-3.125	
Business Case Savings:		
Dog section restructure	-0.182	
Review of Collision Investigation Unit	-0.270	
Data network	-0.386	

Other business case savings	-0.151	
Total Business Case Savings	<u>-0.989</u>	
Contract Savings	-0.193	
Criminal Justice Savings	-1.160	
Staff Turnover	<u>-1.036</u>	
Total Savings		-6.503
2016/17 Base Budget		<u><u>207.576</u></u>

5. The Medium Term Financial Plan (MTFP)

The MTFP was agreed in February 2015 and has been updated and refreshed during the year.

The key assumptions at February 2016 are as follows:

Funding

- The precept will increase by around 2% per annum, broadly in line with inflation expectations from 2016/17.
- Council Tax base will grow by 2%.
- General revenue grants will be maintained at current levels based on information presented by the Chancellor of the Exchequer in November in the 2015 autumn statement.
- The expected review of the grant system during 2016/17 maintains the levels of support shown in the plan.
- The Council Tax support grant position remains stable, although cash frozen.
- There will be no tightening of the limits on precept increases before a referendum is required.
- Funds top sliced and reallocated from the Police Grant by the Home Office and retained centrally will remain at 2016/17 levels in real terms.

Costs

- Pay increases are included at 1.0% per annum.
- Overall pay and price increases are included at 1.5% of the revenue budget.

- The impact of the changes in Employers NI resulting from the Pensions Act will be passed on to PCCs in full from 1st April 2016, without a compensating uplift in grant.
- The implementation of an Apprentice Levy (equivalent to 0.5% of payroll cost) from 1st April 2017

The MTFP is as follows:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Expenditure - Summary				
Base budget before savings	204.079	207.576	206.996	207.679
Pay and price increases	3.256	2.074	2.848	2.994
National insurance	3.361			
Apprentice Levy		0.858		
Growth bids	3.383			
Savings	(6.503)	(3.512)	(2.165)	(0.345)
Projected net expenditure after savings	207.576	206.996	207.679	210.328
Funded by:				
Formula Grant and RSG	109.736	109.736	109.736	109.736
Council Tax Support Grant	9.200	9.200	9.200	9.200
Council Tax	79.486	82.658	85.956	89.386
Council Tax Collection Fund Surplus	1.689			
Council Tax Freeze Grant (2013/14)	0.799	0.799	0.799	0.799
Council Tax Freeze Grant (2011/12)	1.976	1.976	1.976	1.976
Total funding	202.886	204.369	207.667	211.097

Total Budget Gap	4.690	2.627	0.012	(0.769)
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Developments funded from reserves				
Use of Rural Business & Cyber	1.000	1.000	1.000	
Use of Invest to save and Innovation fund	3.380	2.000		
Investment in infrastructure		5.000	5.000	5.000
	4.380	8.000	6.000	5.000

Total projected use of reserves	9.070	10.627	6.012	4.231
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Note: Rows and columns may not sum due to rounding

6. Reserves Strategy

The use of a significant proportion of the Commissioner's reserves over the life of the Medium Term Financial Plan is an important element of the financial strategy.

The following table shows the full expected deployment of reserves over the life of the plan. Appendix C shows this information analysed across individual reserves.

Proposed Use of Reserves	£m
Projected reserves at the 1st April 2016.	57.503
Amount required to support the budget over the life of the medium term financial plan	6.560
The PCCs wish to continue to invest in 3 priority areas, namely, rural, business and cyber crime. The original provision, made in 2014, allowed for annual spending of £1.5m by the Alliance in these areas, over the full life of the MTFP. The balance of funding to continue this work over the next three years is:-	3.000
In order to deliver future savings, capital and revenue investment is likely to be required. Funding this from reserves avoids debt charges on capital expenditure. A provision of £10m was established across the Alliance. The remaining balance relating to West Mercia's share of the provision is £4.9m. This will be increased to £6.28m to reflect the need for investment in the infrastructure including the replacement Emergency Services Network.	5.380
Investment in infrastructure	15.000
Reserves remaining at the end of the MTFP period.	<u>27.563</u>

Each year the Treasurer carries out an assessment of the risks facing the Commissioner to determine the minimum level of reserves which the Commissioner needs to continue to hold. This year the assessment is that £12.5m needs to be held to provide adequately for these risks. This is a small decrease from previous years, to reflect the Government's decision to protect police funding in the Comprehensive Spending Review and the consequent reduction in the savings target. Further details of the risk assessment are included in section 8.

The amount required for general budget support is significant because it provides for higher levels of support in the early years of the plan than would be typical. This reflects the level of uncertainty which appertains to the future resource projections at this stage, and a wish to have greater clarity about the level of resources which will be available before fully implementing any plans to deliver the savings required over the life of the plan. Currently, only the resource

projections for 2016/17 are certain as the Home Office is intending to undertake a further review of the Police Funding Formula during 2016/17. The Home Office intends to implement a new mechanism for allocating general policing grant from central government in 2017/18.

There remain considerable opportunities to drive out further efficiencies through our joint working with Warwickshire. To achieve them, while minimising the impact on the service to the public, will require us to focus on areas like the integration of our ICT systems, with more self-service facilities for the public, and the rationalisation of our estate through the co-location of what have hitherto been separate teams within West Mercia and Warwickshire. This creates the need for a significant provision for invest to save initiatives.

7. The Capital Budget

The Commissioners for Warwickshire and West Mercia have undertaken a comprehensive review of the capital programme and the capital planning and monitoring process. The revised programme now fully reflects the priorities of the two Commissioners to achieve full integration of services and systems of operation across the alliance as quickly as possible. It also recognises the need to modernise ICT systems and further develop the estate to ensure that policing responds to changes in demand and the nature of crime as efficiently and effectively as possible. Consequently the Commissioners are planning significant capital investment of £87.6m over the next four years. As mentioned earlier, this investment is key to unlocking the full savings potential of the alliance.

The Commissioners are proposing the following capital budget over the next five years, the consequences of which are incorporated into their respective Medium Term Financial Plans.

Expenditure (Alliance)	2016/17 (Including slippage from 2015/16 £m)	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Operational policing*	2.523	4.604	2.100	1.100	10.327
Bringing offenders to justice*	1.354	0.500	0.200	0.100	2.154
Specialist policing projects*	2.998				2.998
Business Support*	6.888	3.905	2.505	1.290	14.588
Total ICT	13.763	9.009	4.805	2.490	30.067
West Mercia Estate Strategy	3.669	2.609	7.732	7.038	21.048
Warwickshire Estate	0.004	2.337	5.160	3.249	10.750

Strategy					
West Mercia OCC	9.179	4.070			13.249
Warwickshire OCC	2.030				2.030
Total Estates	14.882	9.016	12.892	10.287	47.077
West Mercia Fleet	1.431	1.450	2.020	1.500	6.401
Warwickshire Fleet	1.514	0.650	0.880	0.700	3.744
Total Fleet	2.945	2.100	2.900	2.200	10.145
<i>West Mercia Plant & Equipment</i>	0.143	0.021	0.021	0.021	0.206
<i>Warwickshire Plant and Equipment</i>	0.060	0.010	0.010	0.010	0.090
Total Plant & Equipment	0.203	0.031	0.031	0.031	0.296
Totals	31.793	20.156	20.628	15.008	87.585

Those items marked with an asterisk () are charged to the respective Commissioners in the proportion 31% to Warwickshire and 69% to West Mercia, reflecting the respective size of the two Police Forces.

Note: May not sum due to rounding

A full list of proposed capital projects is included at appendix D. With the introduction of a revised capital programme and a new capital planning and monitoring process, this will be kept under regular and more challenging review by the Commissioners, and may vary during the course of 2016/17

The expected funding of the programme is outlined below. In order to minimise future borrowing the Commissioners are proposing to fund a significant part of this capital investment from reserves. In addition, where under-spends occur in revenue budgets, through early delivery of savings, consideration will be given to using these to fund capital expenditure in lieu of borrowing, where it is prudent to do so.

Funding (Alliance)	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
<i>Capital Receipts</i>	3.390	2.976	0.993	0	7.359
<i>Capital Grants</i>	7.320	1.650	1.650	1.650	12.270
<i>From infrastructure reserve</i>	0	6.500	6.500	6.500	19.500
<i>Borrowing</i>	21.083	9.030	11.485	6.858	48.456
Totals	31.793	20.156	20.628	15.008	87.585

8. Treasurer's Statement on the Soundness of the Budget and the Adequacy of Reserves

In considering the MTFP, the Commissioner needs to consider the level of reserves for which it provides. This will, in part, be governed by known or likely commitments, and, in part, by his appetite for risk.

In setting the level of reserves I would suggest that the following issues should be taken into account:

- a. The possibility of savings targets not being met. I would suggest no provision in reserves for this, but, if this approach is taken, the Commissioner is recognising that any failure to deliver savings through the Strategic Alliance will have to be compensated for, potentially, by service reductions.
- b. Possible delays in the delivery of savings. In previous years the Force has missed its in-year savings target, but has covered the shortfall from in-year under-spends. While no presumption of in year under-spending should be made, because, having agreed the budget, the Commissioner authorises its spending, the record of the Force is of consistent delivery of under-spending. This is typical of organisations with strong budget management arrangements. Delays in the delivery of savings are very likely to occur, particularly in relation to the Strategic Alliance. In addition in the current year there have been delays in progressing Invest to Save schemes in the capital programme. However, as the savings target is less than previously expected, I am recommending a reduction in the level of reserves held to cover potential delays in the delivery of savings from £7.5m held in 2015/16 to £4.5m which equates to £1.5m per year.
- c. The need to provide cover for “extraordinary” events or investigations, recognising that these would be likely to attract Special Police Grant (for costs in excess of 1% of the budget). A prudent provision would be for two such events over a five year period, which would require a provision of £4m.
- d. The level of self-insurance we provide to minimise our insurance premiums. Potential insurance liabilities can vary significantly across years, and it is suggested that any costs falling here should be met from a general contingency provision.
- e. Any additional delivery costs of the Strategic Alliance. These may be capital (e.g. IT costs), but capital costs have a revenue impact. Until the capital costs are determined, the revenue consequences cannot be. An alternative, and one with no marginal cost, would be to absorb any revenue impact by cash-limiting the capital programme and deferring schemes to accommodate any Strategic Alliance spending requirements. There is a specific provision in reserves to cover invest to save schemes, so no additional provision is recommended here.
- f. The risk on inflation, especially on pay. With the economy looking to continue to grow there may be some upward pressure on pay inflation.

This is starting to look increasingly possible within the life of the plan. No specific provision is recommended at this stage, but this will be kept under review. Despite recent falls in the price of oil, utility costs remain a risk, but no specific provision is likely to be required.

- g. The budget includes assumptions made around part time police officer working. These changes reduce the Police Officer budget in line with the levels of part time working. If all these officers then decided to return to full-time work this would lead to a budget pressure. History suggests that this is unlikely so no specific provision is likely to be required, however the risk remains.
- h. The income budget has been reviewed and revised for the third year running, to reflect a reassessment of the base budget. Most income received is demand led and therefore hard to forecast, and it can fluctuate. There is a risk should income levels fall below expectations. No specific cover in reserves is recommended, but this should be reviewed in future years.
- i. On the 1st April 2017 all employees who are not members of a pension scheme have to be invited to join. If all these employees joined it would increase our annual costs by £0.5m with a further one-off cost of £0.5m in backdated contributions. While it is not expected that all employees will take the opportunity to enrol in a pension scheme any increase in membership increases the cost to the organisation. At this stage a prudent provision of £1m (based on the worst case estimate in the first year) is recommended.
- j. As already stated, the Home Office is intending to undertake a further review of the Police Funding Formula during 2016/17 and to implement a new funding mechanism from 1st April 2017. Under the current arrangements, West Mercia benefits from the damping mechanism, gaining £10m a year. The Home Office did consult on a new formula during 2015 but abandoned the consultation. During this process estimates of the impact on West Mercia ranged from an increase of £9.3m to a reduction of £0.8m. In addition the future of the legacy Council Tax grant is uncertain in the medium to long term. It is widely expected that the funding for these grants will be protected during this Spending Review. In the light of this a prudent approach needs to be adopted and a provision of £1.0m made.
- k. The Government is currently developing plans for the replacement of the Airwaves network (referred to as ESN/ESCMP). The estimated initial capital investment is £1bn, although revenue savings of £350m are expected in the long term. In 2016/17 £204m is top sliced nationally by

the Home Office for airwaves and £80m for ESN. The Home Office has indicated that this top slice is likely to increase significantly in 2017/18 but has not given any further information. There is a lack of clarity, however, a provision of £3m has been made in the Medium Term Financial Plan. Any capital costs that may fall to West Mercia could be met by increased borrowing or from the use of reserves. Any increased revenue costs or grant reductions in the short term would need to be funded either from further efficiencies or from the use of reserves.

- l. Given the significant capital investment of £87.6m in the infrastructure which supports policing, an infrastructure reserve of £20m is being created. From 2017/18 £5m of this reserve will be deployed each year to fund the capital programme. This will minimise borrowing and by reducing the capital financing costs, will ensure that revenue funds continue to be targeted at front line policing.
- m. There should be a general contingency provision for unknowns. Assessing a prudent level for this is impossible, but would be unlikely to be less than 1% of net revenue expenditure, around £2m.

The aggregate cost of those elements which it is feasible to estimate is £12.5m. The additional impact of some of those which cannot be estimated, such as higher pay increases, could prove to be significant. The Commissioner does not necessarily have to provide money in reserves for each of these elements individually, unless they are certain to occur, as one contingency can provide for several possible events, provided that all of the events are unlikely to occur together. However, it does need to give realistic consideration to the likelihood of their occurring during the period covered by the plan, and it does need to provide explicitly for those which are certain to occur.

Given the relatively low aggregate sum involved, it is recommended that a minimum level of £12.5m is provided in reserves.

Provided that this sum is available at all times within reserves, I am satisfied that this budget is soundly based and adequately provides for the risks facing the Commissioner.

Summary of West Mercia Grant Settlement

The provisional Police Funding Settlement was announced by the Government on 17th December 2015. The details were as follows:

2015/16	Funding Stream	2016/17	Change
£ m		£ m	%
66.729	<i>Police Grant (including Community Support Grant</i>	66.348	-0.57
43.637	<i>Revenue Support Grant</i>	43.388	-0.57
11.975	<i>Legacy Council Tax Grants (freeze grants and plus council tax support grant)</i>	11.975	0
122.341	Total	121.711	-0.52

In addition, the Police and Crime Commissioner has received notification of the following indicative grant allocations for Victims Service Commissioning and Restorative Justice from the Ministry of Justice.

Grant Allocation	£ million
<i>Victims Services</i>	1.366
<i>Child Sexual Abuse</i>	0.102
Total	1.468

**West Mercia Police and Crime Commissioner
Subjective analysis of income & expenditure**

	Original Estimate 2015/16	Original Estimate 2016/17
	£m	£m
Expenditure - Detail		
Police pay and overtime	75.034	78.586
Staff pay	51.108	41.333
Police National Insurance	6.693	9.198
Staff National Insurance	3.419	4.354
Police Pension	17.977	17.632
Staff Pension	7.458	7.392
Police pension scheme	3.029	2.409
Allowances	4.092	7.209
Other employee costs	2.061	3.544
Total Employees	170.871	171.657
Premises	8.494	8.474
Transport	5.090	4.928
Supplies & Services	19.318	18.197
Third Party Payments	6.962	11.414
Loan interest	0.444	0.444
Minimum revenue provision	1.450	1.504
GROSS EXPENDITURE	212.628	216.618
Income		
Government & Overseas Funding	-1.706	-2.045
Local Government Specific / Partnership Funding	-0.242	-0.356
Sales, Fees, Charges & Rents	-3.369	-3.785
Special Police Services	-0.080	0.000
Reimbursed Services - Inter Force	-0.247	-0.080
Reimbursed Services - Other Public Bodies	-0.892	-0.814
Reimbursed Services - Other	-0.897	-0.735
Interest / Investment Income	-0.115	-0.227
Reimbursed Services - Sources of income from other forces	-1.000	-1.000
TOTAL INCOME	-8.550	-9.042
NET EXPENDITURE	204.079	207.576

West Mercia Police and Crime Commissioner
Objective analysis of income & expenditure

	2015-16	2016-17	Variance	Variance
	Total	Total		
	£'m	£'m	£'m	%
Enabling Services				
Buildings	7.659	7.659	0.000	0.0%
Corporate Communications	0.652	0.737	0.085	13.0%
Business Support Services	1.896	2.810	0.914	48.2%
Estates Services	2.223	1.924	-0.299	-13.4%
People Services	7.203	7.392	0.189	2.6%
ICT Services	12.396	11.763	-0.633	-5.1%
Legal Services	1.005	0.981	-0.024	-2.4%
Transport Services	4.603	3.554	-1.049	-22.8%
Civil Disclosure	0.052	0.000	-0.052	-100.0%
Total Enabling Services	37.689	36.819	-0.870	-2.3%
Finance				
ACPO	0.824	2.672	1.848	224.3%
Corporate Finance	8.565	8.504	-0.061	-0.7%
Accounting	1.297	1.466	0.169	13.0%
Contracts and procurement	2.180	1.759	-0.421	-19.3%
Resource Management	0.692	0.023	-0.669	-96.7%
Performance and business change	1.794	0.496	-1.298	-72.4%
Total Finance	15.352	14.920	-0.432	-2.8%
Local Policing				
Operational Support	24.959	27.516	2.557	10.2%
Territorial Policing	73.970	74.774	0.804	1.1%
Devonport	0.000	0.000	0.000	0.0%
Total Local Policing	98.929	102.290	3.361	3.4%
Protective Services				
Head of Protective Services	1.005	1.148	0.143	14.3%
Crime Management	0.366	0.426	0.060	16.4%
Forensics	4.905	4.726	-0.179	-3.6%
Major investigations Unit	4.811	3.301	-1.510	-31.4%
Operations	15.012	20.453	5.441	36.2%
Protecting vulnerable people	7.780	8.431	0.651	8.4%
Specialist Operations	13.314	11.152	-2.162	-16.2%
Total Protective Services	47.193	49.637	2.444	5.2%
Secondments	0.000	0.000	0.000	0.0%
Total Force	199.163	203.666	4.503	2.3%
OPCC	1.416	1.415	-0.001	0.0%
Commissioners grant scheme	2.000	2.495	0.495	24.8%
Crime prevention and reduction	1.500		-1.500	-100.0%
PCC	4.916	3.910	-1.006	-20.5%
Grand Total	204.079	207.576	3.497	1.7%

**West Mercia Police and Crime Commissioner
West Mercia reserves**

	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
Budget reserve	35.103	9.033	6.405	0.00	0.000
Rural, business and cyber crime	4.000	3.000	2.000	0.00	0.000
Invest to save and Innovation fund	4.900	2.900	0.900	0.00	0.000
Investment in infrastructure reserve	0.000	20.000	15.000	10.000	5.000
General Reserves	13.500	13.500	13.500	21.794	22.563
Total Reserves	57.503	48.433	37.805	31.794	27.563

Does not include funding for capital from reserves.

APPENDIX D

Medium Term Financial Plan - Capital Expenditure 2015-16 to 2019-20

Capital Project Description	Formal Business Approval (Y)	Total Proposed Budget 2015-16 to 2019-20 £000	Forecast Spend (Revised Budget) 2015-16 £000	Proposed Budget for 2016-17 (including any slippage) £000	Proposed Budget for 2017-18 £000	Proposed Budget for 2018-19 £000	Proposed Budget for 2019-20 £000
ESTATES							
Hindlip - Firearms Training School Alterations (increased from £1.375m)	Y	2,230.0	125.3	2,054.7	50.0	-	-
SOCO Labs - Worcester, Kidderminster & Shrewsbury	Y	448.4	430.4	18.0	-	-	-
Bedworth - SOCO Lab	Y	62.0	58.0	4.0	-	-	-
Central Forensics Services Buildings	Y	1,542.0	96.2	1,411.4	34.4	-	-
Stratford - migration Corp Comms, PSD, & Driver Training	Y	112.0	112.0	-	-	-	-
Hindlip OCC - Implement Alliance Strategy	Y	14,210.5	960.8	9,179.0	4,070.7	-	-
Warwickshire OCC Project - Neville House	Y	3,888.0	1,858.0	2,030.0	-	-	-
Malvern - Criminal Justice Hub	Y	800.0	600.0	185.0	15.0	-	-
Hindlip - High Tec Crime		781.8	-	-	619.3	162.5	-
Rugby - Courts Refurbishment		2,793.5	-	-	1,035.0	1,696.0	62.5
Telford - post PMP alterations		393.5	-	-	385.1	8.4	-
Greys Mallory (Patrol Base) - Medium Term Strategy Alterations		1,136.0	-	-	809.6	302.3	24.1
Safer Neighbourhood Offices - New Premises Fit Out		1,080.0	-	-	557.1	522.9	-
Vehicle Fuel Bunkerage - Storage Tanks in new locations Warks		120.0	-	-	120.0	-	-
Vehicle Fuel Bunkerage - Storage Tanks in new locations Mercia		120.0	-	-	120.0	-	-
Carbon Plan & Energy Efficiency Commitments		600.0	-	-	200.0	200.0	200.0
Funding envelope for potential capital spend resulting from the estates reviews to be carried out in 2016/17 and 2017/18, including "One Town" Reviews		21,000.0	-	-	1,000.0	10,000.0	10,000.0
Residual amounts b/f from 2014/15 for projects completed 2015/16		384.1	384.1	-	-	-	-
TOTAL - ESTATES		51,701.8	4,624.8	14,882.1	9,016.2	12,892.1	10,286.6
ICT REPLACEMENT & STRATEGY PROGRAMMES:							
PEOPLE MOVEMENT PLAN PROJECTS:							
Mobile Working (initial approval)	Y	69.4	10.0	59.4	-	-	-
TOTAL - PEOPLE MOVEMENT PLAN PROJECTS		69.4	10.0	59.4	-	-	-
MANAGE THE ORGANISATION PROJECTS:							
Business Intelligence		500.0	-	100.0	400.0	-	-
Audit Software		200.0	-	200.0	-	-	-
TOTAL - MANAGE THE ORGANISATION PROJECTS		700.0	-	300.0	400.0	-	-
OPERATIONAL POLICING PROJECTS:							
OCC Operations Enabling Technologies		5,368.0	-	1,664.0	3,704.0	-	-
Mobile Working		1,200.0	-	500.0	500.0	100.0	100.0
ESMCP (Airwave Replacement)		3,000.0	-	-	-	2,000.0	1,000.0
TOTAL - OPERATIONAL POLICING PROJECTS		9,568.0	-	2,164.0	4,204.0	2,100.0	1,100.0
BRINGING OFFENDERS TO JUSTICE PROJECTS:							
Single Crime Management	Y	2.5	2.5	-	-	-	-
Crash Implementation	Y	50.0	50.0	-	-	-	-
Casewise Upgrade	Y	74.4	74.4	-	-	-	-
Athena (all projects combined)	Y	2,478.8	1,625.0	853.8	-	-	-
Corporate Digital Repository		1,000.0	-	500.0	200.0	200.0	100.0
Body Worn Video		300.0	-	-	300.0	-	-
TOTAL - BRINGING OFFENDERS TO JUSTICE PROJECTS		3,905.7	1,751.9	1,353.8	500.0	200.0	100.0
SPECIALIST POLICING PROJECTS:							
Compact	Y	8.6	8.6	-	-	-	-
Pegasus	Y	50.0	12.5	37.5	-	-	-
Source Management	Y	50.0	12.5	37.5	-	-	-
COPS	Y	30.0	7.5	22.5	-	-	-
HOLMES 3 (v.2.16)	Y	135.0	135.0	-	-	-	-
Firearms School Taser Cabinets & PCs (following on from Chronicle)	Y	149.5	149.5	-	-	-	-
SOCRATES - Forensics system	Y	163.5	163.5	-	-	-	-
Hi Tech Crime Unit	Y	259.2	259.2	-	-	-	-
ANPR - Phase 3 - expansion of fixed camera presence	Y	2,400.0	200.0	2,200.0	-	-	-
Warwickshire OCC Project - Neville House ICT fit-out	Y	600.0	-	600.0	-	-	-
ROCU		100.0	-	100.0	-	-	-
TOTAL - SPECIALIST POLICING PROJECTS		3,945.8	948.3	2,997.5	-	-	-

BUSINESS SUPPORT PROJECTS								
Centralised Seized & Found Property	Y	69.0	69.0	-	-	-	-	-
Media Management	Y	11.0	11.0	-	-	-	-	-
Service Management - see Improving Management of Assets	Y	74.0	28.0	46.0	-	-	-	-
Origin (originally Project Grapevine)	Y	60.0	40.0	20.0	-	-	-	-
Desktop Equipment PCs/Laptops/Winterms	Y	1,860.0	200.0	520.0	470.0	470.0	200.0	200.0
Mobile Devices	Y	220.0	75.0	95.0	10.0	10.0	30.0	30.0
Printers/Scanners	Y	840.0	110.0	250.0	160.0	160.0	160.0	160.0
HTCU replacement (desktops & servers)	Y	200.0	-	-	-	-	200.0	200.0
Airwave Radios	Y	40.0	40.0	-	-	-	-	-
Servers (include PSN)	Y	1,410.0	200.0	410.0	300.0	300.0	200.0	200.0
SAN/Backup Infrastructure (Storage Area Network)	Y	1,480.0	230.0	450.0	400.0	200.0	200.0	200.0
Network	Y	230.0	30.0	50.0	50.0	50.0	50.0	50.0
Software Upgrades	Y	1,509.0	259.0	300.0	300.0	450.0	200.0	200.0
PSN - Data Network (Virgin Business) - "Red Flag"	Y	3,005.0	1,866.0	1,139.0	-	-	-	-
Workspace Modernisation Program & PSN	Y	2,023.0	1,737.0	286.0	-	-	-	-
Multimedia Project (Higher-spec PCs and servers)	Y	650.0	100.0	500.0	50.0	-	-	-
Visual Files - Legal Case Files	Y	81.1	81.1	-	-	-	-	-
Desktop Telephony / Full Uni Comms (ICT Telephony)	Y	3,073.3	2,051.3	1,022.0	-	-	-	-
Consolidation of small systems	Y	250.0	50.0	50.0	50.0	50.0	50.0	50.0
EcfP (E.Commerce for Police)		50.0	-	50.0	-	-	-	-
ECMS (inc Intranet)		700.0	-	300.0	400.0	-	-	-
Conferencing - Audio & Video		350.0	-	-	350.0	-	-	-
Identity Access Management		300.0	-	50.0	250.0	-	-	-
In-Vehicle Technology (in-car media)		800.0	-	800.0	-	-	-	-
Telematics - vehicle deployment and monitoring software		200.0	-	200.0	-	-	-	-
Finance system - development of current system		130.0	-	50.0	40.0	40.0	-	-
ERP - Enterprise Resource Planning - HR		600.0	-	-	300.0	300.0	-	-
ERP - Enterprise Resource Planning - Finance		500.0	-	-	250.0	250.0	-	-
ERP - Enterprise Resource Planning - Payroll		350.0	-	-	175.0	175.0	-	-
ERP - Enterprise Resource Planning - E.Procurement		100.0	-	-	50.0	50.0	-	-
Confidential Network Environment Resilience (multi-site)		300.0	-	-	300.0	-	-	-
Productionise SOA Infrastructure (Service Orientated Architecture)		200.0	-	200.0	-	-	-	-
Corporate Gazetteer		100.0	-	100.0	-	-	-	-
TOTAL - BUSINESS SUPPORT PROJECTS		21,765.4	7,177.4	6,888.0	3,905.0	2,505.0	1,290.0	1,290.0
Residual amounts b/f from 2014/15 for projects completed 2015/16		33.0	33.0	-	-	-	-	-
TOTAL - ICT REPLACEMENT & STRATEGY PROGRAMMES		39,987.3	9,920.6	13,762.7	9,009.0	4,805.0	2,490.0	2,490.0
VEHICLE REPLACEMENT:								
WARWICKSHIRE - Vehicle Replacement Programme	Y	4,986.8	1,243.0	1,513.8	650.0	880.0	700.0	700.0
WEST MERCIA - Vehicle Replacement Programme	Y	9,590.4	3,189.0	1,431.4	1,450.0	2,020.0	1,500.0	1,500.0
TOTAL ALLIANCE VEHICLE REPLACEMENT		14,577.2	4,432.0	2,945.2	2,100.0	2,900.0	2,200.0	2,200.0
PLANT & EQUIPMENT PROGRAMME:								
WEST MERCIA PLANT & EQUIPMENT PROJECTS:								
Safer Roads Replacement Cameras	Y	325.0	325.0	-	-	-	-	-
Safety Camera Equipment		8.1	-	8.1	-	-	-	-
RF Survey Equipment		2.0	-	2.0	-	-	-	-
TOTAL - WEST MERCIA PLANT & EQUIPMENT PROJECTS		335.1	325.0	10.1	-	-	-	-
BOTH FORCES PLANT & EQUIPMENT PROJECTS:								
Force Technical Surveillance Equipment		140.0	-	95.0	15.0	15.0	15.0	15.0
Crime Tech Capital Equipment		146.0	-	98.0	16.0	16.0	16.0	16.0
TOTAL BOTH FORCES PLANT & EQUIPMENT PROJECTS		286.0	-	193.0	31.0	31.0	31.0	31.0
TOTAL ALLIANCE PLANT & EQUIPMENT PROGRAMME		621.1	325.0	203.1	31.0	31.0	31.0	31.0
Total Capital Budget		106,887.4	19,302.4	31,793.1	20,156.2	20,628.1	15,007.6	15,007.6

PRUDENTIAL INDICATORS

1. AFFORDABILITY PRUDENTIAL INDICATORS	2015/16 Estimate	2015/16 Forecast Outturn	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	17,550	12,956	23,919	14,367	13,089
	%	%	%	%	%
Ratio of financing costs to net revenue stream	1.12	0.96	0.88	1.16	1.37
	£'000	£'000	£'000	£'000	£'000
In Year borrowing requirement					
- in year borrowing requirement	13,587	0	14,959	7,107	6,459
	£'000	£'000	£'000	£'000	£'000
In year Capital Financing Requirement	12,646	(1,613)	13,455	5,005	4,096
	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement 31 March	46,537	32,210	45,665	50,670	54,766
	£	£	£	£	£
Affordable Borrowing Limit					
Increase per council tax payer	£1.20	(£0.15)	(£0.10)	£0.56	£0.46
2. TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2015/16 Estimate		2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£'000		£'000	£'000	£'000
Authorised limit for external debt					
- Borrowing	40,000		40,000	50,000	60,000
	£'000		£'000	£'000	£'000
Operational boundary for external debt					
- Borrowing	30,000		35,000	50,000	55,000
Upper limit for fixed rate interest exposure					
- net principal re fixed rate borrowing / investments	£40m		£40m	£50m	£60m
Upper limit for variable rate exposure					
- net principal re variable rate borrowing / investments	£5m		£5m	£5m	£5m

Maturity structure of new fixed rate borrowing during 2013/14	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%