

**October 2013 v14**

**Medium Term Financial Strategy 2013/14 to 2017/18**

**Report of the Chief Finance Officers**

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## **1. Purpose**

- 1.1. This report presents the significant financial challenge faced by the Police and Crime Commissioner (PCC) in looking to set a medium term financial strategy within a declining Government Grant settlement regime. The PCC is currently progressing the detailed plans which will be presented before the end of February alongside the Council Tax precept proposal. The planning is focussing upon targeting resources in order to meet the objectives of the Police and Crime Plan; this includes consideration of the switching of priorities and funding from policing provision to commissioning.
- 1.2. This report presents the projected revenue and capital budgets for the five year period 2013/14 to 2017/18 based upon current information and assumptions. It is inevitable that new initiatives, requirements, priorities and changes in funding will require the figures presented to change over the course of the five year period. However, the Medium Term Financial Strategy (MTFS) gives an indication of the financial outlook for the Police and Crime Commissioner (PCC) and Police and Crime Panel (PCP) to enable strategic decisions to be taken on issues, particularly those with longer term financial impact. The budget cycle is set out at appendix A.

## **2. Summary**

- 2.1. The MTFS report reviews the budget position for the current financial year to revise the 2013/14 budget for changes that have occurred since the budget was approved in January 2013, as set out in appendix B. The MTFS also gives a stronger indication of the 2014/15 forward budget position. This budget will be further developed over the coming months by the Police and Crime Commissioner and the proposed precept will be presented for consideration by the Police and Crime Panel by the end of February 2014.
- 2.2. The MTFS is assisted by the four year settlement announced by HM Government in December 2010 and the announcement on the 26<sup>th</sup>

June 2013 for the 2015/16 budget. For the later years, estimates based on the best available information have been used.

- 2.3. A Council Tax freeze was agreed by the Police Authority for 2011/12. Additional government grant equivalent to a 2.5% increase in council tax was received and the same amount of grant will be received annually up to and including 2014/15. A further Council Tax freeze was agreed by the Authority for 2012/13 for which a one-off grant equivalent to 3.0% was received.
- 2.4. A precept increase of 3.4% was approved by the PCC and PCP for 2013/14, allowing the level of cuts required to be slightly reduced. Future levels of Council Tax increases are unknown at this stage. For the MTFs, a precept increase of 3% has been estimated for 2014/15 and subsequent years, although Appendix C highlights the additional budget gap which results from a 0% and 2% annual precept increase.
- 2.5. During this first year in office, the PCC has been focussing upon ensuring that appropriate resources are available within the office to deal with the additional responsibilities of the PCC in comparison to the previous Police Authority governance model, in particular the additional commissioning responsibilities. The costs of the office proposed for 2014/15 are at the same financial level as those under the previous governance arrangement, therefore containing the impact of additional responsibilities and maintaining the level of the Community Safety Fund Grant in line with the Government Grant reductions imposed.
- 2.6. The savings requirement for the four year period 2011/12 to 2014/15 to fund the grant reductions for Hampshire Constabulary was initially estimated at between £48m to £55m, depending on factors such as the level of pay and council tax precept.
- 2.7. Other factors such as increases to pension costs and the Winsor Review have meant that the required savings level is likely to be at the top end of the scale. To date, £52.578m of savings have been included in approved budgets up to 2014/15 plus £1.797m in 2015/16 and £0.751m in 2016/17, so a total of £55.126m included in this MTFs. These figures relate to the full-year and future year impacts resulting from budget decisions already made. If a 3% precept is agreed for 2014/15, a balanced budget can be set within the current savings plan, without adding budget pressures and growth. However, if the precept is lower, further savings will be required in 2014/15. Significant further savings will be required from 2015/16 onwards. Council tax decisions made for 2014/15 will obviously be a determining factor in the level of cuts required to balance budgets from 2015/16 onwards. Appendix C shows the funding gap including assumptions regarding savings already included and the implications of various levels of council tax increase.

- 2.8. For the years 2015/16 and 2016/17 the estimated gap is £20.002m, using the assumptions within the MTFS. The range of possible savings needed will be dependent on a number of factors, which are shown in Table 1.

**Table 1 – MTFS funding gap sensitivity analysis**

Assumption	Gap (£m)	
	15/16	16/17
Funding gap assuming: - inflation at known or standard forecast rates - end of 11/12 council tax freeze grant in 2015/16 - balanced budget for 2014/15 - reduction to grant in line with Home Office - no change to damping & no other changes to funding - 2% council tax increase annually from 2014/15	10	20
Damping changes result in extra £3m funding	-3	-3
<b>Lower end range</b>	<b>7</b>	<b>17</b>
Assume no change to damping	3	3
<b>Mid-range</b>	<b>10</b>	<b>20</b>
Inflation above expected Bank of England levels	2	4
Proportion of savings not achieved	2	3
No council tax increase from 2013/14 to 2016/17	6	9
Pay increase above 1%	2	6
Budget pressures and growth (if approved)	3	5
<b>Upper end range</b>	<b>25</b>	<b>47</b>

- 2.9. The table above includes potential additional costs for some budget pressures or growth within the upper end range only. There are a number of budget pressures and growth proposals being considered. However, there is no recommendation to include any of the budget pressure and growth proposals at this stage as the requests will be subject to more detailed scrutiny. Any proposal to increase budgets will need to be presented as part of a package which includes offsetting savings in order to balance the budget.
- 2.10. The cost of current policies (i.e. continuing to do what is done now) in 2014/15 is estimated at £306.213m. Government grant will be reducing by £6.678m. Council Tax precept is budgeted to increase by 3.0% which equates to £2.887m. Efficiencies of £10.578m have been identified to date, which give an overall net position of £0.336m surplus at this stage for the 2014/15 budget, before budget pressures and growth.
- 2.11. A two year pay inflation freeze which took effect from September 2011 has had a mitigating effect against the funding reductions. This will be followed by 2 years of average increases limited to 1%. Although no further levels have been indicated, it is expected that the pay restraint policy will remain for the foreseeable future and therefore, continued

increases of 1% have been assumed from Sept 2015 onwards.

- 2.12. Increments have been frozen for police officers from April 2012 for two years, in line with the Winsor recommendations. These will re-start from April 2014, so have been allowed for with the MTFs. Other proposals within the Winsor report have been delayed whilst negotiations take place. Some of these issues have recently been resolved and can therefore be included within the budget. The most significant of these is the removal of the Competency Related Threshold Payment (CRTP) over a 4 year period. This reduction was effective from 1<sup>st</sup> April 2013, but was not approved until during April 2013 and therefore not accounted for within the 2013/14 budget.
- 2.13. Beyond 2014/15 the financial position continues to be challenging. A provisional grant reduction of 3.2% (£6.678m) has been announced for 2015/16. No figures have been released beyond that date, so further reductions of 3.2% have been included within the MTFs for 2016/17 and 2017/18. The budget is now expected to be balanced for the current spending review period (2011/15), through the savings initiatives during the course of the four years. However, a deficit of £25.154m is now expected by the end of 2017/18, taking into account all current planned and agreed savings. This situation will be addressed through the continued work of the Force Change Programme and other savings processes to be progressed over the coming years.

### **3. Recommendations**

This report recommends that the:

- budget cycle is approved as set out in appendix A
- Revised Budget 2013/14 as per appendix B is noted
- Medium Term Financial Strategy set out in appendix C is noted
- Office for Police and Crime Commissioner budget as set out in appendix D is noted
- 2014/15 budget should be prepared upon the basis that it is a balanced budget
- budget pressures and growth proposals are subject to more detailed scrutiny before being considered for inclusion within the overall budget (appendix E)
- efficiencies and savings continue to be developed for inclusion within the overall budget (appendix F)
- rates and assumptions at appendix G are considered and noted
- updated capital programme at appendix H is noted
- reserves strategy in appendix I is noted
- decisions are taken bearing in mind the expected position for 2014/15 onwards
- the report is provided to the Police and Crime Panel as detailed background in advance of the presentation of the precept proposal prior to the end of February 2014.

## **4. Background**

### **National Context**

- 4.1. The current four year settlement began in April 2011. Grant reductions across the public sector as a whole began with the Emergency Budget in June 2010/11 and will continue through to 2014/15.
- 4.2. In June 2013, the Government announced provisional figures for further reductions to the 2015/16 grant. No settlement figures have been received for 2016/17 onwards, but the indications are that further reductions will be made. The general election creates additional uncertainty regarding Government policy after 2015/16.
- 4.3. As in previous years, there are still areas of new legislation and other growth requirements. These will need to be assessed and further savings found if additional budget for these growth items is deemed essential.

### **Budget Cycle**

- 4.4. The budget cycle is outlined in appendix A. This report sets out the overall financial position of the Police and Crime Commissioner and will be used as a base for the 2014/15 Forward Budget.
- 4.5. It will be necessary for the PCC to set the precept by February 2013, after consultation with the Police and Crime Panel.
- 4.6. As further savings are identified and confirmed, these will be reflected in the forecast and included in the 2014/15 Forward Budget and beyond.

### **Revised Budget 2013/14**

- 4.7. The Police and Crime Commissioner has significantly reshaped his office in order to ensure that the appropriate resources are available to meet the demands placed upon the office, in particular related to commissioning and performance monitoring, this has been achieved without the need to call upon additional funding in comparison to the previous governance model.
- 4.8. A two year freeze on cost of living increases on pay was agreed from September 2011 for all staff and officers on pay of over £21,000. This comes to an end in Sept 2013 and a pay increase of 1% is expected for the next two years. This is currently being negotiated, so the pay costs will be adjusted if necessary following final agreement.
- 4.9. The reasons for significant changes to the 2013/14 budget are summarized below. All virements within the financial regulations limit of £0.1m between headings have been actioned within the current

budget. Those which are above the limit of £0.1m have been approved by the PCC through the Decision Log process.

4.10. The revised budget is set out at appendix B. The significant changes proposed within the revised budgets are:

- Employees / Supplies & Services

transfer of budget for Interpreters and Translators through payroll to Interpreters and Translators on Supplies and Services (-£0.229m) due to the implementation of a new contract

- Grants Paid / Specific Grants

transfer of grant payments incorrectly budgeted against grant income codes (£0.044m).

4.11. The budget monitoring position at the end of Quarter 2 shows a continued trend towards delivering the planned savings earlier in the year through strong programme governance and the careful management of staffing. This ensures that the budget target is delivered and all additional savings achieved in-year are transferred to the Transformation reserve in order to support the necessary investments required to achieve future financial savings whilst delivering high performance services.

### **Office of the Police and Crime Commissioner**

4.12. The budget for the Office of the Police and Crime Commissioner is shown in more detail at appendix D. During this first year in office, the PCC has been focussing upon ensuring that appropriate resources are available within the office to deal with the additional responsibilities of the PCC in comparison to the previous Police Authority governance model, in particular the additional commissioning responsibilities. The costs of the office proposed for 2014/15 are at the same financial level as those under the previous governance arrangement, therefore containing the impact of additional responsibilities and maintaining the level of the Community Safety Fund Grant in line with the Government Grant reductions imposed.

4.13. From 2014/15, the Community Safety Fund will no longer be a separately allocated fund, but will instead be paid through the general funding formula so the amount available will be significantly less transparent. The Police and Crime Commissioner will aim to maintain the level of expenditure in line with reductions to general grant imposed by Government.

4.14. The Police and Crime Commissioner is due to receive funding for local victim support from mid 2014/15. The actual financial value has not yet been confirmed so cannot be included, although it is known that 3.39%

of the total national funding available will be made available for the Hampshire and Isle of Wight area. As above, the amount spent will be the amount received, so it will offset in budget terms and will not impact on the overall MTFS. Although, this will create an opportunity to review and refocus expenditure to best effect in line with the Police and Crime Plan.

- 4.15. The main focus for the year ahead, now that key appointments related to Commissioning and Performance have been made within the office will be to ensure that the total budget allocated to the PCC, over £300 million is used to best effect to meet the objectives of the Police and Crime Plan:-
- Priority 1 – Improve Frontline Policing
  - Priority 2 – Place victims and witnesses at the heart of policing and the wider criminal justice system
  - Priority 3 – Work together to reduce crime and anti social behaviour in your community
  - Priority 4 – Reduce re-offending
- 4.16. The aim is to create visibility of partners funding in order to look to use funding jointly to better effect in order to reduce the call on the policing budget and create greater opportunities from available funding. There is a risk that greater demands will be placed on policing through disinvestment decisions made by partner organisations in response to funding reductions.
- 4.17. The future Community Safety Fund and the one-off budget created in 2013/14 to support the Police and Crime Plan priorities in particular create the opportunity for partners to work together to influence overall commissioning decisions which aim to reduce demand on the Constabulary as well as achieving Social Policy objectives. In so doing, this will free up additional funding previously used for policing to be switched across to commissioning alternative strategies.
- 4.18. The PCC is also reviewing a variety of budget lines currently contained within the Constabulary budget which would better sit within the OPCC in order to ensure a focus on the Police and Crime Plan objectives and in order to avoid duplication.

## **Stage 2 Transfer and Joint Working**

- 4.19. As a result of the new Governance approach, all Police staff are currently employees of the PCC, this was referred to as 'Stage 1'. Stage 2 is the process by which the PCC determines, in consultation with the Chief Constable, the appropriate staff employment model. The current proposal identifies estates staff would remain with the PCC in recognition that property assets are a key responsibility, and some current constabulary performance and communications staff remaining

with the PCC in order to appropriately focus on these key areas in future.

- 4.20. It should be noted that the Stage 2 transfer will take effect from 1 April 2014. This will transfer the majority of police staff remaining at that point from the employment of the Police and Crime Commissioner to the employment of the Chief Constable. The Stage 2 transfer is subject to the approval of the Home Secretary. However, there may staff currently shown under the Constabulary budget who are retained by the Police and Crime Commissioner. If those proposals are accepted some budget will need to transfer from the Constabulary to the Office of the Police and Crime Commissioner to reflect the line management structure. No changes have been made as yet as there are only proposals at this stage.
- 4.21. The Joint Working proposals may also mean that staff in some back office functions (e.g. Finance, HR, Estates, Procurement) will transfer to the employment of Hampshire County Council (HCC) in February 2014. These are proposals only at this stage so no change has been made to the MTFS. Should these proposals go ahead, there will be no significant changes to the overall financial position but some costs shown as employee costs will be amended to be supplies and services cost for employees transferred to HCC.

### **Precept Level**

- 4.22. The council tax precept was frozen for 2011/12 and 2012/13, but an increase of 3.4% was agreed for 2013/14. The referendum limit was set at 2% in 2013/14, but Hampshire was allowed a higher increase as the starting precept level was in the lowest quartile and the increase remained below £5 per average band D household.
- 4.23. A 3.4% increase was put forward in order to protect frontline services and because the Home Office assumed an annual increase in council tax for police organisations during the four year 2011/15 period, as calculated by the Office for Budget Responsibility.
- 4.24. It is expected that the same referendum limit will be set for 2014/15, with the same flexibility for low precepting authorities. An increase in precept of 3% has therefore been allowed within the figures. The impact of different increases is modeled at the foot of appendix C.

### **Funding Gap**

- 4.25. The response to the unique context of the current Spending Review period has been achieved through the co-ordination of transformational change through the Change Programme. The detail of savings identified is reported through the Change Programme and only summarised within the MTFS. Considerable progress has been made

and the programme is on track to deliver the required savings for 2014/15.

- 4.26. Savings included in budgets to 2013/14 total £42m. This leaves £13m to meet the £55m target. The 2014/15 budget includes £10.6m. In addition, £1.8m of savings are included in 2015/16 and £0.8m in 2016/17, which will therefore achieve the £55m target, but with a slight delay.
- 4.27. For 2015/16 and 2016/17, it had previously been estimated that an additional £25m of efficiencies and savings would be needed to cover the funding gap. This is higher than the £20m funding gap shown in appendix C of this report, however, as can be seen from section 2.7 above, there are a number of variables which will affect this figure, particularly council tax, pay increases and budget pressures. It is, therefore, prudent to continue to target £25m, as any savings over and the above the 2016/17 requirement would contribute to the 2017/18 deficit. The assumptions applied are summarised in appendix G.

### **Further risks to funding**

- 4.28. The Independent Police Complaints Commission (IPCC) has asked the Home Office to top-slice police funding in order to provide additional resource to the IPCC for investigations. The IPCC has asked for funding but not people. The proposals are not finalised, but it is also thought likely that any transfer of funding to the IPCC would not see an equivalent transfer of workload or responsibility. Therefore, if this request is granted it is expected that police bodies will receive less funding, but still retain the same level of cost and workload. Clearly this would require the delivery of offsetting savings. The amounts are unknown but the Home Office will decide in time for the 2014/15 funding settlement announcement in mid-December 2013. It is likely that any transfer of funding will be phased in. No allowance is made within the MTFS for any loss of funding to the IPCC, so this will become an additional cut in funding if the request is granted.
- 4.29. The Home Office is seeking to introduce an Innovation Fund from 2014/15. The fund will support programmes of work that deliver greater collaboration, particularly with blue light partners, and greater use of technology. Some form of match funding is likely to be required from police bodies. Further details on eligibility and bidding will be released in due course. However, the funding envelope for policing will not be increased and, therefore, there is potential for further reductions in police main grant in order to fund the initiatives. No allowance has been made in the MTFS for this funding loss as details remain unclear.

### **Collaboration**

- 4.30. Collaboration projects across several operational and support services are included within the MTFS.

- 4.31. Joint units are currently in operation for Joint Operations Unit, Witness Protection, Covert Operations, Technical Surveillance Unit, Serious & Organised Crime, Air Support, Information & Communications Technology (ICT) and Information Management.
- 4.32. All collaborative units are currently functioning as planned and expected savings are being achieved.

### **Partnerships**

- 4.33. The accounts include transactions of the Association of Chief Police Officers (ACPO) Criminal Records Office (ACRO). ACRO was established in 2006 to help organize the management of criminal record information and improve the links between criminal records and biometric information. ACRO now covers a range of activities including Subject Access applications, police certificates, national operations and European projects.
- 4.34. ACRO operates as a business unit within the Financial Regulations, Standing Orders on Contracts and Scheme of Delegation approved by the Police and Crime Commissioner. However strategic direction is set by a Governance Board which includes representation from ACPO, the Home Office and Hampshire Constabulary.
- 4.35. The Police and Crime Commissioner holds a surety of £2.25m from ACRO to cover any potential liabilities.

### **Reserves**

- 4.36. The Police and Crime Commissioner has a strategy to create reserves to pay for the cost of change required to meet the financial challenge and because of the increased risk created by the financial climate and the short notice often received of funding reductions, change to terms and conditions and changes to national fiscal policy.
- 4.37. In addition the accounts include reserves which are not available to the Police and Crime Commissioner but are held on behalf of other organisations such as circa £8m held on behalf of ACRO (see the Partnerships section below). The Reserves Strategy is set out at appendix I.

### **Current Policies Budget 2013/14 Onwards**

- 4.38. The current policies budget shows the updated 2014/15 cost of providing the level of services provided in 2013/14. It also includes any financial impact of decisions made to date. This includes the savings plans underway as part of the Force Change Programme.

- 4.39. The current policies budget for 2014/15 onwards is shown at appendix C. This budget includes known changes for 2014/15 that are part of delivering the current service, including all approved virements processed during the year to date. It does not include additional budget pressures or growth for new developments or savings which are as yet unconfirmed.
- 4.40. The 2014/15 current policies budget does include uplift for inflation. As mentioned above, pay has been inflated to allow for the 1% increase expected from 1 September 2013, in line with Government strategy.
- 4.41. An allowance for increments has been included (£0.119m for staff, £1.113m for officers). Under the Winsor Review a two year freeze on increments for officers was agreed. This started from April 2012, so increments for officers will restart from April 2014. Winsor also recommended a freeze on staff increments, however, agreement has not yet been reached with the staff associations on this and it has therefore not been included within the figures. Any agreements made over the coming months will be reflected in the forward budget for 2014/15. The Chancellor of the Exchequer has given interviews in summer 2013 that state that public sector workers should not expect an automatic right to increments, however, no detail, policies or timetables are available at this stage to make any adjustments to the projections. The assumption of a 1% pay increase in the projections does go some way though to factoring in the current Government's pay restraint policy.
- 4.42. Within the Winsor Review a proposal was also included to reduce the number of points within the Constable pay scale. As part of this, points within the scale will be removed over a three year period. Further information on how this will work is expected, but with the current information available it is forecast that although the long term cost will be £0.545m, it will cost an extra £0.932m in 2014/15.
- 4.43. Employers' pension contributions for officers are not budgeted to increase at this stage, as no changes have been notified. However, the lump sum element for the staff pension scheme is due to increase over the next three years, to the effect of £1.058m in 2014/15. The vacancy saving top-slice on police staff pay has remained at 3.4%.
- 4.44. The inflation added for non-pay expenditure budgets is £1.436m or 2.38%. Inflation on non-pay budgets has, where possible, been set based on known pricing changes. Where no information is available, 2.5% has been used. All inflation rates will be reviewed in more detail during the Forward Budget process, when more up to date information will be available. The detailed analysis of inflation made available by the Office for National Statistics (ONS) will be used as the source of inflation data where appropriate.

- 4.45. A number of other contracts have inflation levels included within the contract terms. In these cases inflation has been included at the specified levels. There are no significant variations from the general inflation level. Inflation has been added for service income where appropriate.
- 4.46. The effect of the Estates Development Programme (EDP) has been included within the Capital Programme and Transformation Reserve. Capital financing requirements are expected to increase by £0.247m in 2014/15 due to the funding shortfall within the Capital Programme.
- 4.47. Interest receivable is expected to remain at the 2013/14 budgeted level of £0.500m for the foreseeable future.
- 4.48. The overall impact of the inflation increase of £3.698m (1.2%), savings (£10.578m) and other changes of expenditure of £6.544m is that the cost of current policies of £306.213m is broadly in line with the estimated funding available of (£306.549m), leaving a slight surplus of £0.336m. This does not cover any funding pressures, so further savings are likely to be required, particularly if growth is approved for the 2014/15 budget or a lower precept is approved.
- 4.49. The reasons for significant changes are summarized below:
- Employees
    - allowance for inflation for staff and officers at 1% (£2.323m);
    - inflation on other employee costs (£0.209m);
    - efficiency savings within Force Change Plan (-£5.247m);
    - allowance for increments (£1.232m);
    - increase in staff pension lump sum (£1.058m);
    - increase in staff costs for Joint Operations Unit following TUPE, offset by increased income (£0.880m);
    - budget for grant funded posts, offset by increased income (£0.305m);
    - change in Constable pay scales (£0.932m).
  - Premises
    - Zero Based Budgeting exercise removal of budget expected for increase in rates, no longer needed (-£0.400m);
    - short-term increase in cost due to cost of SNT accommodation prior to sale of buildings (£0.147m);
    - removal of one-off growth for Marine Unit (-£0.050m);
    - inflation (£0.381m).
  - Transport
    - Zero Based Budgeting exercise removal of budget expected for increase in fuel, no longer needed (-£0.300m);
    - inflation (£0.134m).
  - Travel & Subsistence

- Zero Based Budgeting exercise removal of budget expected for increase in travel costs, no longer needed (-£0.200m);
- additional savings following essential user review and introduction of pool cars (-£0.103m);
- inflation (£0.068m).
  
- IT & Communications
  - adjustments for on-going effect of previously approved IT Projects (-£0.741m);
  - inflation (£0.98m).
  
- Supplies & Services
  - ICT efficiency target (-£1.000m);
  - other efficiencies within Force Change Plan(-£0.309m);
  - adjust collaboration recharges to reflect invoicing requirements (£0.147m);
  - adjustments for on-going effect of previously approved projects (£0.229m);
  - inflation (£0.710m).
  
- National Levies
  - inflation (£0.040m).
  
- Grants Paid
  - inflation (£0.005m).
  
- Capital Financing
  - revenue effects of increased capital spend (£0.247m).
  
- Service Income
  - additional income for Joint Operations Unit following TUPE of staff from TVP(-£0.880m);
  - adjust collaboration recharges to reflect invoicing requirements (-£0.147m);
  - expected increase in POCA income following increase in financial Investigation Team (-£0.361m);
  - other efficiencies within Force Change Plan (-£0.330m);
  - inflation (-£0.284m).
  
- Specific Grants
  - increase income to match grant funded posts (£0.305m).
  
- Police and Crime Commissioner
  - removal of one-off community fund (£2.001m);
  - inflation (£0.047m).
  - net other changes (-£0.047m)
  
- Interest
  - none.

- Contributions from Reserves
    - none.
- 4.50. Savings of £10.578m have been identified through the Force Change Programme and included in the 2014/15 budget. These are the full year impact of decisions already made and in the progress of delivery.

### **Additional Budget Pressures and Growth**

- 4.51. Proposed changes to employers' National Insurance rates have recently been announced by the Government. This will involve a significant increase for the year 2016/17, which it is estimated will impact the budget to the effect of £4.358m. This increase has been incorporated into the MTFs.
- 4.52. A number of proposals requiring additional budget funding in 2014/15 have been put forward for the coming years. These proposals would add a significant impact upon the medium term budget position and therefore are subject to further detailed scrutiny before the Forward Budget for 2014/15 is constructed as any recommendation to increase budgets must be offset by additional savings. There is no commitment to include any of these items within the 2014/15 budget before the scrutiny process.

### **Capital**

- 4.53. The updated capital programme was approved by the Police and Crime Commissioner on 7 June 2013. It includes some items which are still subject to final approval by the Police and Crime Commissioner, marked with a "#". This includes phase 1 of the Estate Development Programme. Best estimates of potential costs for unapproved schemes are included in the capital programme for financial planning prudence and to ensure that sufficient funding is available within the budget, should the schemes be approved. The updated capital programme is attached at appendix H.

### **Balance Sheet**

- 4.54. The estimated position on key balance sheet items is included to give a complete view of financial health. All capital expenditure will result in increased asset values. Therefore, the value of Property, Plant and Equipment assets should increase by the value of the capital programme each year. The 2013/14 capital expenditure is estimated at £12.7m. This is added to the 2012/13 closing value of fixed assets £155.2m. Estimated depreciation and impairment based on 2012/13 charges is deducted from the value of most assets to reflect the consumption of the useful economic life of the asset. Assets under construction are not depreciated. The majority of planned capital spending in 2013/14 is on assets under construction which will not be depreciated. The carrying values of assets that are sold are removed

from the total leaving estimated Property, Plant and Equipment assets of £158.0m at 31 March 2014.

**Table 3 – Property, Plant and Equipment**

	Opening Value as at 31 March 13	Additions	Depreciation & sales	Estimated Value as at 31 March 14
	£m	£m	£m	£m
<b>Property, Plant and Equipment</b>	155.2	12.7	(9.9)	<b>158.0</b>

- 4.55. Current assets and liabilities will be influenced by the levels of debtors and creditors there happen to be at year end. This will also impact upon the bank account balance. Short term investments will diminish as the cash held for the Estate Development Programme and wider Change Programme is utilised. Stocks and deposits are budgeted to remain constant.
- 4.56. Long term borrowing will increase by the shortfall in capital financing, but is also influenced by levels of revenue underspending and other cash balances held. The timing of borrowing will be carefully managed to ensure that sufficient cash balances exist to meet outgoings. These considerations are more fully covered in the Prudential Code and Treasury Management reports.
- 4.57. The balance of revenue reserves is covered in the reserve section of this report

## **5 Consultation**

- 5.1. The PCC and Force undertake consultation throughout the year on a variety of issues. Consultation events have been held specifically for consulting on the budget. These events can take some time to plan and deliver, so consideration should be given to what consultation will be required to inform the 2014/15 budget.

## **6. Significant Risks**

- 6.1. There is an inherent risk that some of the savings planned will be delayed or that final savings could be lower than anticipated. This risk is managed through the Force Change Board.
- 6.2. The council tax precept will need to reviewed, taking into account all of the relevant factors and consultation at the time. There is a risk that the council tax precept increases will be less than the amount assumed within this report, which would increase the funding gap.

- 6.3. There is a risk that unforeseen events or changes in legislation could result in additional cost. Reserves exist for this purpose and the creation of the Risk Reserve helps to mitigate the risk.
- 6.4. As police officers cannot be made redundant, the savings plan is in part reliant on officers choosing to resign or take retirement in order to provide some of the savings required. If officers leave at a slower rate than expected, savings will not be possible at the required rate.

#### 4. Other Implications

AUTHORITY AREA	IMPLICATION
Statutory Duty/Good Practice	It is a statutory duty to have an up to date Medium Term Financial Strategy in place. This report is also used to inform the Forward Budget process, which ensures timely decision making for producing a balanced budget.
Equality, Diversity and Human Rights	An impact assessment of budget reductions will be undertaken by the Force Change Team and the OPCC Leadership Team.
Vulnerable People and Every Child Matters	Not applicable.
Environmental Impact	Not applicable.
Trust and Confidence	Effective budget setting and control is a cornerstone of ensuring resources are used in the best way to deliver excellent service and improve public confidence.
Partnership and Collaboration	Options for partnership and collaboration are always considered and used where they provide benefit. The financial impact is considered within the report.
Strategic Documents	The report links with the Revenue Budget, Budget Monitoring, Capital Programme, Treasury Management policy and Prudential Indicators.

#### **Section 100D - Local Government Act 1972 - Background Papers:**

The following documents disclose facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of this report.

N.B. the list excludes:-

1. Published works.
2. Documents which disclose exempt or confidential information as defined in the Act.

TITLE Output from *e-fin* general ledger system

**Budget Cycle**

<b>T I M E T A B L E</b>	<b>June 2013 - August 2013</b>	Proposals for additional expenditure and budget reductions to be completed and authorised by COG Lead.  Proposals submitted to the Finance Corporate Mailbox by Friday 9 <sup>th</sup> August.
	<b>September 2013</b>	Senior Leaders Group to review proposals for additional expenditure.  Police and Crime Commissioner receives the Medium Term Financial Strategy report.
	<b>September 2013 to November 2013</b>	Review of Budget in conjunction with the Police and Crime Plan
	<b>December 2013</b>	Funding settlement (notification of amount of grant from Government for next financial year) received
	<b>January 2014</b>	Police and Crime Commissioner proposes precept rate to Police & Crime Panel
	<b>February 2014</b>	Police and Crime Commissioner approves Budget 2014/15

## Appendix B

### Revised budget

<b>Revised Budget 2013/14</b>	Original Budget 2013/14	Growth	Savings	Other changes	Revised Budget 2013/14
	£000	£000	£000	£000	£000
<b>Office of the PCC</b>					
PCC Expenses and Grants:	3,492	0	0	0	3,492
Interest on Balances	(500)	0	0	0	(500)
<b>Net Expenditure on Office of the PCC</b>	<b>2,992</b>				<b>2,992</b>
<b>Police Services</b>					
<b>Expenditure:</b>					
Employees	262,336	0	0	(260)	262,076
Premises	11,623	0	0	0	11,623
Transport	5,741	0	0	0	5,741
Travel and Subsistence	3,143	0	0	0	3,143
IT and Communications	4,660	0	0	0	4,660
Supplies and Services	29,182	0	0	279	29,461
National Levies	1,582	0	0	0	1,582
Grants Paid	171	0	0	44	214
Capital Financing (net)	3,945	0	0	0	3,945
<b>Total Expenditure:</b>	<b>322,382</b>	<b>0</b>	<b>0</b>	<b>63</b>	<b>322,445</b>
<b>Income:</b>					
Service Income	(11,243)	0	0	(19)	(11,262)
Additional Specific Grants	(3,641)	0	0	(44)	(3,684)
<b>Total Income:</b>	<b>(14,883)</b>	<b>0</b>	<b>0</b>	<b>(63)</b>	<b>(14,946)</b>
<b>Net Expenditure on Police Services:</b>	<b>307,499</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>307,499</b>
<b>Total Overall Net Expenditure:</b>	<b>307,499</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>307,499</b>
<b>Contributions to / (from) Reserves:</b>	(187)	0	0	0	(187)
<b>Amount from General Grants and Taxation:</b>	<b>310,304</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>310,304</b>
<b>Funded by:</b>					
Expected amount from General Grants	(202,374)	0	0	0	(202,374)
Council tax freeze and benefit grant	(12,911)	0	0	0	(12,911)
Council tax precept	(94,570)	0	0	0	(94,570)
Council tax collection fund surplus	(449)	0	0	0	(449)
<b>Total amount funding expected:</b>	<b>(310,304)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(310,304)</b>
<b>Budget (surplus)/ shortfall:</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Appendix C

### Medium Term Financial Strategy 2012/13 to 2016/17

<b>Medium Term Financial Strategy 2013/14 to 2017/18</b>	Revised Budget 2013/14	Growth	Inflation	Efficiency Savings	Other changes	Forecast Budget 2014/15	Forecast Budget 2015/16	Forecast Budget 2016/17	Forecast Budget 2017/18
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Office of the PCC</b>									
PCC Expenses and Grants (Refer to App. D)	3,492	0	96	(2,001)	(96)	1,491	1,513	1,548	1,569
Interest on Balances	(500)	0	0	0	0	(500)	(500)	(500)	(500)
<b>Net Expenditure on Office of the PCC</b>	<b>2,992</b>	<b>0</b>	<b>96</b>	<b>(2,001)</b>	<b>(96)</b>	<b>991</b>	<b>1,013</b>	<b>1,048</b>	<b>1,069</b>
<b>Police Services</b>									
<b>Expenditure:</b>									
Employees	262,076	0	2,454	(5,247)	3,885	263,167	267,526	273,239	274,236
Premises	11,623	0	381	(256)	(50)	11,698	11,081	11,326	11,715
Transport	5,741	0	134	(300)	7	5,582	5,796	6,019	6,252
Travel and Subsistence	3,143	0	68	(303)	13	2,921	2,990	3,060	3,132
IT and Communications	4,660	0	98	0	(739)	4,019	4,391	4,629	4,232
Supplies and Services	29,461	0	710	(1,562)	630	29,238	29,965	30,810	31,419
National Levies	1,582	0	40	0	0	1,621	1,662	1,703	1,746
Grants Paid	214	0	5	0	0	219	225	230	235
Capital Financing (net)	3,945	0	0	0	247	4,192	4,093	4,431	4,431
<b>Total Expenditure:</b>	<b>322,445</b>	<b>0</b>	<b>3,888</b>	<b>(7,668)</b>	<b>3,992</b>	<b>322,656</b>	<b>327,727</b>	<b>335,447</b>	<b>337,398</b>
<b>Income:</b>									
Service Income	(11,262)	0	(285)	(909)	(803)	(13,258)	(13,606)	(13,913)	(14,232)
Additional Specific Grants	(3,684)	0	(1)	0	(305)	(3,990)	(3,991)	(3,992)	(3,993)
<b>Total Income:</b>	<b>(14,946)</b>	<b>0</b>	<b>(286)</b>	<b>(909)</b>	<b>(1,107)</b>	<b>(17,247)</b>	<b>(17,597)</b>	<b>(17,905)</b>	<b>(18,225)</b>
<b>Net Expenditure on Police Services:</b>	<b>307,499</b>	<b>0</b>	<b>3,603</b>	<b>(8,577)</b>	<b>2,885</b>	<b>305,409</b>	<b>310,130</b>	<b>317,542</b>	<b>319,173</b>
<b>Total Overall Net Expenditure:</b>	<b>310,491</b>	<b>0</b>	<b>3,698</b>	<b>(10,578)</b>	<b>2,789</b>	<b>306,400</b>	<b>311,142</b>	<b>318,590</b>	<b>320,241</b>
<b>Contributions to / (from) Reserves:</b>	(187)	0	0	0	0	(187)	(187)	(187)	(187)
<b>Amount from General Grants and Taxation:</b>	<b>310,304</b>	<b>0</b>	<b>3,698</b>	<b>(10,578)</b>	<b>2,789</b>	<b>306,213</b>	<b>310,955</b>	<b>318,403</b>	<b>320,054</b>
<b>Funded by:</b>									
Expected amount from General Grants	(202,374)	0	0	0	6,678	(195,696)	(189,433)	(183,371)	(177,504)
Council tax freeze and benefit grant	(12,911)	0	0	0	0	(12,911)	(10,391)	(10,391)	(10,391)
Council tax precept	(94,570)	0	0	0	(2,887)	(97,458)	(100,429)	(103,492)	(106,651)
Council tax collection fund surplus	(449)	0	0	0	(36)	(485)	(485)	(485)	(485)
<b>Total amount funding expected:</b>	<b>(310,304)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,755</b>	<b>(306,549)</b>	<b>(300,738)</b>	<b>(297,739)</b>	<b>(295,030)</b>
<b>Budget (surplus)/ shortfall:</b>	<b>0</b>	<b>0</b>	<b>3,698</b>	<b>(10,578)</b>	<b>6,544</b>	<b>(336)</b>	<b>10,217</b>	<b>20,664</b>	<b>25,024</b>
<i>Effect of alternative precept increases:</i>									
0% increase each year						2,504	15,981	29,444	36,916
2% increase each year						608	12,151	23,639	29,097
3% increase each year						(336)	10,217	20,664	25,024
<b>Savings included in budget</b>	<b>(42,000)</b>			<b>(10,578)</b>		<b>(52,578)</b>	<b>(1,797)</b>	<b>(751)</b>	<b>0</b>
<b>Savings to be identified</b>	<b>(42,000)</b>			<b>0</b>		<b>0</b>	<b>8,420</b>	<b>19,914</b>	<b>25,024</b>

## Appendix D

### Office of the Police and Crime Commissioner

Office of the Police and Crime Commissioner - Forward Budget 2014/15	Budget 2013/14	Price Changes / Inflation	Efficiency Savings	Other Changes	Proposed Forward Budget 2014/15
	£'000	£'000		£'000	£'000
<b>EXPENDITURE:</b>					
<b>Employees:</b>					
OPCC Staff	802	83	0	0	885
Training & conferences	14	1	0	13	27
Travelling etc	15	1	0	7	22
	<b>831</b>	<b>85</b>	<b>0</b>	<b>20</b>	<b>934</b>
<b>Premises:</b>					
Rent and rates etc	130	3	0	(32)	101
Other (incl. building maintenance, cleaning, gas and electricity)	30	1	0	(4)	27
	<b>160</b>	<b>4</b>	<b>0</b>	<b>(35)</b>	<b>127</b>
<b>Supplies and services:</b>					
Printing and stationery	12	0	0	(1)	11
Subscriptions (ACPO and APCC etc)	48	2	0	0	50
Other (incl. office equipment, postage, publications, advertising and catering)	98	2	0	(0)	100
	<b>158</b>	<b>5</b>	<b>0</b>	<b>(1)</b>	<b>161</b>
<b>Audit Committee costs:</b>	5	0	0	(0)	5
<b>Independent Custody visitors</b>	17	0	0	0	17
<b>Tribunals and misconduct hearings</b>	19	0	0	(0)	19
<b>Legal advice</b>	31	1	0	(0)	32
<b>Treasurer's services:</b>					
Treasurer	52	0	0	0	52
Internal audit	85	1	0	(2)	84
	<b>137</b>	<b>1</b>	<b>0</b>	<b>(2)</b>	<b>136</b>
<b>External audit:</b>	61	0	0	(2)	59
<b>Grants:</b>					
Community Safety Fund	1,431	0	0	(20)	1,411
Standing Grants	74	0	0	(74)	0
Protecting People & Places Grant	138	0	0	(138)	0
	<b>1,643</b>	<b>0</b>	<b>0</b>	<b>(232)</b>	<b>1,411</b>
<b>Carry Forward:</b>	(110)	0	0	110	0
<b>Total Expenditure:</b>	<b>2,950</b>	<b>96</b>	<b>0</b>	<b>(144)</b>	<b>2,902</b>
<b>INCOME:</b>					
<b>Government Grant Funding (CSF):</b>	(1,459)	0	0	48	(1,411)
<b>Total Income:</b>	<b>(1,459)</b>	<b>0</b>	<b>0</b>	<b>48</b>	<b>(1,411)</b>
<b>Office of the PCC Total:</b>	<b>1,491</b>	<b>96</b>	<b>0</b>	<b>(96)</b>	<b>1,491</b>
<b>ADDITIONAL EXPENDITURE FOR THE PCC:</b>					
One-off budget to support the priorities:	2,001	0	(2,001)	0	0
<b>Total Overall Net Expenditure:</b>	<b>3,492</b>	<b>96</b>	<b>(2,001)</b>	<b>(96)</b>	<b>1,491</b>

- NOT PROTECTIVELY MARKED -

**Appendix E**

**Revenue budget pressures and growth summary 2014/15 onwards**

To be confirmed

- NOT PROTECTIVELY MARKED -

- NOT PROTECTIVELY MARKED -

**Appendix F**  
**Efficiency & Savings Proposals 2014/15 onwards**

To be confirmed

- NOT PROTECTIVELY MARKED -

**Rates and Assumptions**

<b>Employees (FTEs)</b>	2014/15	2015/16	2016/17	2017/18
Officers	3,285.10	3,284.10	3,284.10	3,284.10
Staff	1,962.37	1,960.37	1,960.37	1,960.37
PCSOs	333.00	333.00	333.00	333.00
Total	5,580.47	5,577.47	5,577.47	5,577.47

  

<b>Basic Pay</b>	Sept 2014	Sept 2015	Sept 2016	Sept 2017
Officer pay	1.00%	1.00%	1.00%	1.00%
Staff pay	1.00%	1.00%	1.00%	1.00%

  

<b>Basic Pay</b>	2014/15	2015/16	2016/17	2017/18
Officer pay	101.00%	101.00%	101.00%	101.00%
Staff pay	101.00%	101.00%	101.00%	101.00%

  

<b>National Insurance</b>	2014/15	2015/16	2016/17	2017/18
Secondary Threshold	£7,696	£7,696	£7,696	£7,696
Upper Accrual Point (UAP)	£40,040	£40,040	£40,040	£40,040
Upper Earnings Level	£41,450	£41,450	£41,450	£41,450
Below UAP Average -officers	10.52%	10.52%	10.52%	13.80%
Below UAP Average -staff	10.86%	10.86%	10.86%	13.80%
Above UAP Average	13.80%	13.80%	13.80%	13.80%

  

<b>Pensions</b>	2014/15	2015/16	2016/17	2017/18
Actual rate if in scheme:				
Officers	24.20%	24.20%	24.20%	24.20%
Staff	13.10%	13.10%	13.10%	13.10%
Budgeted rate (based on scheme membership)				
Officers	23.33%	23.33%	23.33%	23.33%
Staff	11.32%	11.32%	11.32%	11.32%
Police staff lump sum (£)	4,743,800	5,313,500	5,951,500	5,951,500

  

<b>Non-pay</b>	2014/15	2015/16	2016/17	2017/18
Gas	7.00%	7.00%	7.00%	7.00%
Electricity	9.00%	9.00%	9.00%	9.00%
Cleaning	2.50%	3.00%	2.50%	2.50%
Vehicle fuel	2.50%	5.00%	5.00%	5.00%
Grants	0%	0%	0%	0%
Other	2.50%	2.50%	2.50%	2.50%

Capital Programme

Estimated spend prior to 31 March 2013	Those schemes which have already been approved and are either annual programmes or projects for which full business cases and / or project appraisals have been agreed (with the exception of those marked #).	Total scheme cost	2013/14	2014/15	2015/16	2016/17	2017/18 and later years
£'000		£'000	£'000	£'000	£'000	£'000	£'000
	<b>Estate</b>						
	<i>Estate Development Programme (EDP)</i>						
	# Capital costs of assets - Phase 1	38,092	4,457	17,656	15,979		
	<b>Total Estate:</b>	<b>38,092</b>	<b>4,457</b>	<b>17,656</b>	<b>15,979</b>	<b>0</b>	<b>0</b>
	<b>Technology</b>						
Annual Programme	Capitalisation of IT equipment	Annual Programme	1,712	1,000	1,000	1,000	1,000
	# Replacement of desktop XP operating systems (13/14 growth)	3,000	500	1,000	1,000	500	
	# Replacement of Data Centre hardware (13/14 growth)	810	350	410	50		
1,942	Network Replacement (Growth 11/12)	2,314	372				
2,452	Mobile Information (Growth 12/13 & RCCOs)	4,011	570	498	115	389	
263	HR IT System (RCCO 11/12)	700	449				
42	Body Worn Video (RCCO 11/12)	261	219				
210	Automatic Number Plate Recognition (RCCO 12/13)	639	429				
	<b>Technology:</b>	<b>11,735</b>	<b>4,601</b>	<b>2,908</b>	<b>2,165</b>	<b>1,889</b>	<b>1,000</b>
	<b>Transport</b>						
Annual Programme	Vehicle Replacement Programme	Annual Programme	3,654	3,000	3,000	3,000	3,000
	# Vehicle Replacement Programme (post Change Programme)		0	500	500	500	500
	<b>Transport:</b>	<b>Annual</b>	<b>3,654</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>
	<b>Grand Totals:</b>	<b>49,827</b>	<b>12,712</b>	<b>24,064</b>	<b>21,644</b>	<b>5,389</b>	<b>4,500</b>
	<b>Capital Receipts:</b>						
	Residential properties		(985)		(220)	(808)	(1,130)
	Operational buildings-Estate Development Programme		(2,315)	(9,875)	(20,450)		
	Vehicles and fleet		(300)	(300)	(300)	(300)	(300)
	Other		0	0	0	0	0
	<b>Total Capital Receipts:</b>		<b>(3,600)</b>	<b>(10,175)</b>	<b>(20,970)</b>	<b>(1,108)</b>	<b>(1,430)</b>
	<b>Capital Grant:</b>		(2,700)	(2,800)	(2,800)	(2,800)	(2,800)
	<b>Revenue Contributions to Capital Outlay:</b>		(700)	(700)	(700)	(200)	(200)
	<b>Funded by Transformation Reserve:</b>		(1,138)	(1,128)	(1,358)	(447)	
	<b>Shortfall to be funded by borrowing</b>		<b>4,574</b>	<b>9,261</b>	<b>(4,184)</b>	<b>834</b>	<b>70</b>

## Reserves Strategy

### Background

The Chief Finance Officers have a responsibility to ensure that the level of reserves maintained is sufficient. The Police Reform and Social Responsibility Act 2011 states that only the Police and Crime Commissioner, and not the Chief Constable, is permitted to hold reserves. In Hampshire, it is proposed that this continues to be the case after the Stage 2 transfer in April 2014.

The Chartered Institute of Public Finance and Accountancy (CIPFA) produces guidance on reserves, but the exact level of reserves to be held is left as a local decision due to the need to reflect individual circumstances. Whilst there are no firm requirements on the amount, it is clear that reserves must be held to ensure that the organisation is able to meet any unexpected liabilities. The outgoing Chief Executive of CIPFA Steven Freer has warned that the use of reserves to deal with shortfalls in day-to-day spending would be a “recipe for significant financial problems”.

Reserves required for accounting purposes only are not covered by this strategy as they are not optional and follow proper accounting practices.

The level of reserves held is audited annually by the external auditors, currently Ernst & Young LLP.

### Matters for consideration in assessing the level of reserves

The current financial climate has resulted in the Government introducing a programme of austerity measures that has reduced the amount of funding made available to many public sector organisations, including the police service. There have also been other changes as a result of the Winsor Review of police terms and conditions and changes to pension arrangements as a result of the Hutton Review. Other Government fiscal policy decisions such as the increase in employers’ national insurance contributions will have a significant impact on costs. Some of the changes made have to be implemented at relatively short notice. Therefore, the austerity programme and the resulting changes create an increased risk to financial stability which will naturally require an increase in reserves to reflect this risk.

### Current reserves and levels

The General Reserve has been set at a minimum target balance of £4.500m, with an additional £1.000m added to the target (to make £5.500m) due to inherent risks associated with the significant Estate Development Programme. The balance on the General Reserve as at 31 March 2013 was £14.306m but much of this has been committed elsewhere resulting in a planned balance of £7.863m by March 2014 and £6.702m by March 2017.

In addition, a Risk Reserve has also been created to guard against the possibility of short notice reductions in funding and/or delays in delivering the savings required to address the funding reductions. The balance on the Risk Reserve is £6.689m. The plan is to make budget savings as required in order to leave the Risk Reserve available for investment in performance improvements once greater financial stability is achieved within the wider financial environment.

The financial challenges are requiring the Constabulary to implement transformational change. These changes require additional investment to cover significant one-off costs such as the cost of redundancies, investment in infrastructure, investment in technology and project costs. A Transformation Reserve has been created to fund the costs required. The Transformation Reserve had a balance of £21.036m as at 31 March 2013, but again this is committed to initiatives, so the balance is expected to be zero by March 2017. The criteria for accessing the Transformation Reserve ensure that all funding is used to deliver efficiency savings and/or improve performance. Therefore, all the cost of change will be recouped through year on year savings, required in order to balance future budgets with the reduced funding available.

Her Majesty's Inspectorate of Constabulary have reviewed the Constabulary's preparedness for austerity and commented favourably on the approach.

The Government has announced further financial cuts in 2015/16 which will require more transformational change, which is again likely to result in some cost. Therefore, the Change Programme needs to continue to deliver savings ahead of the actual budget reduction in order to generate reserves that can be used to pay for the next round of savings initiatives.

The Police and Crime Commissioner holds some other smaller reserves for specific purposes. These are the:

- Equipment Reserve (£1.000m) available to offset the impact of large scale equipment replacement such as the need to replace body armour when the warranty for body armour expires. This reserve will be used when needed and then replenished as the financial position allows.
- Performance Reserve (£1.700m) being used to pay for Operation Fortress which is an operation to deter criminal gangs from Southampton. This reserve is expected to be fully used by March 2014.
- Insurance Reserve (£0.894m) is available to pay for items that are not covered by the insurance contract. Research and experience has shown that it is more cost effective to hold a reserve for some things that are low risk and low probability rather than pay an insurance premium to cover them. This reserve is expected to be maintained at a similar level.
- Laboratory Reserve (£0.050m) is available to pay for renewal of equipment as part of a joint scheme with Hampshire County Council. This reserve will be used periodically and replenished in between.
- Capital (Revenue Contributions) Reserve (£1.815m) holds funds that have been set aside from within the annual revenue budget to pay for capital schemes such as Body Worn Video. This reserve will collect funds

on a temporary basis as the funds will usually then be paid out in the next one or two years to cover the cost of a capital scheme.

In addition to the reserves set out above, the accounts include earmarked reserves that are ring fenced for specific purposes and are not available for other use. These include:

- ACRO Surety (£2.250m) and AVCIS Surety (£0.300m) held to cover any potential costs to the Police and Crime Commissioner should ACRO cease to trade on its current basis
- ACRO of other balances (£5.921m) held on behalf of ACRO.
- Safer Roads Unit (£1.148m) balances ring-fenced to be used on safer roads initiatives. This funding is planned to be used to replace existing safety cameras with digital cameras.
- Repairs and Maintenance (£2.702m) ring-fenced for essential repairs and maintenance agreed with the Health and Safety Executive
- Data Centre move (£0.800m) ring-fenced for moving the Data Centre from the current Police HQ which is being sold.

#### **Reserves Position as at March 2017**

The Reserves Profile shows that existing planned commitments will result in a reduction of reserves by March 2017 to £15m which is circa 5% of the annual revenue budget at that point. This assumes that there are no adverse issues that impact on the General Reserve or the Risk Reserve.

The use and level of reserves held will be kept under continual review.

### Reserves Profile

Reserves	As at 31/03/13	13/14	As at 31/03/14	14/15	As at 31/03/15	15/16	As at 31/03/16	16/17	As at 31/03/17
£000									
<b>General Reserve:</b>									
Commissioner carry forward		(135)							
Constabulary carry forward		(1,504)							
Transformation Reserve		(4,367)							
Other movements		(437)		(387)		(387)		(387)	
<b>Balance</b>	<b>14,306</b>		<b>7,863</b>		<b>7,476</b>		<b>7,089</b>		<b>6,702</b>
<b>Transformation Reserve</b>									
Contributions to Transformation Reserve		4,367							
Use of reserve (excluding EDP)		(6,669)		(4,522)		(3,859)		(1,287)	
EDP related expenditure		(4,240)		(3,263)		(1,219)		(344)	
<b>Balance</b>	<b>21,036</b>		<b>14,494</b>		<b>6,709</b>		<b>1,631</b>		<b>0</b>
<b>Risk Reserve:</b>									
Movement									
<b>Balance</b>	<b>6,689</b>		<b>6,689</b>		<b>6,689</b>		<b>6,689</b>		<b>6,689</b>
<b>Protecting People and Places Reserve</b>									
Movement		2,001		(1,000)		(1,001)		0	
<b>Balance</b>	<b>0</b>		<b>2,001</b>		<b>1,001</b>		<b>0</b>		<b>0</b>
<b>Equipment Reserve:</b>									
Movement									
<b>Balance</b>	<b>1,000</b>		<b>1,000</b>		<b>1,000</b>		<b>1,000</b>		<b>1,000</b>
<b>Performance Reserve:</b>									
Movement		(1,700)							
<b>Balance</b>	<b>1,700</b>		<b>0</b>		<b>0</b>		<b>0</b>		<b>0</b>
<b>Insurance Reserve:</b>									
Movement		0		0		0		0	
<b>Balance</b>	<b>894</b>		<b>894</b>		<b>894</b>		<b>894</b>		<b>894</b>
<b>Laboratory Reserve:</b>									
Movement		50		(50)		0		0	
<b>Balance</b>	<b>0</b>		<b>50</b>		<b>0</b>		<b>0</b>		<b>0</b>
<b>Capital (Revenue Contributions) Reserve:</b>									
Contribution from revenue account		200		200		200		200	
Used to support capital programme		(2,015)		(200)		(200)		(200)	
<b>Balance</b>	<b>1,815</b>		<b>0</b>		<b>0</b>		<b>0</b>		<b>0</b>
<b>Sub-total of Reserves available to use</b>	<b>47,440</b>	<b>(14,449)</b>	<b>32,991</b>	<b>(9,222)</b>	<b>23,769</b>	<b>(6,466)</b>	<b>17,303</b>	<b>(2,018)</b>	<b>15,285</b>
<b>% of Total Net Expenditure Budget</b>	<b>15.3%</b>		<b>10.8%</b>		<b>7.6%</b>		<b>5.5%</b>		<b>4.8%</b>
<b>Earmarked Reserves:</b>									
ACRO surety (£2,250k opening balance)									
AVCIS surety (£300k opening balance)									
Netley Business Plan (£128k open balance)									
Reserves which are carried on the balance sheet but are ring-fenced or committed (e.g. ACRO balances)		(11,561)		0		0		0	
<b>Balance</b>	<b>14,239</b>		<b>2,678</b>		<b>2,678</b>		<b>2,678</b>		<b>2,678</b>
<b>Revenue Grants Unapplied</b>									
Movement		(230)							
<b>Balance</b>	<b>230</b>		<b>0</b>		<b>0</b>		<b>0</b>		<b>0</b>
<b>Total Revenue Reserves:</b>	<b>61,909</b>	<b>(26,240)</b>	<b>35,669</b>	<b>(9,222)</b>	<b>26,447</b>	<b>(6,466)</b>	<b>19,981</b>	<b>(2,018)</b>	<b>17,963</b>