

18thth January 2016**Purpose of this Report**

1. This report provides information on the provisional police funding settlement for 2016/17 and then recommends a draft revenue budget and council tax precept for the Police and Crime Commissioner (PCC) to approve, subject to final notifications on the council tax base from local authorities.

Decisions Required

2. The PCC is asked to notify the Police and Crime Panel:
 - That, subject to final taxbase notifications, the council tax requirement for 2016/17 be set at £143,326,979
 - The revenue estimates for 2016/17 as set out in Appendix 2
 - That the police element of the council tax for 2016/17 be set at £166.96 for properties in Band D, with the charge for other bands as set out in Table 1.

Table 1 – Council tax 2016/17

Property Band	Relevant Proportion	PCC Element of the Council Tax £
A	6/9	111.31
B	7/9	129.86
C	8/9	148.41
D	9/9	166.96
E	11/9	204.06
F	13/9	241.16
G	15/9	278.27
H	18/9	333.92

Background

3. The PCC is required to notify the Thames Valley Police and Crime Panel of his proposed council tax precept by 1st February 2016.
4. Having considered the PCC's proposals the Panel must make a report to the PCC on the proposed council tax precept. A decision to veto the precept has to be agreed by at least two-thirds of the Panel members, i.e. at least 14 of the 20 members. The PCC has to have regard to the report made by the Panel. Should it be necessary, a second Panel meeting will be held on 19 February 2016 to consider the PCC's revised precept proposals for 2016/17
5. Legislation provides that the council tax requirement, precept and council tax levels are to be finally determined by the end of February prior to the start of the relevant financial year.

AUTUMN STATEMENT AND SPENDING REVIEW 2015

6. In July 2015 the Chancellor announced the Spending Review would be published in November and would set out how the Government would deliver £20bn of savings from departmental budgets in order to eliminate the deficit by 2019-20. As part of the announcement, HM Treasury published a framework document, outlining the Government's priorities for the Spending Review and the principles which would underpin its decisions. Departments were initially asked to model 25% and 40% savings within their resource (revenue) budgets by 2019-20 in real terms.

7. In September 2015 the Chancellor announced that the Office for Budget Responsibility would publish its forecast alongside the Spending Review. Consequently a joint Autumn Statement and Spending Review were published.
8. On 25th November the Chancellor announced the outcome of the Spending Review 2015. The Spending Review (SR2015) details spending settlements for each government department over the next four years (2016/17 to 2019/20). The SR2015 documents set out the announcement in more detail.
9. In his speech, the Chancellor addressed police funding and said: "*now is not the time for further police cuts, now is the time to back our police and give them the tools to do the job.*"
10. Overall police funding, including funding for Counter Terrorism, has been cut by 1.3% in real terms over four years. In a letter to PCCs and Chief Constables the Home Secretary and Policing Minister say that "*taking into account the scope that you have to raise local council tax, this means a flat real settlement for policing as a whole.*"
11. The Spending Review document added that police force budgets will be maintained at current cash levels [ref 1.81]. However a number of topslices are expected to fund additional schemes outlined by the Chancellor and detailed below.
12. The main announcements from the Spending Review which have an impact on police are summarised below. References to the relevant paragraphs in the SR2015 document are indicated in brackets.

POLICE

- £1bn will be invested in new mobile digital technology through the Emergency Services Mobile Communications Programme. [ref 1.83]
- Police efficiency will be improved by taking steps to drive down the cost of police procurement by up to £350 million and encouraging greater collaboration between police forces and with other public and emergency services. [ref 1.83]
- Additional transformational funding will be allocated to forces which have "strong proposals to support efficiency and reform and to help transition to new funding arrangements in future". This funding will also allow forces to train more firearms officers to ensure the country extends its capability to protect its citizens from terrorist threats. [ref 1.81]

HOME OFFICE

- The Home Office administration budget will be reduced by 30% between 2015-16 and 2019-20. [ref 2.15]
- The National Crime Agency's budget will be protected. [ref 1.81]
- Over £200m of capital investment to fund new digital and investigative capabilities for the National Crime Agency. [ref 1.84]

COUNTER-TERRORISM

- Counter terrorism funding will be increased by £500m, equivalent to a 30% rise. [ref 1.75 and 2.7]
- The number of police armed response vehicles available to respond rapidly to critical incidents will be increased by up to 50% and new funding will be made available to increase the number of specialist counter terrorism fire arms officers and to train existing officers.

COUNCIL TAX

- In England it is the intention that the overall referendum limit for police precept will be maintained at 2% over the Spending Review period.

- Additional flexibility will be made available for the ten PCCs in England with the lowest precept levels each year (lower quartile), so that they can raise their precept by up to £5 per year over the Spending Review period.
- All other PCCs can expect to be subject to the usual 2% referendum limit.

PROVISIONAL POLICE FINANCE SETTLEMENT

13. The Provisional 2016/17 Police Finance Settlement was announced in a written ministerial statement by the Minister for Policing, Criminal Justice and Victims, Mike Penning, on Thursday 17 December 2015.

HEADLINES

14. Mike Penning's statement announced a flat rate reduction in grant funding (Police Grant plus ex-DCLG Grant) of 0.6% in cash terms (Appendix 1). The headline from Home Office is that no PCC will face a cash reduction in Formula Funding plus legacy council tax grants plus precept income (as long as they maximise their precept).
15. As expected, this provisional settlement covers just one year and confirms the previously-announced council tax flexibility (£5) for the 10 lowest precepting force areas.
16. Top-slices (now referred to as reallocations) are worth £218m in 2016/17. In addition, the Home Office has introduced a new Transformational Fund worth £76.4m in 2016/17 to fund, amongst other things, firearms capabilities.
17. The overall pot of Council Tax Legacy grants has increased slightly from £503m in 2015/16 to £514m in 2016/17 to include the 2015/16 freeze grant allocations.
18. Police Capital Grant has reduced from £120m (with £10m going to NPAS) in 2015/16 to £82m (with £16.5m going to NPAS) in 2016/17. This implies a reduction in non-NPAS Capital of 40%.

COUNTER TERRORISM

19. The Spending Review announced an additional £500m of funding (by the end of this parliament) for the Home Office, including a "real terms increase to the CT Policing Grant".
20. Police Counter Terrorism Grant allocations will increase from £564m in 2015/16 to £640m in 2016/17 with a further £30m to allocate in capital funding. This represents an increase of 13%. Individual forces will be notified of their allocations in the New Year.

TOP-SLICES

21. The Home Office will be making reallocations of £218m in 2016/17, up from £164.6m in 2015/16. At the time of writing the exact Police share of the £1bn for the Emergency Services Network (ESN) is not known.

Table 2: Home Office Top-slices (Reallocations)

	2015-16	2016-17
	£m	£m
College of Policing	4.6	4.6
Police Knowledge Fund	5.0	0.0
ESN	-	80.0
IPCC	30.0	32.0
Innovation Fund	70.0	55.0
Major Projects (including Home Office Biometrics and National Police Data Programme)	40.0	21.8
Police Special Grant	15.0	25.0
TOTAL	164.6	218.4

Note: The £9.4m HMIC (PEEL) top-slice in 2015/16 has become a permanent transfer

TRANSFORMATION FUND

22. The new Transformational Fund provides funding “to develop and deliver specialist capabilities such as those required to tackle cyber-crime and other emerging changes in crime, and enable a major uplift in firearms capability and capacity so that we can respond quickly and forcefully to a firearms attack”. The £76.4m is broken down as follows:

Table 3: Transformation Fund 2016/17

	£m
New Transformational Funding	37.8
Firearms	34.0
Digital Justice (CJS)/Digital Investigations (DII)	4.6
TOTAL	76.4

23. It is not yet clear to which agencies this funding will go.

EMERGENCY SERVICES NETWORK (ESN)

24. Emergency Services Mobile Communications Projects (ESMCP but also referred to as Emergency Service Network; ESN) is the replacement for Airwave. In a letter from Mary Calam dated 8 December 2015 she explains that included within the Chancellor’s real terms protection for Police Funding is the Police service’s share of the £1bn costs of ESMCP. Of the £400m potential savings, £260m are expected to accrue to the Police. Applying these same ratios the police share of the £1bn should be approximately £650m. At this stage, the Police share of the £1bn is not known.
25. Once this funding has been top-sliced away from the police settlement it will then be reallocated through specific grants to individual forces.
26. The ESN core costs will also be top-sliced from the settlement and then paid for centrally by the Home Office. In 2016/17 this top-slice is worth £80m. Included within this amount is an estimate of the costs of upgrading control rooms, which the Home Office then plan to reissue as specific grants to the relevant force area as the costs fall due.
27. During and after transition force areas will pay local ESN costs, including for data and connection charges, devices and installation, and control room upgrades - supported by specific grants as set out above. This nationally could be in the region of £8m in 2016/17, rising to £54m in 2017/18.
28. Existing Airwave costs will also be “brought into the police funding settlement from 2016/17”. This funding has also been top-sliced from the settlement (worth £204m) and paid for by the Home Office.

29. Individual force areas will continue to pay Airwave menu and other related local costs until the transition to ESN.

FIREARMS

30. The Chancellor's Spending Review announced "additional transformational funding" for forces to train more firearms officers. See Table 3 above.

MINISTRY OF JUSTICE (MoJ) FUNDING

31. The Victim's Funding comes from the MoJ. In the 2015 SR the Chancellor announced a slight increase in revenue funding for the MoJ in 2016/17 but an overall resource savings of 15% by 2019-20.

INNOVATION FUND

32. In 2016/17 the total is £55m, less than the £70m in 2015/16. Of this £55m it is understood that approximately £20m has already allocated under previous years' bids. The deadline for submitting bids was 5pm on Monday 4th January 2016.

COUNCIL TAX REFERENDUM PRINCIPLES

33. On 17 December the Secretary of State for CLG published the referendum principles for 2016/17. As previously announced, the 10 police force areas with the lowest precepts (excluding the City of London) will be allowed to increase their Band D bill by £5. The referendum limit for everyone else remains at 1.99% with an increase of 2% or more triggering a referendum.

FORMULA REVIEW

34. As expected, there are no developments with regard to the Police Formula Review. The Home Office have indicated that the review will not re-start until early 2016.
35. Meanwhile the Home Affairs Committee has published their findings from their inquiry into the Reform of the Police Funding Formula. Their report is critical of both the formula as well as the consultation process. There are also some interesting suggestions with regard to taking account of locally raised resources.

THAMES VALLEY ALLOCATIONS

36. As shown in Appendix 1 the PCC will receive the following grants in 2016/17.

Table 4: TVP grant allocations 2016/17

	2015/16 £m	2016/17 £m	Variation £m	Variation %
Home Office Police Grant	142.032	141.221	- 0.811	- 0.57
Ex DCLG Formula Funding	74.314	73.890	- 0.424	- 0.57
Sub-total	216.346	215.111	- 1.235	- 0.57
Legacy council tax grants				
- Council tax support funding	11.906	11.906	0	0.00
- 2011/12 council tax freeze grant	3.372	3.372	0	0.00
Total General Grants	231.624	230.389	- 1.235	- 0.57

37. In addition to these general grants the PCC will also receive money from the Ministry of Justice to fund victim and witness services in 2016/17. However, at the time of

writing this report [8th January] the grant allocations had not been received. For information, in 2015/16 the grant allocation was £2.467m

IMPLICATIONS OF POLICE SETTLEMENT FOR THAMES VALLEY POLICE

38. The recognition in the spending review of the importance to the country of the police service was a welcome acknowledgement of what we have known for some time, that the police service cannot continue to cut overall resources whilst addressing the threat, harm and risk levels we currently face. The Chancellors statement: *"now is not the time for further police cuts, now is the time to back our police and give them the tools to do the job."* reflects the Government's desire to respond to the rapidly changing world of crime and the current threat level. The Home Secretary and Policing minister both intimated that, in order to protect Police Funding in real terms at local force level, they would like all PCC's to increase their council tax precept by the maximum permissible level – for TVP this is 1.99% per annum over the Spending Review period.
39. We fully accept and support the level of change required to reform the way we deliver our policing service. We have already delivered £71.7m of savings over the last five years and another £15.6m is already identified for the next financial year. Our Priority Based Budgeting Review (PBB) is challenging every area of our service to ensure we understand how our resources are being employed and are they delivering the right service in the most effective way. In addition technology is providing new opportunities across the service from how we investigate crimes to improving the productivity of our officers.
40. Even with this level of reform and change we cannot address the increasing demands on our service if our resources are cut significantly below their existing levels. Even with a 2% increase in the council tax precept next year to maintain the level of our income, and with the £15.6m of savings, we will still lose 95 officers next year. This is not least because of the unprecedented increase of £6.4m in employer's national insurance.
41. We need to build and expand our capabilities to counter new and complex threats. The true scale of complex crimes such as Rape, Child Sexual Abuse and Domestic Violence is still being uncovered. For example: The increase in reported Rape in 2014/15 increased by 53% (with an overall increase against the 2012/13 figures of 107%), this increase in the level of reporting is continuing in the current year with the number of reports to the nine months to the end of December 2015 almost equalling the total reports for the previous 12 months. Child protection referrals have increased by 17% over the last 12 months (49% over the last two years) with the increase for all sexual offences standing @ 35% for the last 12 months and 77% for the last two years. The budget presented today already increases the resources in our CAIU by 28 posts but with the demand continuing to increase this is not sufficient to continue and improve, our investigative response and support to victims.
42. We also need to address the indiscriminate threat of terrorism. The Police settlement made specific reference to increasing the number of Armed Responses Vehicles (ARV's) and Counter Terrorism Specialist Firearms Officers (CTSFO's). ARV's are a local resource whereas CTSFO's are a regional resource provided by the CTU. Within the JOU we are reviewing the increase in ARV's we need to better protect our communities and be able to respond quickly and forcefully to help mitigate the risk threat and harm should an attack happen within our area.
43. We also need to do more to build the trust between the police and public. We are reviewing how we respond to and investigate different crime types to ensure our resources are directed to the priorities of or communities. But we are also investing

heavily in technology to make it easier for the public to contact us and receive prompt & local information, as well as delivering longer term efficiencies.

OVERVIEW OF THE MEDIUM TERM FINANCIAL PLAN (MTFP)

44. The review and development of the revenue budget is an annual exercise with each year's budget and associated council tax precept considered and approved in isolation. However, decisions taken in the course of approving the revenue budget will often have longer term consequences, as will those in approving the capital programme. The four year MTFP brings together these medium term consequences and allows a more comprehensive view to be taken of the PCC's overall financial position. It is imperative that the PCC knows the full extent of the financial consequences he will be committing to in future years when he considers and determines the annual budget.
45. As explained later in this report the revenue budget is balanced for the four year period 2016/17 to 2019/20. However future years funding allocations are very uncertain because the Home Office only provides indicative information in respect of future year grant allocations at the National level and the funding formula is in the process of being reviewed.
46. There is also uncertainty in relation to the level of additional funding available to local forces to support the increase in specialist resources, such as Armed Response Vehicles (ARV's) and the introduction of new technology such as ESMCP.
47. We are also anticipating a significant increase in demand on our service over the next four years, for example: from the continuing increases in reporting of complex crimes such as CSE and DV, new and emerging crimes such as Honour Based Violence and Modern Slavery as well as the forecast population increase, the expectations of our communities, and legislative changes. Quantifying the resourcing impact of this increasing and changing demand, is constantly reviewed by CCMT but is difficult to predict over the medium term.

Budget preparation

48. Work on preparing the draft budget began shortly after the 2015/16 revenue budget was approved by the PCC in January 2015. This early start was necessary in order to identify issues and potential funding shortfalls in time to develop and enhance the productivity strategy to meet the challenges ahead.
49. Throughout the budget preparation process the following key principles have been adopted:
 - To protect priority services;
 - To protect our ability to manage threat, harm & risk;
 - To maintain our capability in protective services and back office functions through collaboration;
 - To maintain and improve performance in key areas, including the strategic policing requirement;
 - To reduce "discretionary spending" and streamline business processes and to eliminate unnecessary bureaucracy and waste
 - To invest in technology to protect service delivery against future cuts
 - To invest in areas where future savings can be attained;
 - All change to be risk assessed.

50. There is a close relationship between preparation of the annual budget, medium term financial plan and the annual service objective setting process. All three support and complement the Police and Crime Plan.
51. The proposals developed for the draft budget ensure that resources are targeted towards priority service areas, the delivery of the strategic objectives and meeting our Strategic Policing Requirement.
52. Although the grant settlement was more favourable than expected it is very clear that to address the increasing and changing demands on the police service, we must continue to reform our service delivery model to ensure our resources are focussed on our priority services. The improved police settlement will allow the changes we had already identified to be introduced on a realistic timescale to avoid any detriment to service levels during the transition.

Planning assumptions

53. In developing and refining the budget and the MTFP the following underlying assumptions have been made:
 - General inflation will remain at 1.5% for 2016/17, rising to 1.80% for 2017/18 and 2.0% thereafter;
 - Specific inflation rates are based on sector led rates, e.g. Premises at 2.8% and Utilities at 5% per annum;
 - Pay inflation has been capped by the government at 1% per annum for the period of the MTFP;
 - Council tax precept increases have been set at 1.99% per annum for each of the next four years
 - Council tax billing base has been assumed to grow by 1.77% in 2016/17 and 1.75% thereafter;
 - Police grants (Main Grant & Formula Grant) have now been reduced by 0.57% in 2016/17 and are assumed to reduce by 0.85%; 0.94%; 1.03% in the respective following years. These cuts, when combined with estimated council tax increases provide for a 1.00% cash increase in funding per annum to enable real terms stability over the period of the MTFP. Nationally Police Grant will grow by 1.3%, 1.4%, 1.5% and 1.8%, the difference between the national increase and the assumed local reduction reflects the increasing level of reallocations for national initiatives;
 - No provision has been made at this stage for the introduction of the new National Police Funding Formula due to the instability of the current calculations, and unknown impact this will have on Thames Valley's share of the national policing funds;
 - The use of reserves for supporting specific revenue funded projects will continue throughout the MTFP period.

Base Budget

54. The starting point for the preparation of the 2016/17 estimates is the 2015/16 budget approved by the PCC in January 2015. The Full MTFP is contained at Appendix 3.

Inflation

55. This additional cost does not relate to any increase in service but is required just to maintain the existing base level of service.
56. The major changes to inflation are in relation to pay. Previously we had assumed that the Government cap on pay increases would be lifted from September 2016 and that

awards would realign back to inflationary levels at 2.0% per annum. The continuation of capping for the period of the MTFP has reduced pay inflation in the base budget by £1.67m in 2016/17 and a further £3.11m in 2017/18.

57. Overall inflation for 2016/17 adds £4.56m (average rate of 1.19%) to the annual budget, a further £4.70m in 2017/18 (average rate of 1.21%); £4.98m in 2018/19 (average rate of 1.28%); and £4.99m in 2019/20 (average rate of 1.27%). These increases are based on a realistic assessment of the impact of inflationary pressures over the next four years.

Committed Growth

58. This section deals with those items within the budget which the PCC is committed to by means of previous decisions taken, national agreements or statutory payments.

59. The main significant changes that have occurred in this section for 2016/17 include:

- An increase in NI contributions in April 2016 due to the Government removing the lower “contracted out” national insurance contribution bands in for employers and employees increasing the tax charge for TVP by £6.4m in 2016/17
- An increase in pay budgets of £1m to allow for the ‘Bear Scotland’ legal ruling in relation to having to pay regular overtime as part of annual leave pay, for eligible employees, whilst on leave.
- The cost of national IT systems rose from the initial estimates when the final billing notification was received in March last year. This, together with some new charges, is expected to add a further £0.65m to the budget.
- The previously expected planned reduction in the Dedicated Security Grant (DSP) has now been removed as expectations are that this will remain at existing levels due to the additional protection commitments that the force now has.
- In 2017/18 we have included an additional £1m growth to fund the new levy being imposed on apprentice schemes, which Thames valley is actively engaged in.
- A realignment of the base pay budgets for staff and officers allowing for increments and turnover.

60. Further details are provided at Appendix 4.

Current Service

61. This element of the budget contains growth for those items which are deemed to be necessary to maintain the current levels of service within Thames Valley. The main significant changes that have occurred in this section for 2016/17 include:

- Reduction in debt/interest charges
- The funding of 6 FTE Road Safety & Community Liaison Officers for the LPAs from the Road Safety Fund.
- A review of the profile and levels of income attained through firearms licensing.
- The removal of one-off growth in 2015/16 for the indexing and cataloguing of PVP legacy materials
- The removal of interest receipts smoothing from general balances

62. Further details are provided at Appendix 4.

Improved Service

63. These items of growth are required to improve performance and meet the growing demands on the service by means of legislative changes and adherence to codes of

practice or to comply with regulations. The main significant changes that have occurred in this section for 2016/17 include:

- The removal of one-off growth for temporary burglary resources and attendance at child protection conferences in 2015/16 (the latter is now provided by core resources)
 - Direct Revenue funding to capital of £0.7m in 2016/17, with a further £0.3m in 2017/18, to help offset the 40% cut in Home Office capital grant allocations.
 - Additional growth of 7 FTE posts for the Oxfordshire Multi Agency Support Hub (MASH).
 - Provision over the four year period of £5.88m for the redeployment of 168 FTE police officer posts, which have been released through the productivity savings plan, back to priority operational growth areas. The first call on these redeployed posts will be to increase with Hampshire, the number of Armed Response Vehicles/Officers across the JOU, other priorities include increasing PVP resources.
 - In 2017/18 we have provisionally included additional funding to facilitate the implementation of the Emergency Services Mobile Communications Project (EMSCP). This will be dependent on the final cost of the new system and the grants available from the Home Office – please see paragraphs 24 to 29 above
 - To reflect the growing complexity of investigations and the change in the mix of crime types and investigation techniques, alongside the significant reduction in capital funding, we have identified a need for additional investment in our priority services and new innovative delivery methods.
 - Additional growth of 28 FTE Officers/Staff for the increase in demand within the Child Abuse Investigation Unit (CAIU).
 - To support the additional work and licences required within the Contact Management Programme (CMP), an additional £0.3m growth has been included to support these revenue Implications.
 - The approved 5 year ICT transformation strategy included additional revenue growth for infrastructure at £3.2m, together with one off funding of £4.8m over 3 years for rationalisation of systems and licences, which is being funded through an appropriation from reserves.
 - A review and realignment of specific reserve funding for one-off property schemes.
64. The remainder of growth within this section is made up of specific initiatives which are short term one-off initiatives affecting, in the main, property maintenance and enhancements. These initiatives are set out individually in more detail at Appendix 4.

Appropriation from Reserves

65. The financial strategy includes the utilisation of general reserves and/or the Improvement and Performance Reserve to fund one-off expenditure items to improve performance, achieve future efficiency savings, or to address timing issues where expenditure falls in a different year to the budget provision. Table 5 shows how reserves are being applied in the revenue budget in 2016/17 and the change to those applied in 2015/16.

Table 5

	2015/16 £m	2016/17 £m	Change £m
<i>Appropriations from general balances</i>			
- Property fees	0.139	0.139	-
- Offset under recovery in interest receipts budget	0.450	-	-0.450
- Additional Bank Holidays	0.570	-	-0.570
- Council Tax Late Adjustment	0.066	-	-0.066
	1.225	0.139	-1.086
<i>Appropriations from the Improvement & Performance Reserve</i>			
- Banbury custody ventilation	0.155	-	-0.155
- Amersham lighting	0.175	-	-0.175
- Lodden Valley rationalisation	0.350	-	-0.350
- Bicester traffic fuel tanks	0.150	-	-0.150
- Force stores move to REC	0.420	-	-0.420
- Optima - help staff return to work	0.100	0.100	-
- Burglary team extension	0.370	-	-0.370
- Attendance at child protection conferences	0.123	-	-0.123
- REC legacy cataloguing	0.281	-	-0.281
- CSE intelligence posts in FISO	0.095	0.031	-0.064
- ICT Rationalisation funding	-	1.400	1.400
	2.219	1.531	-0.688
Total	3.444	1.670	-1.774

66. In addition to the above, it was agreed during the year that the Improvement and Performance reserve would also support the 5 year ICT strategy one-off implementation costs required to improve and develop the force IT infrastructure and networks; these have not been budgeted for but will be applied as/if required.

Force Productivity Strategy Savings

67. The PCC and Force have a long history of delivering productivity savings and using these to balance annual budgets or reinvesting them in frontline policing; a strategy that has been widely scrutinised and praised by HMIC during various inspections and reports.
68. In the four year CSR period 2011/12 to 2014/15 £58.9m of cash savings were delivered, with a further £12.8m in 2015/16. In the last five years some £71.7m has been removed from the base budget.
69. Although the grant settlement was more favourable than expected it is very clear that to address the demands of today and tomorrow, we must continue to transform and reform our police service by driving through the changes outlined in the productivity plan and especially the changes being identified by the Priority Based Budgeting (PBB) process. The improved police settlement will allow the changes to be introduced on a realistic timescale to avoid any detriment to service levels during the transition. The level of change required over the next few years has been reinforced by statements made by the Policing minister and the Home secretary stating that the pace of reform within the police service must continue.
70. The overall productivity plan has been reviewed against the requirements of the MTFP and the strategy has been updated with new and changed initiatives.
71. The significant addition to the productivity strategy is the PBB review. This review process has challenged the majority of the organisation to identify the resources required to deliver our priority services. The review took the form of a series of three panels chaired by the CC/DCC. The first panel considered the baseline of each

service level, the second method and service level changes and the third the prioritisation of those services. This review is an ongoing process, not a discrete piece of work. We now have four work groups (Demand, Investigations, Governance & Service Improvement and Business Innovation) who are developing the new operating model for TVP against which savings of £5.86m have been identified over the MTFP period. We also have additional work streams covering more discrete areas that have identified a further £6.46 over the period, giving a total saving of £12.32 within the Productivity strategy.

72. Other initiatives that have changed significantly or have been added include:
- The new 5 year ICT delivery strategy, with a blended workforce model and rationalisation of systems and systems support between Hampshire Constabulary and Thames Valley Police is due to save £6.40m over the MTFP period.
 - A review of the Joint Operations Unit (JOU) is being undertaken with a view to rationalising resources to make savings of at least £0.53m in 2016/17.
 - Anticipated savings from the implementation of the new Contact Management Programme have been slipped from 2016/17 due to technical delays, this has reduced savings in 2016/17 by £1.9m.
 - A review of the Force income streams and savings for re-letting contracts has also been undertaken and an expected further saving of £1.6m has been added to the productivity plan.
 - In July the PCC has approved a change to the minimum revenue provision (MRP) policy which saves £0.55m in 2016/17.
 - A review of the property asset management plan (AMP) and property maintenance costs has been undertaken and as a consequence a further £0.35m of savings have been identified for 2016/17.
 - The previous savings linked to reviewing sickness and productivity levels has now been removed as a singular savings initiative and will be subsumed into the priority based budget savings. This has removed savings of £0.5m from the 2016/17 plan.
 - Savings previously identified in relation to the implementation of a Force-wide ERP system and future collaboration works, have been slipped within the plan which has lead to reduced savings in 2016/17 of £1.8m.
73. The savings relating to the first year of the productivity strategy are all related to specific initiatives that have been scrutinised by the Force to ensure that the risks of implementation are acceptable and that appropriate equality impact assessments are being completed prior to implementation. These savings should all be attained subject to the current demands and profile of policing.
74. Savings linked to the later years of the strategy are also linked to specific initiatives; however, a number of these still require further scoping work and assessment of the impacts and risks, which will be carried out over the next financial year.
75. A copy of the full Productivity Strategy is attached at Appendix 5.

2016/17 Establishment Changes

76. A lot of emphasis is given to establishment numbers and what they mean for the police service. In reality the important question is, "*are we delivering on our priorities and providing the appropriate level of service?*" Being more innovative in how we look to reduce the organisational cost and developing service delivery mechanisms for example with the use of technology, will allow us to direct more resources at those priority areas as well as new and emerging crimes. These new innovative approaches may lead to an overall reduction in establishment but, providing this sits

alongside reduced demand and a change in delivery model, including investment in technology, there does not have to be a reduction in our priority services.

77. The estimated summary position for the Force establishment over the MTFP is shown in the following table.

Table 6: Forecast Establishment Levels

	Police	Police Staff	PCSOs	Total
Base Opening Establishment 2016/17	3,991.00	2,666.00	475.00	7,132.00
Removal of Temporary Growth		(16.00)		(16.00)
CAIU Resourcing	21.00	7.00		28.00
MASH Growth	(2.00)	9.00		7.00
Productivity Plan Savings	(42.00)	(105.24)	(21.00)	(168.24)
PBB Savings	(159.00)	(56.27)	(30.00)	(245.27)
Police Officer Redeployed	87.00			87.00
Net Change to Establishment	(95.00)	(161.51)	(51.00)	(307.51)
Estimated Revised Establishment at March 2017	3,896.00	2,504.49	424.00	6,824.49
2017/18 Changes	(81.00)	(64.00)	(21.00)	(166.00)
Estimated Redeployment	81.00	0.00	0.00	81.00
Estimated Revised Establishment at March 2018	3,896.00	2,440.49	403.00	6,739.49
2018/19 Changes	0.00	(5.00)	0.00	(5.00)
Estimated Revised Establishment at March 2019	3,896.00	2,435.49	403.00	6,734.49
2019/20 Changes	0.00	0.00	0.00	0.00
Estimated Revised Establishment at March 2020	3,896.00	2,435.49	403.00	6,734.49
Period Changes	(95.00)	(230.51)	(72.00)	(397.51)
	-2.4%	-8.6%	-15.2%	-5.6%

2016/17 Budget Summary

78. Table 7 provides a summary of the draft 2016/17 revenue budget. Further information is provided in Appendix 2 which shows a high level split of the overall budget between those elements that the PCC is directly responsible for and those under the direction and control of the Chief Constable to manage and operate. All government funding, including all special grants, are shown as external funding, illustrating the full cost and funding of the TVP PCC and Chief Constable.

Table 7 - Draft revenue estimates for 2016/17

	£m
Base budget 2015/16	382.673
In-year virements	0.282
Adjusted base budget	382.955
Inflation	4.558
Committed expenditure	8.364
Current service	- 1.316
Improved service	5.804
Productivity Strategy savings	- 15.612
Appropriation from reserves	1.643
Proposed Draft budget 2016/17	386.396

Medium Term Financial Plan (2016/17 – 2019/20)

79. One of the key requirements of the Prudential Code for Capital Finance is that the PCC takes a longer-term view of the spending pressures facing the organisation, in setting and approving the budget and council tax for the ensuing financial year. Given the ongoing uncertainty around funding reductions and allocations, this forward planning is more important than ever. Table 8 provides a summary of the medium term financial plan; full details are provided in Appendix 3.

Table 8

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Annual Base Budget	388,224	391,947	395,266	398,765
In Year Virements	282	0	0	0
Inflation	4,558	4,699	4,975	4,995
Productivity Savings	-15,612	-10,556	-7,008	-2,844
Committed Expenditure	8,364	3,028	993	1,185
Current Service	-1,316	95	109	-42
Improved Service	5,804	8,412	2,140	-60
In Year Appropriations	1,642	-2,359	2,290	365
Net Budget Requirement	391,947	395,266	398,765	402,364
Total External Funding	-391,947	-395,266	-398,765	-402,364
<i>Cumulative Budget (Surplus)/Shortfall</i>	0	0	0	0
<i>Annual Budget (Surplus)/Shortfall</i>	0	0	0	0

Budget Risk & Uncertainties

Increasing Demand and Specialist Capabilities

80. As already identified there is an increasing demand on the police arising from new and emerging crimes but it is very difficult to predict the growth in resources required to deal with this changing demand. In addition the Home Secretary and Policing minister have stated that there will be an increase in the level of armed response vehicles (ARV's) by 50% alongside an increase in the number of Counter Terrorist Specialist Firearms Officers (CTFSO's) and have reallocated £34m of Police Grant into a Transformational fund to deliver this increase in Firearms capabilities. However the allocation of the £34m has not yet been announced. The implications of this for TVP and the potential funding issues are currently being worked through.

Future Years Forecasts

81. The future years of the MTFP still carry some significant risks which could alter the currently identified plans either upwards or downwards. Primarily these include:

- The recent funding announcement for police forces provided national police grant level figures for 2016/17 through to 2019/20 showing annual increases nationally of 1.3%, 1.4%, 1.6% and 1.8% respectively but detailed allocations were only provided for 2016/17 which gave forces a 0.6% reduction on the previous year (due to increased reallocations and baseline adjustments). Hence future estimates of Government grants are at this stage based upon assumptions taking into account the statements made by the Policing Minister and the Home Secretary regarding a flat real settlement for police forces when taking into account the ability to raise council tax.
- Included within the MTFP, we have assumed that when main grants (Main Grant & Formula Grant), are combined with potential increases in council tax, the force will achieve a 1% increase in cash terms per annum on its available funding. This approach is a mid range option which allows for a neutral real terms budget over the period should inflation run at 1% per annum (pay awards are currently capped at 1%).
- At this stage the worst case scenario appears to be that the force faces a cash flat budget over the period, whereby the assumed annual 1% increase would need to be removed which would equate to reductions against today's assumptions of approximately £2.15m per annum (i.e. £6.45m over the three year period 2017/18 to 2019/20).
- Conversely, should the funding allow for a neutral real terms budget over the period with inflation calculated higher than 1% per annum, we could receive more funding than anticipated, with every additional 1% increase equating to £2.15m per annum.
- The Home Office is currently consulting on a new national funding formula for the allocation of main Home Office grants. This will not be implemented until April 2017 at the earliest. It should be noted that the Home Office's various proposed changes to the funding formula during 2015 (before the process was suddenly halted in November) were all detrimental to Thames Valley. However, on 11th December the Home Affairs Select Committee published their report and findings on the 'Reform of the Police Funding Formula'. They described the previous Home Office process as a 'shambles' and have informed the Home Office that the new formula needs to recognise the full range of drivers on demand for policing, not just crime. At this stage it is too early to predict what the impact of these changes could look like, but a 1% variance in grant funding allocation would equate to approximately £2.15m per annum.
- As highlighted at paragraph 53 the current assumption on council tax increases is at 1.99% per annum, which is in-line with the Government's assumption in the 2016/17 police grant settlement but does require PCC endorsement on an annual basis - in theory this could change following the PCC elections in May – a 1.0% change in council tax equates to approximately £1.3m.
- The MTFP also assumes annual growth in the taxbase of 1.75% and a council tax surplus of £1.75m per annum. The increase in taxbase reflects the higher increase received in 2015/16 and also recognises the fact that house building continues to expand in some parts of the Thames Valley. The actual surplus can fluctuate significantly year on year. However, the estimate of £1.75m represents the average surplus received over the last 5 years. Billing authorities have been

contacted to provide an explanation for the significant increase in surplus in recent years and to provide their best estimate of the surplus position in future years.

Mitigation of Risks & Uncertainties

82. As can be seen from the above, there are significant gaps in information available around key factors that could influence the level of funding available to the PCC as well as the demand for increased capability in future years.
83. The work that has already started within the Productivity Strategy will continue to be developed and taken forward to ensure the drive to improve the efficiency of our service continues, by reducing the underlying cost of our organisation. Specifically work will continue to:
- Priority Based Budgeting (PBB) – the programme of work under this initiative will continue well into the MTFP period and all areas will continue to come under scrutiny through the panels which are chaired and led by the DCC. Focus will initially be on those areas which only had a 'light touch' in year one. In addition the four Work Groups will continue to identify and deliver changes to working practices to ensure we are operating at an optimal and productive level whilst releasing savings where possible.
 - Focus on non-staff costs. Over the last five years we have taken £70m out of the organisation; in excess of 35% (£25m) of these savings were from non-staff budget heads. Given that 80% of our budget relates to staff this is a considerable achievement and has assisted in the maintenance/improvement of our service levels. The work to reduce non-staff costs is continuing with vigour to ensure we maximise savings from our existing Productivity schemes and also to introduce new initiatives. Our recently restructured Procurement department is working to ensure we identify the most cost effective solution and continue to achieve maximum value for money throughout all contracts.
84. In addition to the above, the MTFP currently contains funding to redeploy a total of 168 FTE police officer posts during the period of the plan. Should the risks to future year's budgets be realised, and the above savings strategies cannot meet the shortfall, we will review the use of redeployment of officers and reduce the numbers as required to bridge any funding gaps that might arise.

LOCAL GOVERNMENT ACT 2003

Robustness of estimates and adequacy of reserves

85. The Local Government Act 2003 places a duty on the Chief Finance Officer (CFO) to make a report to the PCC on the robustness of the estimates and the adequacy of the reserves.

Reserves and balances

86. A separate agenda item shows the latest position on reserves, balances and provisions.
87. Based on current planning assumptions general revenue balances will stay slightly above the approved 3% target level throughout the next 4 years.

88. Earmarked reserves are forecast to reduce from £33.808m on 1st April 2015 to around £20.5m by 31st March 2020, including £2.004m in the Conditional Funding Reserve which is not available to support general operational policing.
89. Accumulated capital grants and reserves will be fully utilised by the end of 2019/20

Reliability / accuracy of budget estimates

90. The estimates have been put together by qualified finance staff in the Force's Finance Department and reviewed by qualified staff within the Office of the PCC.
91. There are a significant number of risks regarding the draft budget proposals and these are clearly set out in paragraph 81 above.
92. The biggest area of concern is the assumption being made regarding future levels of government grant and precept income. The current working assumption, legitimately based on information that has provided by the Policing Minister and the Home Secretary, is that resources will be protected in real terms (i.e. cash will increase by 1% per annum). At this stage we do not know the level of grant topslices (or reallocations) or the impact of the new police funding formula which is due to be implemented in April 2017. As set out in paragraph 81 above each 1% variation in police funding equates to £2.15m per annum. The Chancellor is already warning of 'dangerous cocktail of major global threats' that could impact adversely on the UK economy and national finances.
93. Each of the budget risks identified above will be monitored very closely and the next iteration of the MTFP will be updated accordingly.

Scrutiny

94. The draft budget proposals were presented to and scrutinised by the PCC and Deputy PCC at the Level 1 public meeting on 29th October. The Police and Crime Panel has established a 'Budget Task and Finish Group' to review the draft budget proposals. This Group met to consider the draft budget proposals on 9th December. They are next due to meet on 26th January.

Achievability and risks

95. Attached at Appendix 6 is a budget risk and sensitivity analysis for 2016/17. In producing this analysis the CFO has followed the Force Risk Assessment Model. The first main column explains the risk to the PCC's budget. The level of risk is then assessed in terms of both likelihood and impact (each factor scored out of 5, with 1 being low likelihood / impact) on the PCC's budget. The final column provides a sensitivity analysis, where appropriate.
96. These identified risks are mitigated, to a certain extent, because the PCC:
 - maintains an appropriate level of reserves and balances;
 - takes a prudent approach to achievability of income and the recovery of debts due, making appropriate provisions for bad debts; and
 - will proactively manage and monitor all aspects of budget performance during the year.
97. In addition, the Force continues to identify future budget savings through its ongoing Productivity Strategy, as referred to in paragraphs 67 to 75 above
98. Accordingly, the assessment of budget risks presented at Appendix 6 takes into account the mitigating factors identified above.

99. Similarly, Appendix 6A shows the risks to the medium term financial plan (2017/18 to 2019/20).
100. Although the Government has published national spending totals for the police for the next four years they have not produced individual force allocations, presumably because implementation of the new national funding formula has been deferred until 2017/18. The main risk, as identified above, is that future year funding allocations (grant and precept) are less than the 1% cash increase currently assumed.
101. The PCC's cash flow requirements are forecast and monitored on a regular basis to ensure stable and predictable treasury management, avoiding unexpected financing requirements.
102. The PCC needs to be satisfied that the revenue commitments in future years are affordable, sustainable and deliverable. Furthermore, the PCC has a responsibility to local people to ensure that the approved budget and detailed spending plans will deliver the aims, priorities and performance targets as set out in his Police and Crime Plan 2012-2017. A new Police and Crime Plan will be developed shortly after the next PCC elections in May 2016.
103. The risk inherent in the timely delivery of large capital schemes within budget is considered relatively low. The Force uses recognised project management techniques (PRINCE 2) including programme and project boards to manage all major schemes. In addition, the Corporate Development Unit ensures the co-ordination of all major projects as part of the Force Change programme and reports progress to the Chief Constable's Directions Group.
104. All capital schemes are managed by:
- rigorous monitoring of projects.
 - close liaison with project partners
 - closely monitoring staff vacancies and using contractors where appropriate.
105. Recent history suggests that there is a higher chance of slippage of expenditure and scheme underspends than significant in-year overspends against approved capital budgets. However, the Force has recently appointed a business partner to help mitigate timeliness of delivery of future technology projects.

Council Tax Capping

106. The Localism Act 2011 abolished the capping regime in England. However, Schedule 5 of the Act made provision for council tax referendums to be held if an authority increases its council tax by an amount exceeding principles determined by the Secretary of State [for CLG] and agreed by the House of Commons.
107. On 17 December the Secretary of State for CLG published the referendum principles for 2016/17. As previously announced, the 10 police force areas with the lowest precepts (excluding the City of London) will be allowed to increase their Band D bill by £5. The referendum limit for everyone else remains at 1.99% with an increase of 2% or more triggering a referendum.

Prudential Code for Capital Finance

108. The Prudential Code for Capital Finance has introduced a rigorous system of prudential indicators which explicitly require regard to longer-term affordability, prudence, value for money, stewardship, service objectives and practicality of investment decisions. This is backed up by a specific requirement to monitor

performance against forward-looking indicators and report and act on significant deviations.

Conclusion

109. The 2016/17 budget has been prepared in a properly controlled and professionally supported process. It has been subject to due consideration within the Force and by the PCC. The identifiable risks should be capable of management.
110. As shown in Appendix 6A there are a number of risks to the MTFP, most notably the level of future year grant allocations, however based on the assumptions set out in paragraph 53 above, the MTFP is currently balanced in all four years. This is an excellent achievement and due credit must be given to the Chief Constable, the Director of Finance and their staff for their comprehensive and detailed work in this area.
111. The MTFP currently contains a provision for police officer redeployment in 2017/18 and later years. This budget provision, in particular, will be amended should future year grant allocations not be as generous as currently assumed.
112. The PCC is reminded that his responsibility for setting the annual budget and council tax precept for 2016/17 should also take into account whether the budget and service plans are relevant, affordable and sustainable in the longer-term. In doing so, he will need to satisfy himself that services and resource allocation have been appropriately prioritised and that financial risks have been adequately addressed and covered by, for example, reserves, contingencies and risk mitigation plans.

IMPLICATIONS FOR COUNCIL TAX

113. The PCC will receive police grant of £141.2m, ex-DCLG formula grant of £73.9m and legacy council tax grants of £15.3m in 2016/17. These levels of grant income are determined independent of the PCC's planned spending budget for the year.

Surplus on Collection Funds

114. It is currently estimated that the PCC will receive £1.95m in 2016/17 as its share of the net surplus on the billing authorities' Collection Funds, details of which are provided in Appendix 7.

Funding the 2016/17 Revenue Budget

115. Table 9 shows how the 2016/17 revenue budget will be financed.

Table 9

	£m	%
Police grant	141.222	37%
Ex-DCLG formula grant	73.890	19%
Total formula grant	215.112	56%
Council tax precept (estimate)	143.327	
Council Tax surplus on collection funds (estimate)	1.950	
Total council tax	145.277	37%
Legacy council tax grants	15.278	4%
Other specific grants	10.729	3%
Total specific grants	26.007	7%
Total Financing	386.396	100%

Council Taxbase

116. The taxbase is calculated by the billing authorities by converting all properties to band D equivalents and making assumptions about the levels of discounts to be offered and the amount of tax to be collected.
117. In total, the provisional estimate of the 2016/17 taxbase for the PCC is 858,451 Band D equivalent properties, as Appendix 7 illustrates. This represents an annual increase of 14,898 properties or 1.77%.

Band D Council Tax

118. The band D council tax proposed for 2016/17 is £166.96, an increase of £3.26 or 1.99% on the comparable figure for 2015/16.
119. As shown in Appendix 8 our current 2015/16 band D council tax of £163.70 is below the English national average of £172.17. The appendix also shows that TVP is significantly below average in terms of net cost per 1000 population when compared to other forces (£159,111 compared to £171,733). The final three columns show the proportion of each PCC's net budget requirement raised through council tax and government grant. TVP receives a higher proportion of its income from local council taxpayers than in most other force areas.

CONCLUSIONS

120. The revenue budget is fully balanced in 2016/17 with a 1.99% increase in council tax.
121. The budget for 2016/17 protects and provides some increases, for priority service areas and specialist capabilities in response to the increasing level of complex crime and the current threat levels. This supports the delivery of the Police and Crime Plan including the Chief Constable's annual delivery plan objectives.
122. The medium term financial plan is balanced in all four years. This has only been possible through the identification of £36.02m of budget cuts.
123. The Force will continue working on its Productivity Strategy and in particular the Priority Based Budget review, to ensure resources are directed to priority areas and that services are delivered in the most effective manner. This work will continue to release savings in future years in order to balance the budget and provide additional resource to reinvest in priority policing areas.
124. As shown above the current MTFP requires revenue savings of at least £36.02m over the next four years, with £15.61m in 2016/17. This is over and above the £73m of cash savings already removed from the base budget in the last five years (i.e. 2011/12 to 2015/16) meaning that, over the nine year period 2011/12 to 2019/20, in excess of £109m will have been taken out of the base revenue budget.
125. The impact on police officer and staff numbers next year (2016/17) is a net reduction of 95 police officer posts and a reduction of 212 police staff/PCSO posts.