

REPORT TO SOUTH YORKSHIRE POLICE AND CRIME PANEL

1.	Meeting:	Police and Crime Panel
2.	Date:	7 February 2017
3.	Title:	Proposed council tax precept for 2017/18
4.	Organisation:	Office of the Police and Crime Commissioner for South Yorkshire

5. Purpose of the Report

To notify the Police and Crime Panel of the South Yorkshire Police and Crime Commissioner's ("the Commissioner") proposed council tax precept for 2017/18.

6. Recommendations

It is recommended that the Police and Crime Panel considers a proposed annual increase in council tax for 2017/18 of £5 for a Band D property (a 3.26% increase) to £158.16.

7. Background

The Police and Crime Panels (Precepts and Chief Constable's Appointments) Regulations 2012 require that the Commissioner shall comply with the duty under paragraph 2 of schedule 5 of the Police Reform and Social Responsibility Act 2011, to notify the Panel of the proposed precept by 1st February of the relevant financial year.

8. 2017/18 Budget Proposal

Attached at Appendix A is the report that sets out details of the Commissioner's proposed revenue budget and council tax for South Yorkshire for 2017/18. The proposed council tax represents an increase of 10p per week for a band D property. The majority of properties are in band A and therefore the majority of households will see an increase per week of 6p, if the proposed increase is agreed.

9. Background Papers and Consultation

All background papers used in the preparation of this report are available for inspection at the Office of Police and Crime Commissioner, Carbrook House, Carbrook Hall Road, Sheffield, S9 2EH

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POLICE AND CRIME COMMISSIONER FOR SOUTH YORKSHIRE

PROPOSED REVENUE BUDGET & COUNCIL TAX FOR 2017/18

INTRODUCTION

1. The South Yorkshire Police and Crime Commissioner (“the Commissioner”) is required to approve the 2017/18 budget and issue the council tax precept by 1 March 2017. This report contains proposals that will enable the Commissioner to approve the revenue budget, capital programme and council tax precept for 2017/18.
2. The proposals in this report if approved will fulfil the Commissioner’s duties under the Police Reform and Social Responsibility Act 2011 to decide the budget, allocate assets and funds to the Chief Constable and propose the police element of the precept for the force area.

POLICE FINANCE SETTLEMENT

3. The Chancellor set out the Government’s joint Spending Review and Autumn Statement on 25 November 2015. This provided details of how government funding will be allocated to departments over the next 5 years. In terms of funding for policing, the Statement contained the following:

“The Government will protect overall police spending in real terms over the spending review period, an increase of £900m in cash terms by 2019/20. This will provide funding to maintain overall police force budgets at current cash levels”.

4. It became clear from the 2016/17 Police Finance Settlement that was announced in December 2015, that the Government had reduced the level of grant funding to Police and Crime Commissioner’s (PCCs) and that an unchanged funding position in cash terms would only be achieved if PCCs increased the council tax by the maximum amount allowed in accordance with the referendum principles. As the council tax for policing in South Yorkshire was in the 10 lowest in England, the Commissioner was able to increase the 2016/17 council tax by £5 for a band D property, which was the maximum increase allowable before the referendum trigger was brought into play.
5. The Provisional Police Finance Settlement for 2017/18 was published on 15 December 2016. As was the case in 2016/17, the level of grant funding from Government has reduced but the figures relating to overall funding, including precept income, assume that PCCs will increase council tax by the maximum amount allowable and that the council tax base will increase. The Settlement includes the following statement by the Minister for Policing and Fire Services:

“I have decided that direct resource funding for each PCC, including precept, will be protected at flat cash levels compared to 2015/16, assuming that precept income is increased to the maximum amount available within the referendum limits in both 2016/17 and 2017/18. No PCC who choses to maximise precept

within the referendum limits in both years will face a reduction in cash funding next year compared to 2015/16”.

6. Assuming that when the final Settlement is confirmed it does not differ from the Provisional Settlement, for South Yorkshire the level of grant from government will reduce by approximately £2.5m in 2017/18 compared to 2016/17, as shown in the table below:

	Actual Budget 2016/17 £'000	Provisional Settlement 2017/18 £'000	Difference £'000
Police Grant (HO Core)	-100,597	-99,192	-1,405
Revenue Support Grant (Ex DCLG Formula)	-77,465	-76,380	-1,085
Council Tax Freeze Grant 2011/12	-1,269	-1,269	0
Council Tax Support Scheme compensation	-9,591	-9,591	0
Grant Funding position	<u>-188,922</u>	<u>-186,432</u>	<u>-2,490</u>

PRECEPT INCOME

7. The 2017/18 Police Finance Settlement provides the “additional flexibility” to the 10 PCCs with the lowest precepts to raise the precept by £5 for a band D property. The precept for 2016/17 issued by the Commissioner remains within the lowest quartile and is therefore one of the 10 named in the Finance Settlement. The remainder of the PCCs in England will be subject to a 2% referendum threshold.
8. The actual amount of precept income is largely determined by the size of the council tax base. For a “flat cash” funding position to be maintained and for a reduction of £2.5m in government grant to be offset by an increase in precept income, then the Commissioner would have to increase the council tax by 3.26% and the council tax base would have to increase by at least 1.5%: i.e. an increase of the same level as in 2016/17.
9. The South Yorkshire District Councils have finalised their council tax base determinations. The number of Band D equivalent properties in South Yorkshire has increased by 2%. This is slightly more than the tax base increase assumed in the Finance Settlement figures and will generate approximately £0.2m in precept income above the Finance Settlement assumption.

	Band D Equivalent Properties 2016/17	Band D Equivalent Properties 2017/18	Variation	%
Barnsley	60,229.15	62,346.89	2,117.75	3.52
Doncaster	77,071.00	79,095.00	2,024.00	2.63
Rotherham	67,149.57	68,235.14	1,085.57	1.62
Sheffield	132,253.72	133,743.89	1,490.17	1.13
Total	<u>336,703.44</u>	<u>343,420.92</u>	<u>6,717.49</u>	<u>2.00</u>

10. The Band D equivalent property tax base figure represents the average across South Yorkshire. The District Councils have been asked to provide details of the numbers of properties in each council tax band and this shows that the majority of properties (51%) are in Band A:

	Total number of properties	%
Band A	219,725	51.0
Band B	82,532	19.2
Band C	60,586	14.1
Band D	35,353	8.2
Band E	19,140	4.4
Band F	8,482	2.0
Band G	4,474	1.0
Band H	246	0.1
TOTAL	430,538	100.0

11. The District Councils are also required to determine the position on their collection funds, and to notify the precepting authorities of their share of any estimated surplus or deficit. The Commissioner has been notified that the provisional share of the surplus for 2017/18 has increased by £67,761, compared to 2016/17 as set out below.

	Collection Fund Surplus 2016/17 £	Collection Fund Surplus 2017/18 £	Variation £	%
Barnsley	165,710	165,710	0	0.00
Doncaster	364,613	325,000	-39,613	-10.86
Rotherham	357,000	338,000	-19,000	-5.32
Sheffield	584,626	711,000	126,374	21.62
Total	1,471,949	1,539,710	67,761	5.43

12. It is proposed that the council tax for 2017/18 be increased by £5 for a Band D property, in accordance with the funding assumptions set by the Home Office. This represents an increase of 3.26% and would produce a Band D council tax of £158.16 (£153.26 in 2016/17) and total council tax income of £54.3m for 2017/18. This is the proposed "Council Tax Requirement".
13. The Commissioner will be making applications to the Home Office for Special Grant Funding in 2017/18 to meet the costs of legacy issues, these could potentially amount to approximately £9m. However, if the Commissioner does not increase the council tax by the maximum available to South Yorkshire the Home Office may not look favourably on any application for additional funding.
14. With the inclusion of the Council Tax Requirement and the collection fund surplus, the proposed "Budget Requirement" for 2017/18 will be £242.287m. This

represents an increase in the Budget Requirement of approximately £0.3m (or 0.13% compared to 2016/17). This is the level at which net revenue expenditure needs to be kept and which represents the figure that budgeted expenditure must balance to.

	Actual Budget 2016/17	Proposed Budget 2017/18	Difference
	£'000	£'000	£'000
Police Grant (HO Core)	-100,597	-99,192	1,405
Revenue Support Grant (Ex DCLG Formula)	-77,465	-76,380	1,085
Council Tax Freeze Grant 2011/12	-1,269	-1,269	0
Council Tax Support Scheme compensation	-9,591	-9,591	0
Total Grant Funding	-188,922	-186,432	2,490
Council Tax income	-51,569	-54,315	-2,746
Collection Fund surplus	-1,472	-1,540	-68
FINANCING OF BUDGET REQUIREMENT	-241,963	-242,287	-324

NEW FORCE OPERATING MODEL

15. In May 2016 a Peer Review was commissioned by the Commissioner and the Interim Chief Constable in order to establish more clearly the changes that need to be made within the Force and to assist the incoming Chief Constable to understand some of the key challenges and opportunities. The Report of the Peer Review contains the following statement:

“First and foremost there needs to be a better strategic focus on demand so that an effective and efficient policing model can be resourced. This needs to be fully integrated with the organisational development dimension to maximise impact for the public and for staff. This is the foundation for all future changes and must be addressed as soon as possible to prevent further risks to service delivery”.
16. In order to address the recommendations of the Peer Review and supporting recommendations in the HMIC PEEL Inspections, the Chief Constable has created a lead for Change and Innovation at Assistant Chief Constable level to provide strategic direction and oversight to the Force response. A new Business Change Directorate (BCD) has been established with the capacity to effectively assess demand and determine the size/scope of a new operating model to ensure that the Force is capable and resourced to meet current and future demands. A significant investment in this new directorate was approved by the Commissioner in November 2016 and this is a cost pressure that has required resources in 2017/18.
17. The BCD is tasked with developing the new Force operating model. It is currently engaged in examining demand, reviewing resources and processes currently deployed and considering opportunities to use technology and collaboration to achieve a more effective and efficient service to the public. Their work will involve exploring a better use/deployment of resources to match demand. New Force structures will be developed and implemented which are likely to present opportunities for revenue savings in the future. The BCD is also

supporting reviews of the Force Communications Centre (Atlas Court) and protecting vulnerable people processes and resources, using Peer Support to identify how the Force should resource and respond in these critical areas.

18. It is important that the Force gets this right and does not rush to change operating models without first understanding the demands for its services. The work of BCD will not be complete before the approval of the revenue budget for 2017/18. Therefore the full implications – in terms of the size, composition etc. of the workforce – cannot be assessed at this time.
19. An unintended consequence of the previous reviews conducted by the Force has been the erosion of effective neighbourhood policing. The Commissioner and the Chief Constable are committed to the reintroduction of neighbourhood policing and will be looking to work with partners (including Local Authorities and the Fire Authority) to create a place based model of service delivery. The work of BCD will provide for a detailed need analysis by ward and facilitate a better understanding of how neighbourhood policing will work. A number of collaborative pilots are underway across the county which will help inform the new neighbourhood model and the determination of the future policing offer for all aspects of policing in South Yorkshire and will have opportunities for community consultation and engagement in their design.
20. The Chief Constable has developed a Force Strategic Delivery Plan (referred to as the “plan on a page”) to focus the development of the Force in enabling it to deliver against the Police and Crime Plan. This is in the process of being consulted on and the Force is now working to develop a meaningful performance framework to underpin this plan and to ensure the Commissioner and the wider public are able to appropriately assess the performance of the Force.
21. The policy and expenditure proposals that have been formulated to facilitate a balanced budget for 2017/18 do not provide for any fundamental changes to the workforce, either Officers or Staff, other than the investments in the areas of activity that were highlighted in the Peer Review Report.

POLICY & EXPENDITURE PROPOSALS FOR 2017/18

22. With the level of overall funding for policing in South Yorkshire increasing by only £0.3m in 2017/18, the challenge is to ensure that any additional costs that will occur in the financial year are offset by expenditure reductions. It has been made clear in statements by the Minister for Policing that Forces will have to meet increased costs by achieving greater levels of efficiencies.
23. The proposed budget assumes increases for pay awards (about £2m), superannuation fund increases (about £0.5m) and the apprenticeship levy (£0.75m). There have been investments in Force departments totalling approximately £2m and investments in IT (including Atlas Court) of approximately £1.5m.
24. Savings proposals have been identified to offset these additional costs including reductions in spending in 2016/17 which are proposed to be carried forward as contributions from reserves. About £3m is expected to be saved from a review of the timing of recruitments/leavers and a proposal to allow a number of Officers to leave and be replaced by probationers. Savings in non-employee costs of

approximately £1.5m are anticipated from regional procurement contracts, rationalisation of the estate and the establishment of regional support units.

PROPOSED COUNCIL TAX LEVELS

25. The Commissioner set a council tax precept for a band D property of £153.16 for 2016/17. The proposed increase of £5 for a band D Property for 2017/18 would produce a council tax precept of £158.16. This represents a weekly increase of 10p for a band D property. With the majority of properties falling into the Band A category, approximately 51% of households would see a weekly increase of 6p if the proposal is approved.

	Precept for 2016/17		Proposed Precept for 2017/18		Increase	
	Annual	Weekly	Annual	Weekly	Annual	Weekly
	£	£	£	£	£	£
Band A	102.11	1.96	105.44	2.03	3.33	0.06
Band B	119.12	2.29	123.01	2.37	3.89	0.07
Band C	136.14	2.62	140.59	2.70	4.44	0.09
Band D	153.16	2.95	158.16	3.04	5.00	0.10
Band E	187.20	3.60	193.31	3.72	6.11	0.12
Band F	221.23	4.25	228.45	4.39	7.22	0.14
Band G	255.27	4.91	263.60	5.07	8.33	0.16
Band H	306.32	5.89	316.32	6.08	10.00	0.19

26. The proposed council tax precept to be set by the Commissioner will be as follows for the South Yorkshire district councils:

	Actual Precept on Collection Fund 2016/17 £	Proposed Precept on Collection Fund 2017/18 £
Barnsley	9,224,696	9,860,784
Doncaster	11,804,194	12,509,665
Rotherham	10,284,628	10,792,070
Sheffield	20,255,980	21,152,933
Total	51,569,498	54,315,452

27. If the proposed council tax increase were not agreed this would lead to a reduction in funding for the Commissioner and for the Force. Each 1% increase in council tax generates approximately £0.5m in additional council tax income. Depending on the level of council tax increase agreed, the loss of income – compared with the proposed increase of 3.26% for 2017/18 – would be as follows:

	Reduction in income £m
If Council Tax increased by 2%	0.7
If Council Tax increased by 1%	1.2
If Council Tax did not increase	1.7

28. It is reported earlier – in paragraph 13 – that if the Commissioner does not take advantage of the flexibility provided by the Government to increase the council tax by the maximum amount allowed, then that is likely to count against the Commissioner when requests are made to the Home Office for special grant funding for the costs of legacy issues. If the proposed council tax increase was not approved the Commissioner would have to make reductions in the proposed revenue budget. The Chief Constable has indicated that reductions in the amount available to the Force would delay the implementation of the investments in a new change and performance teams: these investments are key to the Force understanding demand and improving performance. The impact of this would be to delay the recovery of the Force and the development of a new operating model which enhances neighbourhood policing.
29. As an indication of the potential impact of a reduction in funding, a reduction of £1.7m would equate to the cost of 34 officers or 57 police staff. With employee costs representing a significant proportion of the Force budget (about 90%) any reduction in funding is likely to have an impact on numbers of officers or staff.

FORECAST REVENUE OUTTURN FOR 2016/17

30. The position in the current financial year is that expenditure will be below budget by approximately £4.1m, based on the expenditure incurred to date and the projected expenditure to the year end. In anticipation of a different financial position in 2017/18, the Force has planned to reduce spending by at least £3.1m (not including the cost of legacy issues), although the current forecast falls short of this target. The summarised position is shown in the table below:

<u>Revenue Position for 2016/17</u>	<u>Original Budget</u> £'000	<u>Revised Budget</u> £'000	<u>Forecast Outturn</u> £'000	<u>Forecast Variation</u> £'000
Chief Constable Budget	234,162	235,702	232,977	-2,725
Potential Operation Stovewood costs	2,400	2,400	846	-1,554
Potential Civil Claims	4,800	4,800	4,800	0
Hillsborough Inquests costs	0	0	113	113
PCC and OPCC Budget	2,069	2,100	2,093	-7
Commissioning & Partnership	3,272	3,447	3,447	0
Capital Financing	3,040	3,040	3,026	-14
External Funding	-3,818	-6,803	-6,744	59
Net Expenditure (before use of reserves)	245,925	244,686	240,558	-4,128
Contribution to/(from) Reserves	-3,962	-2,723	1,405	4,128
Net Revenue Expenditure	241,963	241,963	241,963	0

31. Operation Stovewood is the name given to the work being undertaken by the Force, in conjunction with the National Crime Agency, to investigate historic allegations of child sexual exploitation in Rotherham. The Force are forecasting an underspend of £1.5m: the original budget assumption was that any special

grant funding from the Home Office would involve costs to the Force amounting to £2.4m based on the Home Office "1% rule". However the eventual decision of the Home Office to award special grant, limited the Force liability to about £1m in 2016/17. The level of spending is forecast to be less than this based on the costs incurred to date.

SUMMARY REVENUE BUDGET FOR 2017/18

32. The proposed net revenue budget for 2017/18 of £242.287m will support the following activities and elements of expenditure:

Chief Constables budget

The amount allocated to the South Yorkshire Force for 2017/18 amounts to £244m (including potential legacy costs). This is the amount delegated to the Chief Constable for meeting operational needs.

PCC and OPCC

This budget relates to the costs of the Commissioner and the support from the Office of the Police and Crime Commissioner (OPCC).

Potential Legacy Issue Costs

The costs of legacy issues – the Hillsborough Inquests and historic allegations of child sexual exploitation (CSE) have had a significant impact on the financial position of the Commissioner and Force in recent years. The costs would have had a detrimental effect on operational policing budgets had the Commissioner not secured additional 'special grant' funding from the Home Office for both the Hillsborough Inquests costs and Operation Stovewood. It is likely that legacy issues will continue, however it is difficult to determine accurately the potential scale of such costs and the level of special grant funding. For the purposes of the budget proposal it has been assumed that if legacy costs are incurred in 2017/18, above the penalty ruling, that they would be substantially offset by Home Office special grant funding.

Commissioning & Partnership

The 2016/17 revenue budget was increased, as a one-off by £0.5m, in year following the Commissioners approval to utilise from 2015/16 underspends, additional funding to reduce the pressure on partners. Following discussions with partners and the Force the 2017/18 budget remains unchanged from the increased funding.

Capital Financing Costs

The budget provision for debt charges in 2017/18 has increased due to planned borrowing for 2016/17 (£10m) and the intention to borrow in 2017/18 (£5m) to finance capital expenditure.

External Funding

The Commissioner receives contributions from external organisations and a number of government grants to fund specific initiatives

33. The proposed budget for 2017/18 compared to the budget for 2016/17, is set out in the table below:

	Original Budget 2016/17	Proposed Budget 2017/18
	£'000	£'000
Chief Constable Budget	234,162	238,613
PCC and OPCC Budget	2,069	2,066
Potential Legacy Issue Costs	7,200	5,400
Commissioning & Partnership	3,745	3,786
Capital Financing costs	3,040	3,961
External Funding	-3,818	-3,748
Contribution from Reserves	-4,435	-7,791
BUDGET REQUIREMENT	<u>241,963</u>	<u>242,287</u>

RESERVES POSITION

34. The proposed budget for 2017/18 relies on a contribution from general reserves of £7.8m to achieve a balanced budget. Part of the approach to managing the 2016/17 budget has been to reduce spending so that reserves would be available at the end of the year and be carried forward for use in financing expenditure in 2017/18.
35. After the use of reserves to balance the budget, it is forecast that there will be general reserves of approximately £14m by 31 March 2018. This would represent approximately 5.7% of the net revenue budget for 2017/18, which is broadly inline with the Chief Finance Officer's recommendations of approximately 5% (£12m) for an adequate level of reserves. There is a significant risk associated with legacy issues and the outcome of any Home Office Special Grant Funding applications which could affect the level and adequacy of the reserves. The overall level will be kept under review as part of the medium term planning and the monitoring of risks.
36. As part of the Chief Finance Officer's review of the reserves position a proposed Reserves Strategy is attached at Appendix B. This shows the overall level of reserves that are estimated to be available by 1 April 2017 and the call upon those reserves in 2017/18. The Strategy explains the distinction between earmarked and general reserves.

MEDIUM TERM FINANCIAL FORECAST

37. The 2017/18 Finance Settlement is again only for one year, with the proposed review of the Funding Formula mechanism being deferred to 2018/19. There are no indicative allocations for individual Commissioners beyond April 2018, therefore it is anticipated that reductions will continue but that such reductions will be offset by assumed increases in council tax, combined with additional income from growth in the council tax base. This reflects the Government intentions with regards to "flat cash funding settlements".
38. Future revenue budgets will need to include provisions for pay awards, inflation and other cost/demand pressures. Assumptions have been made about the likely level of pay awards (1% per annum) and contractual inflation increases. It is

forecast that there will be additional debt charges as a result of borrowing to finance capital spending. Given the uncertainties in relation to legacy costs it is prudent to assume, based on current forecasts, that budget provision for such costs will be required at least up to 31 March 2020.

39. The development of the medium term forecast is work in progress at the present time and will be finalised before the approval of the revenue budget for 2017/18. A provisional assessment suggests that further savings of about £3m will be required in 2018/19, although this figure will also certainly change as a result of the delivery of the savings assumed in the 2017/18 budget and a review of any further service investments that may be required in 2018/19. However this provisional assessment suggests that cumulatively savings of about £13m will be required over the 4 years beyond 2017/18.

	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m
Total forecast change in funding	0.00	0.00	0.00	0.00
Total forecast increased costs	3.02	4.68	8.14	12.92
NET FORECAST REVENUE GAP (Cumulative)	3.02	4.68	8.14	12.92
Annual forecast gap	3.02	1.66	6.48	6.44

CAPITAL PROGRAMME AND FINANCING

40. To secure the necessary operational effectiveness in policing over the medium term, it is necessary to invest in new technology, buildings and equipment. The capital programme for 2017/18 amounts to £12.8m and is summarised below. The planned levels of spending over the next four year is also shown.

	2017-18	2018-19	2019-20	2020-21
	Original Budget	Original Budget	Original Budget	Original Budget
	£m	£m	£m	£m
Land & Buildings	4,251	1,310	500	500
Vehicles	2,002	1,779	2,108	1,500
Equipment	1,951	670	760	526
Information, Communication & Technology	4,596	4,960	4,466	1,150
Total	12,800	8,719	7,834	3,676

41. The Provisional Finance Settlement for 2017/18 confirmed that the Capital Grant is to be reduced by £0.2m. The proposed financing of the capital programme is set out in the table below. As part of the budget process the Commissioner will be considering the Treasury Management Strategy for 2017/18 which will set out the approach to borrowing and investments in the year ahead.

	Original Budget 2016/17 £000	Forecast Outturn 2016/17 £000	Forecast Budget 2017/18 £000
CAPITAL FINANCING			
External Grants	1,300	1,300	1,100
Capital Receipts	1,030	75	1,913
Specific Grants	111	254	0
Contribution from Capital Reserves	3,742	3,742	3,742
Borrowing	9,095	9,532	6,045
OVERALL TOTAL	15,278	14,902	12,800
PLANNED CAPITAL SPENDING	15,278	14,902	12,800

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RESERVES STRATEGY 2017/18

Introduction

1. This appendix sets out the latest position in respect of the South Yorkshire Police and Crime Commissioner's ("the Commissioner") financial reserves and the strategy regarding the use of reserves in future years. It is a statutory requirement that the Chief Finance Officer (CFO) presents a report to the Commissioner, as part of the budget process, which assesses the adequacy of reserves in the context of corporate and financial risks facing the Commissioner and the Chief Constable for South Yorkshire Police.
2. This Reserves Strategy has therefore been submitted to the Commissioner as part of the process for setting the 2017/18 budget, capital programme and council tax precept. The Strategy sets out the purpose of the general reserve and earmarked reserves and the recommended approach for their use in the medium term.

Purpose of Reserves

3. The Commissioner holds Reserves which fall into two distinct categories:
 - **General Reserves:** these are necessary to fund day to day cash flow requirements and also to provide a contingency in the event of any unexpected events or emergencies, and
 - **Earmarked Reserves:** these have been created for specific purposes and involve funds being set aside to meet known or predicted future liabilities. By establishing such reserves it will avoid liabilities being met from Council Tax or Grant in the year that payments are made.
4. The required level of reserves needs to be assessed against the potential risks that the Commissioner and the Chief Constable face in 2017/18 and beyond. This assessment is even more important as the Finance Settlement from the Government in 2017/18 is again only for one year, with the review of the Funding Formula mechanism being deferred to 2018/19 increasing the uncertainty of future cuts.
5. The factors that need to be considered will include the financial risks associated with:
 - The deliverability of savings proposals within the intended year of implementation,
 - The potential for additional demand led pressures and costs,

- The likelihood of any additional government funding to offset unforeseen or unbudgeted expenditure, and
 - The nature of any historic events and potential liabilities arising from these events e.g. the legacy issues associated with Hillsborough and cases of child sexual exploitation (CSE).
6. Reserves can be used to meet one off expenditure and once they are used they are not available to support future years. They are therefore most suited to covering one off unexpected costs including expenditure that funds initiatives that will generate efficiencies in the future (on an invest to save basis) or costs that are likely to be incurred in the future but where the level and timing is uncertain (e.g. legal or other claims against the Commissioner/Chief Constable).
 7. There is no nationally recognised measure of the level of reserves that should be maintained. As a broad rule of thumb, the Audit Commission (in its 2012 report "Striking a Balance") suggested that most CFO's regard an amount of "between 3% and 5%" of net revenue spending as a prudent level for general reserves. However the required level is a matter of judgement based on known/estimated risks, budgetary pressures and local factors.

Earmarked Reserves

8. The Earmarked Reserves that currently exist are set out below:

Revenue Grants Reserve: any grant that has not been used to fund related expenditure has to be taken to this reserve and used to fund expenditure when it is incurred in future years.

PCC Commissioning Reserve: underspends on commissioning budgets have been carried forward for use in the following year.

Innovation Reserve: this represents amounts set aside to fund innovation initiatives and investment in schemes that will improve efficiency and reduce operating costs.

Insurance Reserve: this represents sums set aside to fund potential liabilities under current insurance arrangements.

Devolved Budget Reserve: as part of the devolved financial management arrangements, budget holders are allowed to carry forward underspends up to approved limits to fund expenditure in the following year.

Capital Reserve: this represents amounts set aside to support the Commissioner's capital investment programme.

Current reserves position

9. Following the finalisation of the 2015/16 accounts, the level of reserves at 31 March 2016 was higher than had been expected because of an additional underspend of £4.5m. At 31 March 2016 the total level of reserves stood at £40.3m including £17.5m of general reserves. The budget for 2016/17 included planned contributions from reserves of £8.1m:
 - £1.6m from the Devolved Budget Reserve to support the planned redundancy programme,
 - £2.4m from General Reserves for potential legacy issue costs,
 - £0.4m from the Commissioning Reserve to support commissioning activity, and
 - £3.7m from the Capital Reserve to contribute to the funding of the Capital Programme.

10. During the 2016/17 financial year there have been amendments to the above proposed contributions:
 - Following the Peer Support Review the Commissioner approved, in July 2016, the proposal to pause employee reductions to give the Chief Constable space to re-design the service delivery model, which negated the need for the planned funding from the Devolved Budget Reserve.
 - A recent update of the potential legacy costs has resulted in a reduction in the forecast projections to the year end and therefore the required contribution from the General Reserves has reduced.
 - The decision was made to maintain the Innovation Reserve rather than transferring the funds into the General Reserves as previously proposed. This can be used to support the matched funding requirements of any successful future Police Transformation Fund submissions.

11. The Commissioner in the 2016/17 financial year also approved funding from reserves for the Police Innovation Fund Bids (£177k), the creation of a Major Incident Review Team (£161k) and funding for archiving Orgreave material (£500k). The latest budget monitoring position suggests that there will be an underspend to 31 March 2017 of £4.1m, which will increase the level of projected reserves to the year end.

12. As a result of these adjustments (and including the latest budget monitoring position) the forecast level of reserves level at 31 March 2017 is that general reserves will amount to £21.7m and earmarked revenue reserves will amount to £14.7m.

Proposals for 2017/18

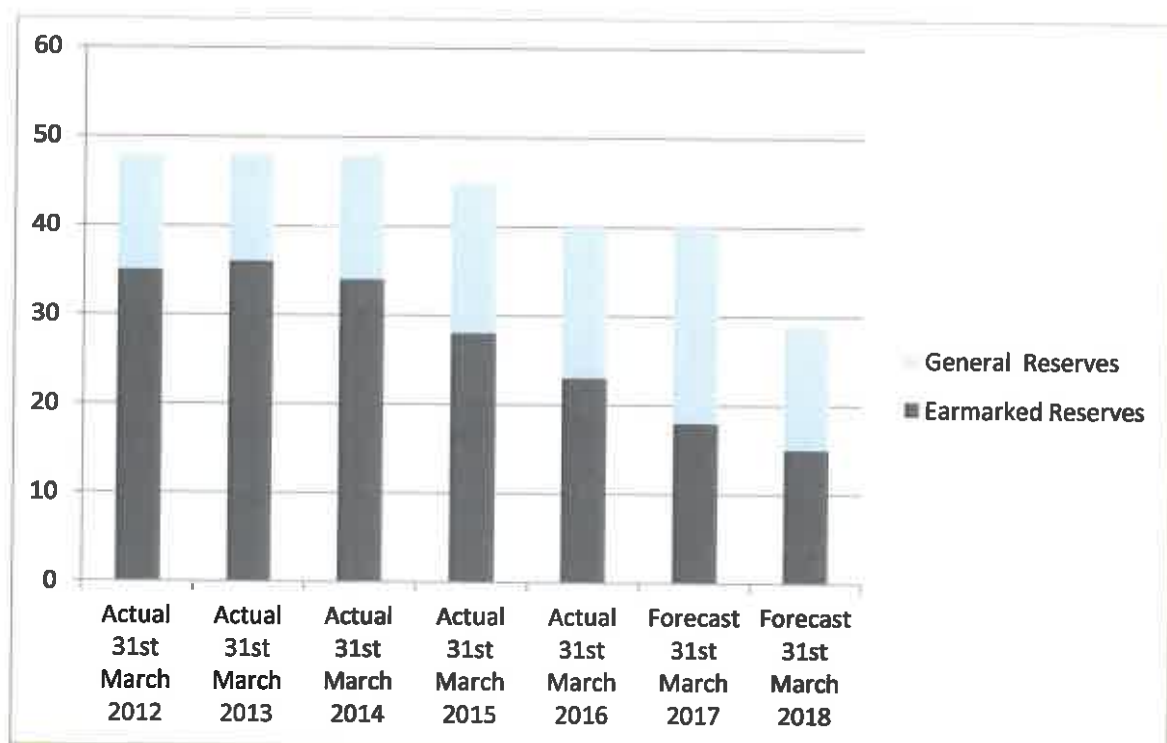
13. The proposed budget for 2017/18 includes contributions from reserves amounting to approximately £11.5m.
- Contribution from the General Reserve of £3.9m from underspends in 2016/17 which can be carried forward and used to meet expenditure in 2017/18 and achieve a balanced budget. The Force had planned an underspend of £3.1m to support the 2017/18 budget gap.
 - Contribution from the General Reserve of £3.9m to meet potential severance costs associated with savings proposals.
 - Contribution from the Capital Reserve of £3.7m to fund capital expenditure in 2017/18.
14. As a result of these proposals, it is estimated that at 31 March 2018 the overall total level of reserves will stand at £28.7m, analysed as follows:

	Forecast Balance at 31/3/17 £'000	Planned Contributions in 17/18 £'000	Forecast Balance at 31/3/18 £'000
General Reserves Balance	21,786	-7,791	13,995
<u>Earmarked Reserves - Revenue</u>			
PCC Commissioning	207	0	207
PCC Innovation	2,000	0	2,000
Insurance	10,896	0	10,896
Devolved Budget	1,660	0	1,660
Total Earmarked Revenue Reserves	14,763	0	14,763
<u>Earmarked Reserves - Capital</u>			
Capital	3,742	-3,742	0
Capital Grants Unapplied	24	-24	0
Total Earmarked Capital Reserves	3,766	-3,766	0
Overall Total	40,315	-11,557	28,758

15. As a result of the budget proposals for 2017/18, the level of general reserves is forecast to be approximately £13.9m by 31 March 2018. This would represent approximately 5.7% of the net revenue budget for 2017/18. Although

this measure can only be regarded as a guide, it does suggest that the overall level of general reserves is within the adequate range.

16. The use of general reserves will create the breathing space for the development of the Force operating model and the identification of savings for future years. Reserves can only be used once and therefore the budget strategy for 2018/19 will be to achieve a balanced budget without the use of reserves.
17. The following chart shows the level of reserves from March 2012 and the forecast levels for March 2017 to March 2018. The chart shows that the projected level of General Reserves at 31 March 2017 will increase as a result of planned underspends in 2016/17 and then decline as those underspends are carried forward to assist with meeting expenditure in 2017/18:



Adequacy of Reserves

18. There is a significant risk associated with legacy issues in particular the compensation claims relating to both Hillsborough and CSE and the outcome of any Special Grant Funding applications to the Home Office. The Home Office Special Grant Fund is not infinite and no application is guaranteed. In the 2016/17 Funding Settlement, announced in December 2016, it was stated that the Special Grant Fund will be responsible for, in addition to Commissioner/Chief Constable applications, the cost of policing the Commonwealth Heads of Government meeting due to take place in 2018.

19. The proposed revenue budget for 2017/18 includes a £5.4m provision for potential expenditure relating to legacy issues. The provision reflects an assumption that any potential expenditure will be largely met from additional funding from Government. Any unsuccessful application for special funding could affect the level and adequacy of the reserves. Therefore the overall level must be kept under review as part of medium term planning and the monitoring of risks.