

838.24	-0.22	11.93%	4.22	-0.22	10.00%
21.23	+0.32	15.20%	835.34	-5.22	11.32%
20.54	+0.32	10.32%	21.23	+9.32	11.56%
72.00	-0.21	11.10%	20.54	+0.32	10.32%
21322.90	+3.12	10.94%	72.00	-0.21	13.10%
3.00	-9.33	10.64%	5322.00	+3.12	10.04%
23.03	-3.98	10.29%	3.00	-9.33	10.66%
238.27	-7.93	18.12%	23.03	-3.98	10.29%
928.10	+3.03	10.89%	4.23	+0.00	11.93%
98.23	+0.34	10.93%	238.27	-7.93	18.12%
4.23	+0.00	11.93%	928.10	+3.03	10.89%
46.92	-3.23	11.32%	98.23	+0.34	10.93%
47.38	+3.98	10.32%	4.23	+0.00	11.93%
78.32	-3.21	10.93%	46.92	-3.23	11.32%
21494.87	-0.32	15.32%	47.38	+3.98	10.32%
2.38	+9.72	10.02%	78.32	-3.21	10.93%
332.45	+2.09	11.87%	21494.87	-0.32	15.32%
86.39	+2.09	11.87%	2.38	+9.72	10.02%
86.39	+2.09	11.87%	332.45	+2.09	11.87%
4.21	+3.03	10.89%	86.39	+2.09	11.87%
46.02	-3.23	11.32%	4.21	+3.03	10.89%
47.38	+3.98	10.32%	46.02	-3.23	11.32%
74.32	-3.21	10.93%	47.38	+3.98	10.32%
2.48	-0.32	15.32%	74.32	-3.21	10.93%
332.45	+2.09	11.87%	2.48	-0.32	15.32%
86.39	+2.09	11.87%	332.45	+2.09	11.87%
4.21	+3.03	10.89%	86.39	+2.09	11.87%
132.09	+0.36	10.93%	4.21	+3.03	10.89%
23.83	+0.00	11.93%	132.09	+0.36	10.93%
37.92	-2.23	11.78%	23.83	+0.00	11.93%
25.33	-2.23	11.32%	37.92	-2.23	11.78%
832.98	-2.21	10.73%	25.33	-2.23	11.32%
75.12	+3.98	10.32%	832.98	-2.21	10.73%
833.22	+1.32	12.12%	75.12	+3.98	10.32%
2122.30	-5.21	10.99%	833.22	+1.32	12.12%
3.00	-9.33	10.66%	2122.30	-5.21	10.99%
83.12	+9.73	10.02%	3.00	-9.33	10.66%
65.98	+2.09	11.87%	83.12	+9.73	10.02%
234.22	+9.32	11.56%	65.98	+2.09	11.87%
2.32	+0.32	10.32%	234.22	+9.32	11.56%
24.13	+3.13	13.29%	2.32	+0.32	10.32%
78.75	+0.32	12.21%	24.13	+3.13	13.29%
49.43	+4.10	11.93%	78.75	+0.32	12.21%
92.42	-0.43	19.83%	49.43	+4.10	11.93%
9329.12	+3.03	10.89%	92.42	-0.43	19.83%
23.32	+0.34	10.93%	9329.12	+3.03	10.89%
928.10	+3.03	10.89%	23.32	+0.34	10.93%
98.23	+0.34	10.93%	928.10	+3.03	10.89%
4.23	+0.00	11.93%	98.23	+0.34	10.93%
46.92	-3.23	11.32%	4.23	+0.00	11.93%
47.38	+3.98	10.32%	46.92	-3.23	11.32%
78.32	-3.21	10.93%	47.38	+3.98	10.32%
21494.87	-0.32	15.32%	78.32	-3.21	10.93%
78.75	+0.32	12.21%	21494.87	-0.32	15.32%



Police and Crime Commissioner for Cumbria  
 Medium Term Financial Strategy 2016-2020



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Welcome to the Police and Crime Commissioner for Cumbria's Medium Term Financial Strategy. The purpose of this document is to inform our stakeholders of our financial plans and policies for 2016-2020. It includes information on our approach to balancing our annual budgets, taking into account the 2015 Comprehensive Spending Review (CSR), changes to the police funding formula and the aspirations of the Police and Crime Plan. It also sets out our approach to financial management and governance and includes our capital programme setting out our expenditure plans for the estate, our vehicle fleet and investment in ICT.

This strategy has been developed in the context of the 2015 CSR that sets out the Government's plans for public spending. Those plans protect police spending in real terms and provide for continuity in the levels of real cash funding to police forces, when taking into account the capacity of Police and Crime Commissioners to raise council tax by up to 2%. During the CSR period the government aims to implement changes to the way police forces are funded. This review of formula funding is currently planned for implementation from April 2017. The CSR commitments make a significant contribution to the medium term financial outlook however the review of formula funding presents some specific challenges for policing in Cumbria.

This medium term financial strategy presents a balanced budget for 2016-17 following which a net deficit results in the requirement for significant savings. The four year forecast is presented on the assumption that funding changes will reduce formula grant resources for Cumbria by £9.9m. There are risks that this assumption proves optimistic when actual formula allocations are calculated because there is potential for a greater funding loss. On the basis of all available information it is a realistic planning assumption that ensures a level of preparedness for future funding settlements. Underlying savings plans are scalable and will be refined as soon as more information is known.

On the basis of these financial plans we will resource an establishment of 1123 police officers, 95 PCSO's and 571 police staff in 2016-17. By 2019-20 we expect police officer numbers to reduce to 997. This is a significant reduction from the position prior to the first CSR in 2010. The Police and Crime Commissioner and the Chief Constable are however satisfied that the financial plans within this strategy can sustain an independent policing model for Cumbria that delivers the aspirations within the Police and Crime Plan.

# Medium Term Financial Strategy

## Purpose

This strategy presents the medium term financial forecasts for revenue and capital expenditure. It supports the priorities of the Police and Crime Plan and ensures a strategic approach to setting the annual budget, including decisions on the level of council tax. Revenue budgets are forecast forward over 4 years. Capital budgets are presented over a ten year timeframe to reflect the greater degree of annual volatility in capital expenditure. The strategy sets out the key assumptions and financial policies that underpin the forecasts. This supports decisions on the level of risk within budgets and the level of provision within reserves to manage those risks.

### The Police and Crime Plan Thematic Areas of Priority

Domestic abuse,  
sexual violence  
and hate crime

Restorative  
Justice

An effective  
policing strategy

Supporting  
victims

Public  
engagement

## Key Financial Objectives

- To deliver a robust and balanced medium term financial plan and annual budget supported by an in-year reporting framework that monitors its delivery.
- To ensure arrangements for funding between the Commissioner and Constabulary deliver value for money and support the priorities of the Police and Crime Plan
- To ensure capital expenditure plans are robustly scrutinised, fully funded for a minimum of four years and are supported by capital strategies that meet the needs of the business
- To maintain a risk assessed level of reserves to meet unplanned expenditure and to provide revenue budget smoothing for intermittent costs.
- To ensure treasury management activities provide for the security of the Commissioner's funds whilst meeting the cash management needs of the Commissioner and Constabulary
- To provide a framework for financial governance that ensures the proper administration of the Commissioner's financial affairs

## Spending Review & Formula Funding

This section of our strategy sets out the national financial plans that influence our funding locally and on which our medium term financial forecasts are based.

### Spending Review 2015

2015-16, the starting point for the development of this strategy, has marked a significant year for police funding. On 25 November 2015 the Chancellor of the Exchequer, George Osborne MP, announced the outcome of the Comprehensive Spending Review (CSR) 2015, detailing spending settlements for each government department over the next four years (2016-17 to 2019-20). It has also been the year in which the Home Office commenced a long awaited consultation on police formula funding, the mechanism through which national funding for police is distributed to policing areas locally.

**Home Office total  
funding: £11.2bn, of  
which Police Grant  
funding is £7.4bn  
2016-17**

Despite expectations that police funding would see significant reductions as part of the CSR 2015, 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." The Spending Review document added that police force budgets will be maintained at current cash levels. Home Office funding under the CSR increases from £10.7bn in 2015-16 to £11.2bn in 2016-17, reducing down to £11bn by 2019-20. The CSR also announced £1bn investment in the emergency services mobile network and an additional £500m for counter-terrorism.

A letter from the Home Office to Police and Crime Commissioner's on 25th November confirmed that this meant a flat real settlement for policing as a whole when taking into account the capacity to raise council tax. The letter also advised that Commissioners should plan on the basis that the overall referendum limit for the police precept will be maintained at 2% over the spending review period. This is the first time that discretions over police precept have been announced on a multi-year basis.

The Home Office letter announced a number of planned changes to policing to be set out in the Police and Criminal Justice Bill. This included proposals to extend the role of PCC's to police complaints, fire and rescue and other services, to support better co-ordination and improve accountability.

Whilst the CSR set out total year on year funding for the Home Office, there has been no separate announcements on local police area funding over the CSR period. The Police Grant Settlement setting out funding for each Police and Crime Commissioner covers 2016-17 only. The table below shows the national totals and the share for Cumbria.

2016-17 Funding Settlement	Police Grant Funding	Legacy Council Tax Grants	Overall Total Funding
National Total England & Wales	6,914,200,241	507,388,388	7,421,588,629
Police and Crime Commissioner for Cumbria	59,542,795	4,849,759	64,392,554
Cumbria % of National Funding	0.86%	0.96%	0.87%

Police Grant Funding is the amount received from the Home Office in respect of historic grants from government departments. Legacy council tax grants are funding that compensates policing areas for the loss of council tax income. It is allocated as a result of decisions to freezing council tax and the introduction of local schemes to support low income households with their council tax bills. Cumbria receives less than 1% of the overall funding total for 2016-17.

## Police Formula Funding

In the summer of 2015 the Home Office issued a consultation on a set of principles and proposals for a new formula to distribute the £7.4bn national funding to local policing areas. There has been broad consensus on the need for changes to the current mechanism for local funding. The underlying data on which police grant is currently distributed is no longer capable of being updated. There has also been a failure to implement the outcome of previous formula review. As a result of these issues, a simple damping mechanism has been applied which has resulted in an annual equal percentage change to the funding currently allocated to each Police and Crime Commissioner.

Whilst the initial intention of the Home Office was to implement the new formula from 2016-17, an error in the process means that the review has been delayed and it is now expected to be introduced from 2017-18. Forecasts of the potential financial implications for resources within Cumbria as a result of current proposals are significant. The error acknowledged by the Home Office mean that there is uncertainty in respect of which statistical measures will be used in the final formula. It is expected that the final model will be strongly based on deprivation indicators supported to a lesser extent by population. The latest proposed formula model is set out below:

Formula Funding Proposed Indicators and Weight	Weighting
Population volume	30%
Households with no adults employed and dependent children	31%
Hard Pressed or Urban adversity/Acorn 5	31%
Volume and bar density	8%

Of significance in the proposal is the inclusion of the highlighted indicator, Acorn 5 Urban Adversity. This indicator replaced Acorn 5 Hard Pressed, a deprivation measure that was included in the initial summer consultation. Changes to the formula using the Urban Adversity measure results in a significant funding loss for Cumbria compared to if the Hard Pressed measure is adopted. There are further financial implications dependent on decisions regarding the inclusion or exclusion of legacy council tax grants within the final formula.

Formula Funding Review: Potential Financial Implications	Formula Grant	Legacy C T	Overall Total
Cumbria Formula Grant 2016-17	59,542,795	4,849,759	64,392,554
Percentage	0.86%	0.96%	0.87%
Formula Funding (Hard Pressed) 0.7178%	49,630,129	3,642,034	53,272,163
Formula Funding (Urban Adversity) 0.6319%	43,690,831	3,206,187	46,897,019
Loss of Formula Funding (Hard Pressed)	9,912,666	1,207,725	11,120,391
Loss of Formula Funding (Urban Adversity)	15,851,964	1,643,572	17,495,535

The table shows that the formula funding review presents a financial risk estimated at between £9.91m and £17.49m, dependent on the specific indicators adopted and on whether legacy council tax grants are also distributed within the formula. Pending the receipt of firm information on the final formula, the medium term financial strategy currently incorporates the funding loss for the Hard Pressed indicator and excludes legacy council tax grants. The full range of financial risk arising from the funding review is being planned for in the change programme. Further information on the implications of the funding loss is set out in the strategy section on our finances.

**£9.9m to £17.5m:**  
The estimated  
financial risk from  
formula funding  
review



This section of our strategy sets out our main areas of income and expenditure, with detailed budgets for 2016-17 and a high level forecast for the four years to 2019-20.

## Our Income

The main income for our budget comes from three sources, Police Grant from the Home Office, Council Tax income from levying a precept and specific grants from government departments. We also have smaller amounts of income from fees and charges and some of our expenditure is

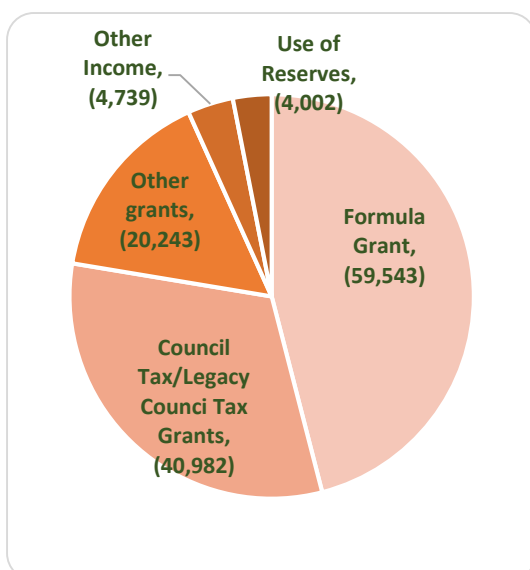
**£129.5m: total gross income for 2016-17**  
**£122.m: total gross income for 2017-18**

funded from reserves we have set aside to meet specific one off costs. The charts below compare our main sources of income for 2016-17 and 2019-20 and show how we expect income to change over the four years to 2019-20. Our forecasts of income change significantly in 2017-18 as a result of proposed changes to the funding formula that distributes total Home Office funding for the police to individual policing areas. Whilst formula funding goes down in 2017-18, by 2019-20 our other grant and council tax income goes up. We also make use of our reserves. This means our total gross income increases to £130.0m in 2019-20, but with a much smaller proportion of that funding coming from Police Grant.

Graph one: Where the Money Comes From

Our Income budget 2016-17

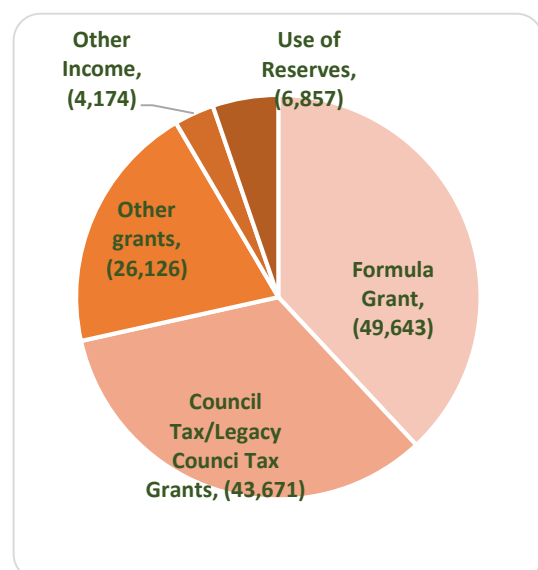
£000

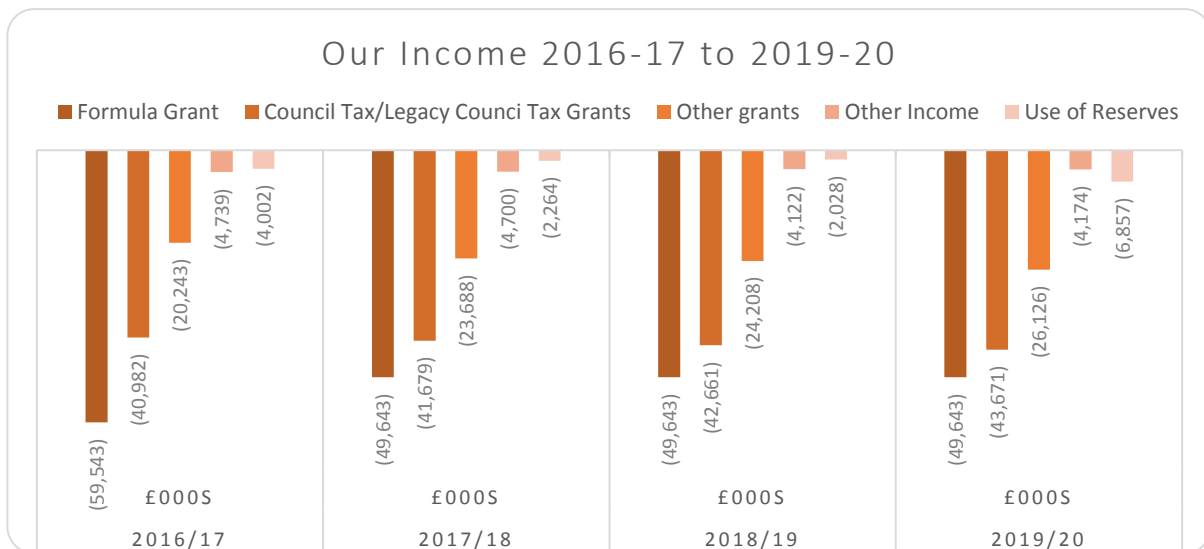


Graph two: Income Forecast

Our forecast Income Budget 2019-20

£000





## Changes in our Income

### Formula Grant Income

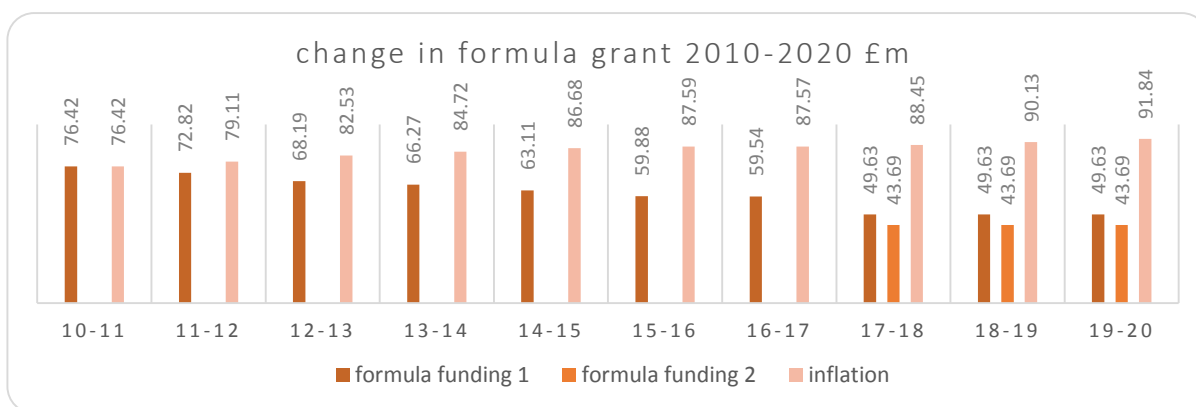
Over the next four years, the most significant change in our income is expected from formula funding. The Home Office plans to introduce a new formula, from 2017-18, that will change how the total amount of funding for police areas is distributed. It is expected that this change will result in a

loss of core formula funding of at least £9.9m for Cumbria, with potential for this loss to be as much as £15.8m. There is a further potential impact on legacy council tax grant funding. This loss of funding follows a significant reduction in formula grant between 2010 and 2016 as a result of the 2010 CSR.

**£26.8m to £32.7m**  
**The forecast loss for**  
**formula grant**  
**between 2010 and**  
**2017**

The chart below sets out the implications for our levels of core formula grant income since 2010<sup>1</sup> and expected levels for the next four years. This is compared to the level of income that could have been expected had formula grant been subject to annual inflationary increases. From 2017-18 formula grant would be £49.6m assuming a £9.9m loss in core formula funding (formula funding 1) or £43.6m assuming a loss of £15.8m (formula funding 2). This compares to £76.4m in 2010-11, a reduction of between £26.8m (35%) and £32.7m (42%). Inflationary increases in grant by comparison would have increased core formula funding income by 20.2% to £91.8m.

<sup>1</sup> formula grant between 2010 and 2016 has been adjusted to reflect specific grants rolling into formula grant



### Council Tax Income

Changes to our council tax income arise from changes to the council tax precept and changes to the tax base (the number of properties on which council tax is charged). These factors are set annually. For 2016-17 the precept has been increased by 1.91% and the tax base has increased by 1.6% compared to 2015-16. The medium term financial strategy makes a number of assumptions on how these factors will change for the three years beyond 2016-17. These assumptions are that the council tax precept will increase by 1.91% or 1.92% annually and that the tax base will increase by 0.75% per annum. This represents a change to the financial strategy that has in previous years assumed no tax base increase or surplus, with any in year variation being taken to reserves. This represents a risk in respect of income levels but this is considered to be an acceptable risk based on past experience. The tables below set out our assumptions and their impact on budgeted income.

Tax base & Precept	15-16	16-17	17-18	18-19	19-20
Tax base increase	1.37%	1.57%	0.75%	0.75%	0.75%
Tax base	162,145	164,683	165,918	167,162	168,416
Precept amount	212.58	216.63	220.77	225.00	229.32
Precept increase		4.05	4.14	4.23	4.32

Council tax	15-16	16-17	17-18	18-19	19-20
Precept income	34,468,731	35,675,249	36,629,714	37,611,533	38,621,177
Cumulative Increase		1,206,518	2,160,983	3,142,802	4,152,446

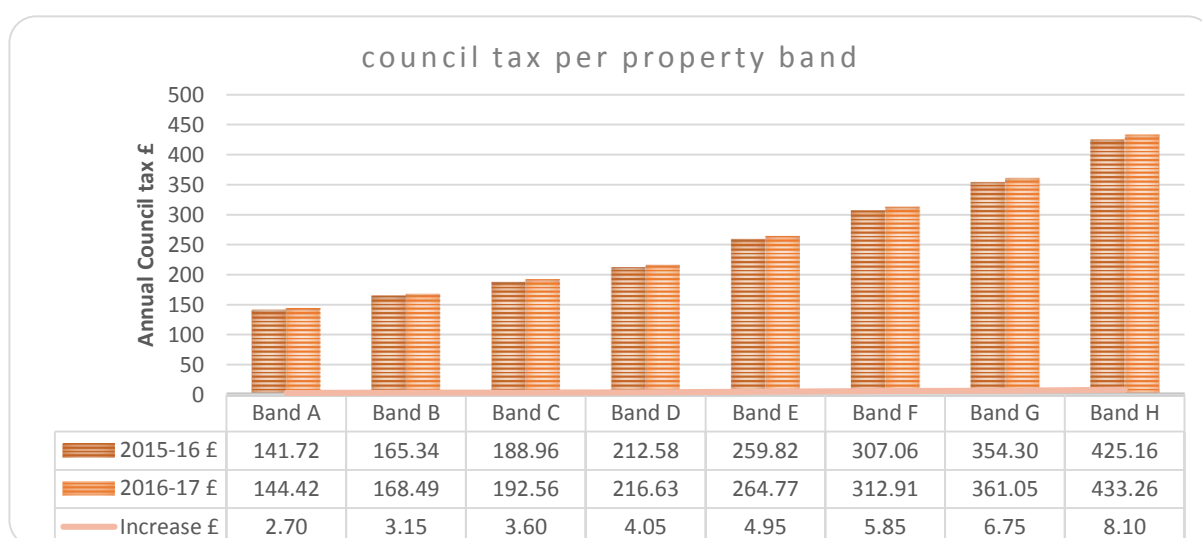
The tables show that Band D council tax charges increase each year by between £4.05 and £4.32 taking the precept amount from £216.63 in 2016-17 to £229.32 in 2019-20. The increase in tax base combined with annually inflated precept charges delivers a cumulative growth in income by 2019-20 of £4.15m. Of this total increase, £2.7m is attributable to the increase in precept and £1.3m to the increase in the tax base, with the balance due to the impact of gearing (the inflationary benefit from the increased tax base or precept amount being applied to prior year income.)

Total income from council tax also includes the Commissioner’s share of any surplus or deficit from district council’s tax collection in the previous financial year. In 2016-17 the Commissioner has benefitted from a tax collection surplus of £457k and we are assuming that we will receive an annual tax collection surplus of £200k in future years. The level of budgeted tax surplus is based on averages for the three years prior to 2016-17.

Council Tax	15-16	16-17	17-18	18-19	19-20
Precept income	34,468,731	35,675,249	36,629,714	37,611,533	38,621,177
Collection surplus	518,023	456,740	200,000	200,000	200,000
Total council tax income	34,986,754	36,131,989	36,829,714	37,811,533	38,821,177

Our income will change across the life of this strategy if the actual tax base, precept or surplus varies from budget assumptions for the final three years of our forecasts. The tax base has a sensitivity to our assumptions of £575k for every 0.5% change. This means a decrease in our income of £575k by 2019-20 if the tax base only grows by 0.25% per annum or an increase of the same amount if it grows by 1% per annum. The sensitivity of the precept is £1m for every 1% change over three years.

Whilst this medium term forecast assumes council tax increases for the life of the strategy, decisions on the increase in council tax are taken annually and following consultation with the public, the Police and Crime Panel and the Chief Constable. The 2016-17 police grant settlement confirmed that 2% will be the level above which any decision to increase council tax would trigger a requirement for a public referendum. This level applies to the full four years of this strategy. The impact of the increase for 2016-17 is that Band A council tax payers will receive an increase of £2.70. At Band H the increase is £8.10 for the year. The charge for the policing element of council tax ranges £144.42 to £433.26.



### Changes in Council Tax Income & Legacy Council Tax Grants

Legacy council tax grants are paid to local policing areas as a result of decisions to forgo council tax income. They support decisions to freeze council tax and schemes that help low income households with their council tax bills. The government uses national data to estimate the financial impact of local decisions on council tax. Legacy

council tax grants are distributed in lieu of the council tax income they estimate policing areas would otherwise have received. Cumbria has been in receipt of £4.85m in legacy council tax grant since 2013-14. Because legacy grants compensate for loss of council tax income, any analysis of historic income from council tax needs to take account of these grants.

**£9.5m: the forecast increase in council tax precept and legacy grants 2010 to 2020**

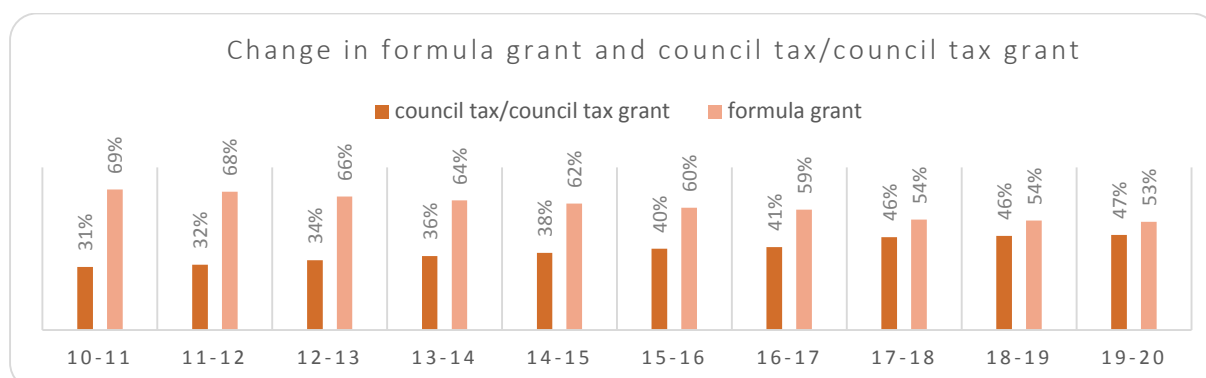
From 2017-18 future levels of legacy council tax grant funding present a risk to the budget as the national formula funding review is considering the inclusion of these grants within formula grant. Grant income reduces by between £1.21m and £1.64m contingent on the indicators selected for the formula, should this funding be included within the final funding model for police. Our budget currently assumes no change. The table below shows our actual income and forecasts for council tax income and government funded legacy council tax grants between 2010 and 2020, based on our budget.

10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
34,209	34,391	35,590	32,941	33,605	34,987	36,132	36,830	37,812	38,821
			4,850	4,850	4,850	4,850	4,850	4,850	4,850
34,209	34,391	35,590	37,791	38,455	39,837	40,982	41,680	42,662	43,671

In 2019-20, income is forecast to be £43.7m, compared to £34.2m in 2010-11, an increase of £9.5m or 28%. Over the same period actual and forecast inflation is 20%. This means that, when allowing for the growth in the tax base/collection surplus and increases in the amount of the precept, implemented and planned levels of income achieve growth above the rate of inflation. This helps to support the budget from changes in our Police Grant Income.

The implemented and expected reductions in formula funding alongside the increase in council tax income over time significantly changes the balance of income with a much stronger dependency on local funding. Whilst this provides more resilience to future funding settlements, the difference between the additional income generated through council tax and the loss of formula funding, combined with the impact of cost inflation, has resulted in a significant loss of total resources. The

chart below shows the actual and expected change in the balance between formula funding and council tax/legacy grant income on the basis of the minimum estimated loss of Police Grant of £9.9m.



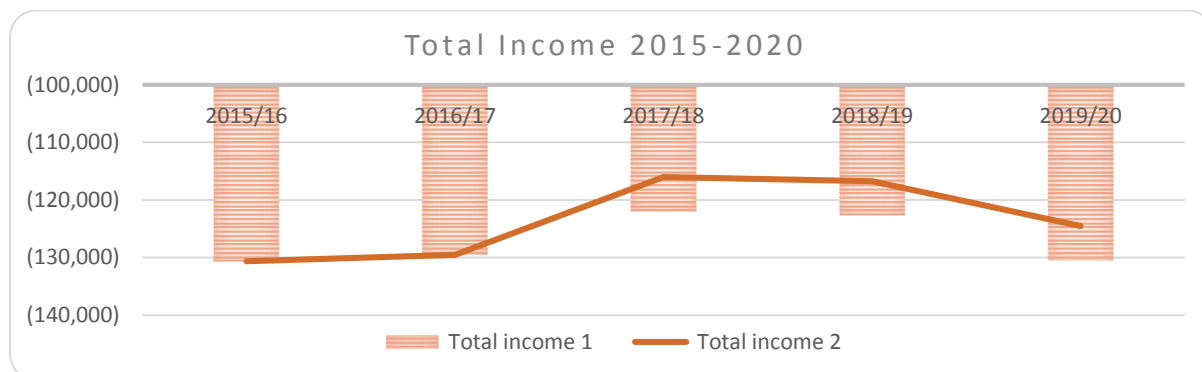
## Total Forecast Income 2015-2020

The table and chart below set out our forecast total income for the life of the medium term financial strategy. Formula funding and total income 1 show the forecast using a £9.9m reduction in formula funding. Formula funding and total income 2 show the impact of a £15.8m loss. The chart sets out the trends for each income stream.

Total Forecast Income	2015/16	2016/17	2017/18	2018/19	2019/20
	£000s	£000s	£000s	£000s	£000s
Use of Reserves	(6,248)	(4,002)	(2,264)	(2,028)	(6,857)
Fees, charges, other income	(4,092)	(4,739)	(4,700)	(4,122)	(4,174)
Home Office Pension Grant	(18,006)	(18,134)	(21,577)	(22,095)	(24,010)
Other grants	(2,599)	(2,109)	(2,111)	(2,113)	(2,116)
Legacy Council Tax Grant	(4,850)	(4,850)	(4,850)	(4,850)	(4,850)
Council Tax	(34,987)	(36,132)	(36,830)	(37,812)	(38,821)
Formula Grant 1	(59,884)	(59,543)	(49,643)	(49,643)	(49,643)
<b>Total income 1</b>	<b>(130,665)</b>	<b>(129,507)</b>	<b>(121,974)</b>	<b>(122,663)</b>	<b>(130,470)</b>
Formula grant 2	(59,884)	(59,543)	(43,691)	(43,691)	(43,691)
<b>Total income 2</b>	<b>(130,665)</b>	<b>(129,507)</b>	<b>(116,022)</b>	<b>(116,711)</b>	<b>(124,518)</b>

The table shows income falling significantly in 2017-18 as a result of the changes in formula grant, following which increases in council tax income and police pension grant provide annual increases in total income. Police pensions grant is offset by an equivalent increase in the overall cost of police pensions. It funds the deficit between benefits paid and employer and employee contributions received. Being matched with growth in expenditure, it has a net neutral impact on the overall budget and does not represent real growth in income. The medium term financial forecast between 2015 and 2019-20 utilises £20.4m in reserves. This provides a measure of the extent to which total recurrent

revenue costs and one off investment costs exceed recurrent income. Earmarked revenue reserves will be substantially depleted by 2019-20 with capital reserves depleted by 2020-21. Further information on reserves is set out later in the financial strategy.



## How the money is spent

The charts below set out our expenditure budgets from 2015-16 to 2019-20 allocated between the Commissioner's budgets and the budgets provided by the Commissioner to the Chief Constable to provide for the costs of policing Cumbria. For 2016-17 budgets are shown both subjectively (what we spend the money on) and objectively (the services we provide by incurring this expenditure).

**£111.2m: the funding provided to the Chief Constable for Policing in 2016-17**

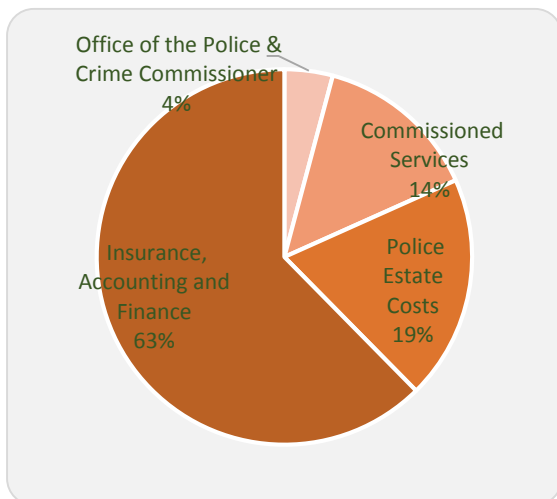
The total expenditure budget for 2016-17 is £129.5m from which the Commissioner provides funding of £111.2m for the Chief Constable to provide for the cost of policing Cumbria. This funding is agreed annually between the Commissioner and Chief Constable based on a proposal from the Constabulary.

Description	2015/16 £000's	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's
Commissioner's Expenditure	18,186	18,264	13,466	13,541	20,567
Constabulary Expenditure	112,480	111,244	115,178	117,170	118,916
<b>Total Expenditure</b>	<b>130,665</b>	<b>129,507</b>	<b>128,643</b>	<b>130,711</b>	<b>139,483</b>

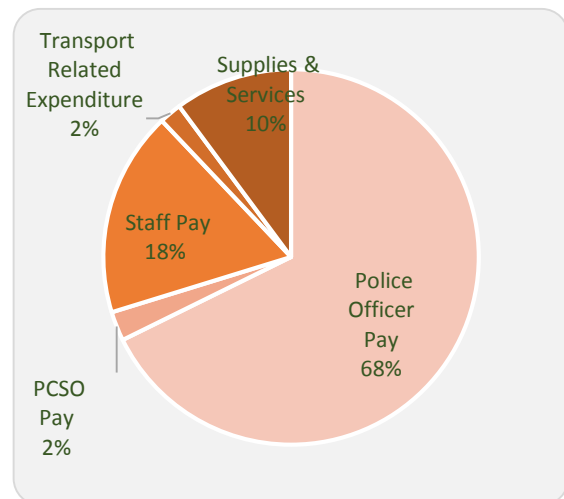
The Commissioner manages costs in relation to the police estate, insurances and the technical and accounting charges and reserves movements that reflect how the budget is financed. These costs reflect the Commissioner's statutory powers and financial responsibilities. These responsibilities are different to those of the Chief Constable and make up the most significant element of the total

expenditure managed by the Commissioner (£14.9m, 82% 2016-17). The Commissioner’s budgets also provide for the delivery of the commissioning strategy that supports the priorities within the Police and Crime Plan and the Commissioner’s wider statutory duties for community safety, enhancing criminal justice and supporting victims.

Commissioners Budgets	2015/16	2016/17	2017/18	2018/19	2019/20
	£000s	£000s	£000s	£000s	£000s
Office of the Police & Crime Commissioner	799	759	768	777	786
Commissioned Services	2,699	2,583	2,083	2,083	2,083
Police Estate Costs	3,717	3,529	3,610	3,694	3,780
Insurance, Accounting and Finance	10,971	11,393	7,004	6,988	13,918
<b>Total expenditure</b>	<b>18,186</b>	<b>18,264</b>	<b>13,466</b>	<b>13,541</b>	<b>20,567</b>



Commissioner's Budgets 2016-17



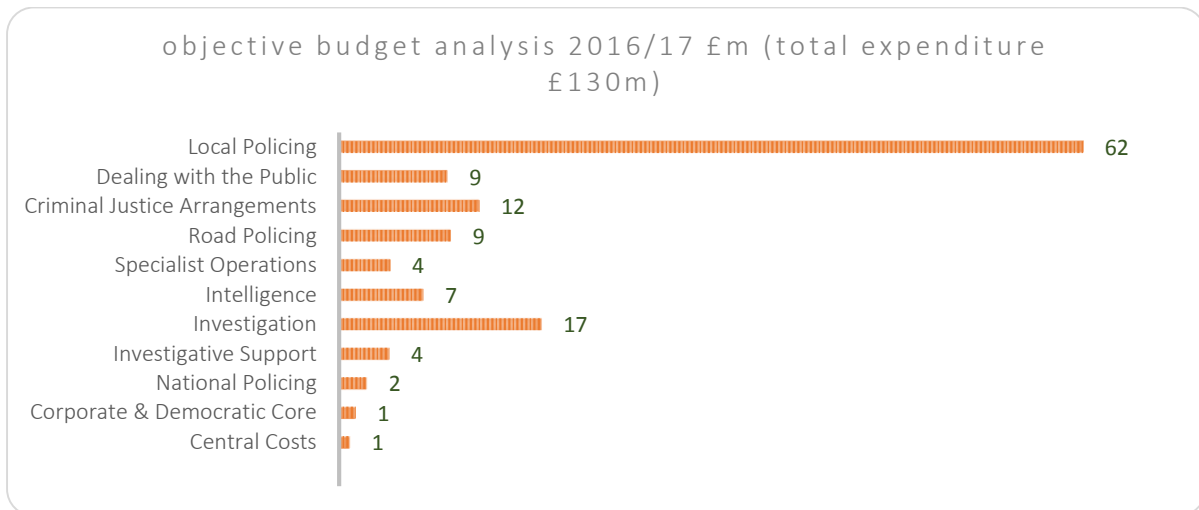
Constabulary Budgets 2016-17

Constabulary Budgets	2015/16	2016/17	2017/18	2018/19	2019/20
	£000s	£000s	£000s	£000s	£000s
Police Officer Pay	76,347	75,326	80,328	81,809	83,058
PCSO Pay	2,811	2,814	3,031	3,023	3,120
Staff Pay	19,359	19,665	18,903	19,077	19,253
Transport Related Expenditure	2,470	2,134	2,193	2,255	2,318
Supplies & Services	11,493	11,304	10,723	11,006	11,166
<b>Total Expenditure</b>	<b>112,480</b>	<b>111,244</b>	<b>115,178</b>	<b>117,170</b>	<b>118,916</b>

The Constabulary budgets for 2016-17 support an establishment 1123 police officers, 95 PCSO's and 582 police staff. 88% of total expenditure is on establishment costs with a further 10% on supplies and services and 2% on transport.



The graph below sets out our total combined expenditure of £130m for 2016-17 analysed objectively, showing that by far the most significant proportion of that expenditure (£62m) provides for the cost of local policing. This is the cost of neighbourhood policing, incident management, community liaison and command teams. Appendix A to this strategy sets out a brief description of each objective heading in the chart.



## Total Forecast Expenditure 2016-2020

This section of the strategy sets out our forward forecasts for total expenditure for the four years to 2020. In doing this we make a number of assumptions about how we expect our costs to increase. Our assumptions for expenditure within this strategy and forecast are:

- Pay awards will be limited to 1% annually in line with the public sector pay ceiling
- Our pension contribution rates (24.2% police; 12.7% police staff) will remain unchanged for the life of the strategy
- The triennial actuarial review of the LGPS will increase past service pension costs from £0.8m to £1.2m from 2017-18
- Employers National Insurance costs are assumed to increase by 3.4% following the introduction of the single state pension, an additional cost of £1.6m from 2016-17
- Most non-pay budgets will receive an uplift of 1% in 2016-17 followed by 1.9% per annum in line with Bank of England Inflation forecasts
- Energy and fuel costs will receive an uplift of 5% to reflect the volatility of these costs and historically low prices.

Our budget assumptions are subject to sensitivity testing to ensure the risks of any assumptions are understood and to inform the level of earmarked operational reserves and contingencies. The tables below set out the sensitivity of our main budget assumptions to changes.

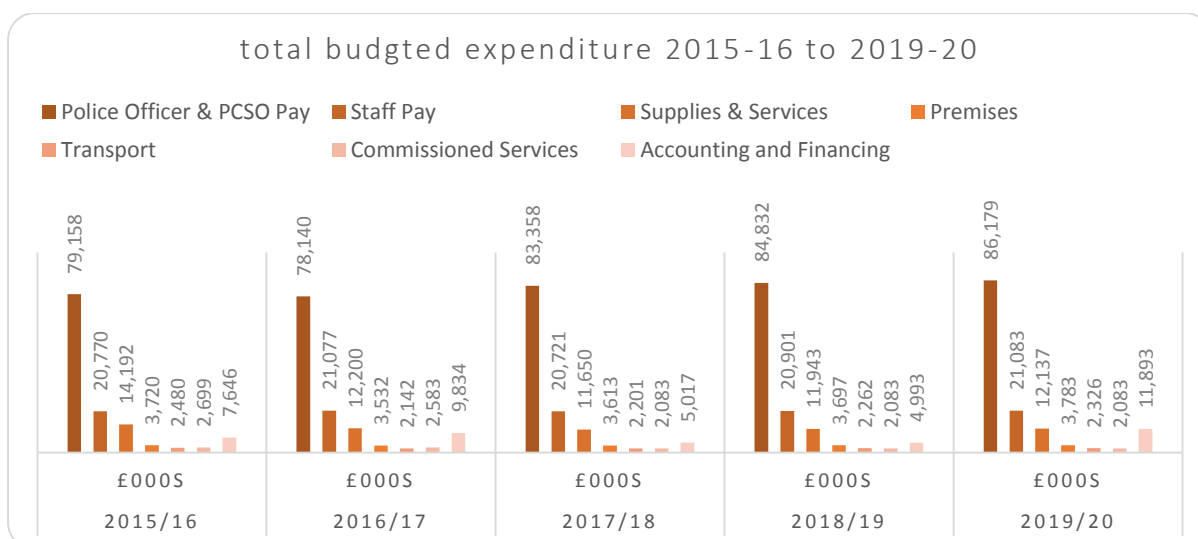
Cost per annum per 0.5% change in inflation/contribution factor.	Inflation/Contribution Factor 2016/17	Financial Impact +/- 0.50%	Inflation Factor Future Years
	%	£000s	%
Area of Budget			
Pay	1.00%	364	1.00%
Utilities (Gas, Electric, Oil)	5.00%	4	5.00%
Vehicle Fuel	5.00%	5	5.00%
Non Pay (General)	1.00%	75	1.90%
Police Officer Pensions	24.20%	198	0.00%
Staff and PCSO Pensions	12.70%	77	0.00%
National Insurance	13.80%	236	0.00%

In addition to sensitivity testing all budgets are annually reviewed through a Star Chamber process that re-assesses and challenges costs based on prior year experience and expectations for the next financial year. This process for 2016-17 has delivered a saving of £1.8m in expenditure.

Over the four years of this medium term strategy, and on the basis of the above assumptions, our forecasts are that total expenditure will increase from £129.5m in 2016-17 to £139.5m by 2019-20.

Total Expenditure	2015/16	2016/17	2017/18	2018/19	2019/20
	£000s	£000s	£000s	£000s	£000s
Total Expenditure	130,665	129,507	128,643	130,711	139,483

Whilst total expenditure is forecast to increase by £10m, the significant proportion of that increase is as a result of police pay which includes the cost of police pensions. Pension's costs grow by £5.9m but are matched by an equivalent growth in police pension grant. Police pay costs excluding pensions grow by £1.8m. The balance of growth in the budget is a result of accounting and financing costs primarily associated with the capital programme. More information on capital and financing for the programme is set out later in this strategy. All other areas of expenditure remain at relatively stable levels over four years as a result of anticipated low rates of pay and price inflation combined with one off reductions in cost as a result of the Star Chamber process for 2016-17.

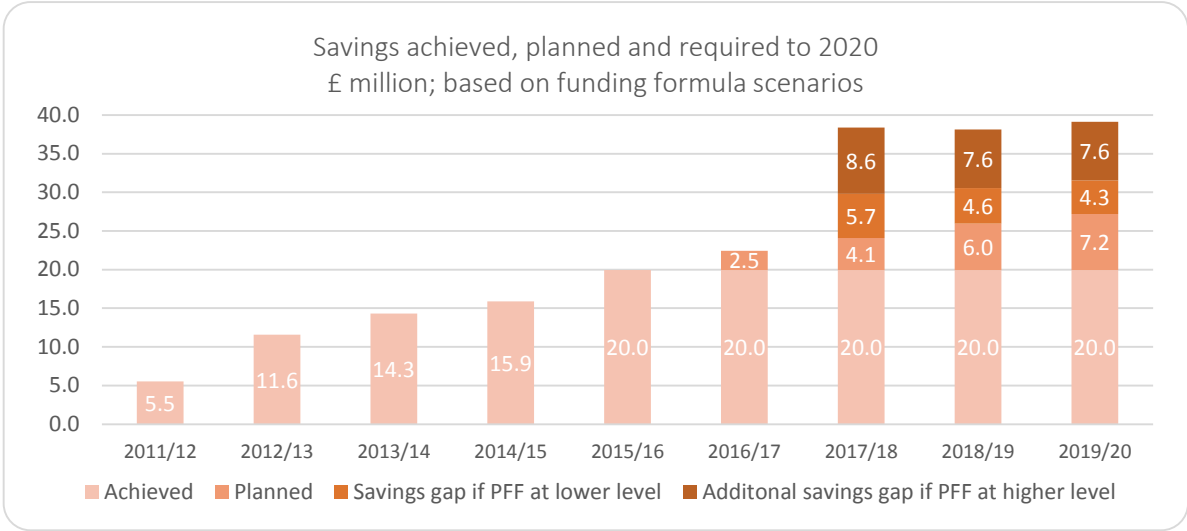


## The Net Deficit & Plans for Saving

The table and chart below set out the overall financial impact of our forecasts for income and expenditure. The 2016-17 financial year shows a balanced budget as a result of work during 2015-16 to review expenditure and reduce costs. From 2017-18 our assumptions regarding the expected changes to our share of formula funding through Police Grant generate a deficit and savings requirement of between £9m to £16.6m. Net deficit FF1 in the table below shows the deficit based on our current budget and assumes a formula funding loss of £9.9m. The net deficit FF2 shows the deficit based on our estimate of maximum level of potential formula funding loss.

Medium Term Budget 2016-2020	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s
Total Expenditure	130,665	129,507	128,643	130,711	139,483
Total Income/Funding	- 130,665	- 129,507	- 121,974	- 122,663	- 130,470
Net Deficit FF1			6,669	8,048	9,013
Net Deficit FF2			14,252	15,631	16,596

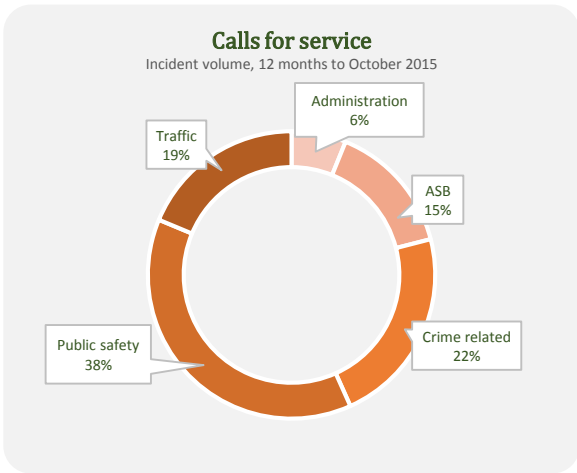
The forecast budget deficit will need to be addressed through the delivery of savings of at least £9m by 2019-20. This is in addition to £20m of savings that have been delivered between 2010-11 and 2015-16 and £2.5m that have been included within the 2016-17 budget. The chart below sets out the savings that have been delivered and are planned between 2011-12 and 2019-20. It also shows the additional savings that may be needed dependent upon the impact of formula funding on our income.



Plans for savings currently aim to deliver £7.2m in cost reduction between 2016-17 and 2019-20. These will reduce the workforce to 997 officers and 95 PCSO's supported by 500 Police Staff. Beyond these changes we estimate that a further £4.3m to £11.9m savings will need to be made by 2019-20. Savings proposals being developed by the Constabulary change team are based around a number of core themes that aim to deliver flexible and scalable options to respond the financial challenge supported by a core principle of 'keeping Cumbria safe'. Key themes within the change programme are:

**Command and Control:** Changing how we organise and respond to calls for service from the public to resolve issues at the earliest opportunity and managing out demand that is not appropriate for the police service to deal with.

**Community and Response Policing:** The Constabulary has changed the structure and number of its neighbourhood policing teams. The limitation for reducing officer numbers is the



geography of the county - a fixed number of officers is required to cover the large area, regardless of the number of incidents or crimes, because a minimum number is required to deliver a safe 24/7 emergency response service and meet national targets. For uniformed response officers, the reduction in officers is planned to achieve this minimum level.

#### Problem Solving and Proactive Capability:

**NEW** The Constabulary will design leading-edge flexible structures and processes to deliver the right level of prevention activity that proves its cost effectiveness by reducing calls for service.

**Review of Sergeant Ranks:** **NEW** The Constabulary will undertake a review of the sergeant ranks to ensure cost effective and appropriate supervisory levels across all of the operational portfolios

**Operational Support:** Reduction in supervisory ranks in the later years of the programme

**Dog Capability:** **NEW** The review will develop options for change in how this service could be provided, ensuring that tactical firearms options are maintained.

**Custody and Criminal Justice:** A review of custody in previous years rationalised how the Constabulary managed this critical function. There will be further work to provide options for change that will identify savings including the implantation of processes to streamline and digitise case file management.

**Criminal Justice Administration:** **NEW** The Constabulary will develop options for change to streamline peripheral administrative support to criminal justice, using technology and redesigning our processes.

**Rationalisation of Front Counters:** Plans are being developed to reduce front counters away from main stations and in respect of the

number of hours services are available. Public consultation will be undertaken as part of this process.

**Crime Command Phase 2:** **NEW** Using demand analysis to review service to achieve savings through redesigning processes, centralising suitable functions, stopping activities that can be removed with minimal risk to the public, maximising benefits from strategic and regional units.

**Administration Services:** streamline and remove activity to reduce transactional costs.

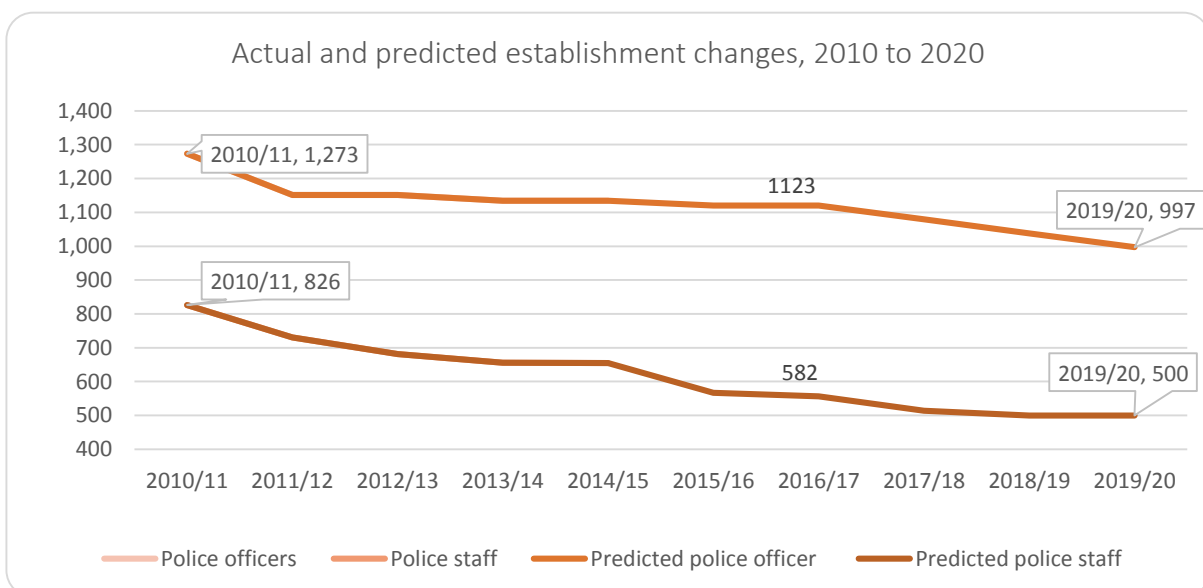
**Duties Management:** Following the changes to operational officers, the Constabulary is scheduled to centralise and streamline its duties management staff under the Strategic Resourcing Cell

**Print Services:** This project is looking at the most cost effective way to deliver print services to the Constabulary.

**Corporate Support and Corporate Improvement Targeted Reductions:** **NEW** This will include: an options' analysis and evaluation to determine the best approach for business services (transactional administration across HR, Procurement, Finance, Fleet, Estates and others); development of ICT Strategy to determine the level of resource required; options to stop large amounts of activity and reporting, supported by radically streamlined policy and processes.

Summary of Change Programme and Savings	Cumulative Savings (£ million)			
	2016/17	2017/18	2018/19	2019/20
Command & Control	0.610	0.624	0.630	0.636
Community & Response Policing	1.122	1.041	1.053	1.064
Operational Support	0.040	0.081	0.082	0.082
Custody & Criminal Justice	0.419	0.776	0.781	0.785
Crime Command	-	0.493	0.493	0.493
Officer Reductions to 977	-	0.670	1.818	2.966
Front Counter Services	-	0.110	0.441	0.441
Administration Services	0.272	0.275	0.500	0.500
Print Services	0.022	0.044	0.044	0.044
Duties Management	-	-	0.055	0.055
Inflation on Change Programme Figures	0.001	0.034	0.103	0.183
<b>Total</b>	<b>2.486</b>	<b>4.148</b>	<b>5.998</b>	<b>7.249</b>

The chart below shows how the establishment numbers have reduced since 2010 for police officers and police staff with current predictions for future numbers based on the existing change programme. Over the period, officer posts will have reduced by 22%, police staff by 39% and PCSOs by 17% (from 114 to 95). The chart shows the impact of delivering £7.2m of savings from 2016-17 resulting in a total establishment of 1592. Early estimates of the impact of the formula funding reductions have potential to reduce the establishment further to between 1466 and 1245 posts, although in practice some savings from supplies and services will mitigate the need for some reductions to the establishment.



Our finances are managed in the context of this medium term financial strategy. The strategy sets out the key financial objectives that support financial management and governance and underpin the development of annual, medium and longer term revenue and capital budgets. The strategy is supported by financial policies that set out how we will account for and manage our money including our approach to holding reserves.

## Achieving Our Financial Objectives

### Objective One

To deliver a robust and balanced medium term financial plan and annual budget supported by an in-year reporting framework that monitors its delivery.

### How do we do this?

The Police and Crime Commissioner sets the strategic direction for policing. The Commissioner's Chief Finance Officer sets the financial assumptions and parameters that govern how future income and expenditure will be forecast. This provides a framework within which the Constabulary prepare annual and longer term budget proposals for revenue and capital expenditure. These proposals are considered by the Commissioner in February each year, supported by advice from the Chief Finance officer. The final approved budgets are set out in a funding arrangement between the Commissioner and Chief Constable. The funding arrangement provides for the Constabulary to produce quarterly monitoring reports that provide information in any variances between actual and budgeted expenditure and any action that will be taken to address this.

### Objective Two

To ensure arrangements for funding between the Commissioner and Constabulary deliver value for money and support the priorities of the

### How do we do this?

The annual budgets and funding arrangements are prepared alongside the development of the Police and Crime Plan and a review of value for money. The funding arrangement ring-fences Constabulary funding to specific Police and Crime Plan priorities and commitments, for example providing for a specific number of Police Officers and PCSO's. A report is prepared for the Commissioner by the Constabulary analysing annual HMIC<sup>2</sup> value for money profiles and the police effectiveness, efficiency and legitimacy programme. Where costs are identified as being higher than those of other similar forces, for reasons other than specific policy decisions or fixed costs, savings are built into the change management programme

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<sup>2</sup> HMIC: Her Majesty's Inspectorate of Constabulary

Police and Crime Plan

and Constabulary budgets are reduced. The Commissioner monitors the implementation of significant HMIC recommendations.

### Objective Three

To ensure Capital Expenditure Plans are robustly scrutinised, fully funded for a minimum of four years and are supported by capital strategies that meet the needs of the business

### How do we do this?

The cost of the capital programme is forecast on the basis of a 10 year planning cycle, rolled forward annually. Estimates are made of the likely level of capital grant funding following government spending announcements. The estates strategy is used to profile the value and likely timing of capital receipts. Capital expenditure is profiled on the basis of medium term capital strategies for the fleet, estates and ICT. Constabulary working groups enable operational users to input into the strategy and specifications for the functionality of vehicles and ICT/other equipment. Direct revenue contributions are modelled on the basis of the gap between total costs and grant/capital receipt income across the first four years of the capital programme. This ensure the financial implications of the capital programme are fully funded for the period of the medium term financial strategy. All expenditure is robustly challenged by a 'Star Chamber' of Constabulary and OPCC officers prior to being presented to the Commissioner for scrutiny as part of the budget process.

### Objective Four

To maintain a risk assessed level of reserves to meet unplanned and approved earmarked expenditure and to provide revenue budget smoothing for intermittent costs.

### How do we do this?

The Commissioner's Chief Finance Officer presents a policy on reserves annually as part of the budget setting process. The policy takes into account the risks identified in the officer's Section 151<sup>3</sup> report on the robustness of the budget. Those risks inform the overall level of general reserves and any specific earmarked reserves necessary to provide mitigation. Further earmarked reserves are set aside for the financial management of large one off investments. The policy also provides for the establishment of specific operational contingencies within reserves to meet revenue pressure that arise cyclically but not annually, to smooth the impact on the revenue budget and manage down recurrent costs.

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<sup>3</sup> The section 151 report refers to the statutory report of the Chief Finance Officer that is a requirement under section 151 of the Local Government Finance Act 1972.



### Objective Five

To ensure Treasury Management activities provide for the security of the Commissioner's funds whilst meeting the cash management needs of the Commissioner and Constabulary

### How do we do this?

A treasury management strategy is approved annually by the Commissioner as part of the budget setting process. It sets out the rules that must be followed in investing surplus cash including institutions, financial instruments and the investment limits that must be complied with. The strategy is developed under guidance from external treasury management advisors and subject to scrutiny by the Joint Audit and Standards Committee. It is underpinned by a treasury management practices document in compliance with the CIPFA<sup>4</sup> Code of Practice setting out more detailed rules and requirements for a treasury management function. Quarterly reports are produced during the year to report on activity and provide assurance regarding on-going compliance with the strategy.

### Objective Six

To provide a framework for financial governance that ensures the proper administration of the Commissioner's financial affairs

### How do we do this?

The Commissioners' Code of Corporate Governance is an annually approved framework that sets out key aspects of corporate governance including those relating to finance. This includes the requirement for financial regulations, financial rules, procurement regulations, policies governing reserves, prudential indicators for capital financing, the financial statements and treasury management practices. The financial governance framework is supported and challenged by the arrangements for internal and external audit and the Joint Audit and Standards Committee. Arrangements in respect of the budget and financial management are also subject to challenge and review externally by the Police and Crime Panel and HMIC.



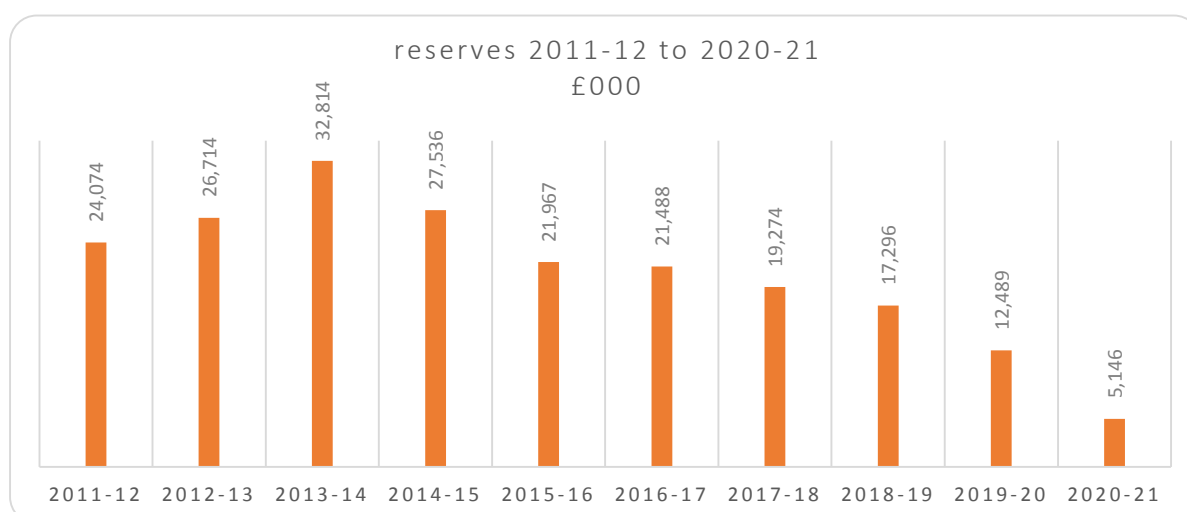
<sup>4</sup> The Chartered Institute of Public Finance and Accountancy

## Policy on Reserves

Our policy on reserves meets the statutory requirement to consider annually the level of reserves that should be held to meet future expenditure requirements when setting the budget. It sets out the purpose for which reserves are held and the planned movement in reserves over the life of this strategy. Our reserves are held for three main purposes. These are:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
- a contingency to cushion the impact of unexpected events or emergencies
- a means of building up funds, often referred to as earmarked reserves, to meet known or anticipated liabilities

The level of reserves should take into account the medium term financial plan and not be based solely on short term considerations. The most significant factor influencing the level of reserves is the capital programme. Annual capital grant from the Home Office is £0.43m in 2016-17 and there is a risk that this funding is reduced further when formula grant is reviewed. Between 2016-17 and 2020-21 the capital programme will cost £46m as a result of significant investment in ICT and major estates projects. Resourcing capital expenditure requirements without recourse to borrowing and the associated interest costs requires forward financial planning – essentially saving up. Our reserves for the 10 years between 2011-12 and 2020-21 are set out below, and demonstrate this principle. The figures show actual or planned reserves at the end of each financial year.



£21.5m of funds are held in 2016-17 and this is forecast to reduce to £5.1m by 20-21 following the delivery of significant capital investment. Beyond 2021 our capital programme returns to a more steady

state with average expenditure of £3.2m funded by direct revenue contributions and the Home Office capital grant.

Set out below is a description of the reserves held by the Commissioner, the purpose for which they are held and a table setting out the planned movement in reserves over the life of this medium term financial strategy.

**General Reserves:** The general reserve is the main contingency for unexpected events, and the management of cash flow. The level of general reserve is £3m in 2016-17. The amount represents approximately 3% of the net recurrent budget. The level of general reserve takes account of the risks within the budget as set out in the Chief Finance Officer's report on the robustness of the budget and the level of provision for those risks within specific earmarked reserves and contingencies.

**Capital Reserves:** Capital reserves are a combination of general and earmarked revenue contributions that have been set aside to meet the costs of approved capital schemes to be delivered over multiple financial years. The policy is that general capital reserves will be maintained at a level to ensure a balanced capital budget for the duration of the medium term financial forecast. The reserves plan also provides for two specific earmarked capital schemes for the estate – North and West Resilience Flood Management. Further information on the capital programme is set out later in this strategy.

**Earmarked Reserves:** Earmarked reserves are held for a number of specific purposes. **Future liability reserves** provide for areas within the budget where there is a liability but the amount or timing is uncertain. They are currently held to manage our liabilities around insurance risk and in respect of future liabilities for the PFI contract at Workington. **Budget stabilisation reserves** are established to smooth the impact of intermittent costs across financial years. These have been instrumental in supporting year on year reductions in recurrent revenue budgets. They provide a pool of funds that can be used should a significant budgets risk materialise. In practice these risks occur intermittently and providing for them through reserves reduces the requirement within recurrent budgets. Examples include providing for a peak in energy costs during a severe winter or responding to a significant unplanned major incident. If these reserves are required in year they will be topped up as part of the following year's budget process. A general operational reserves is held for both the Police and Crime Commissioner and the Chief Constable as recommended by the Home Office Financial Management Code of Practice. **Project reserves** primarily fund the one off revenue implications of approved capital schemes, the main project reserve being for the ICT business plan.

£32.8m: our actual reserves at year end 2013-14  
£5.1m: forecast reserves at year end 2020-21

## Reserves Plan 2016-17 to 2019-20

	01 April	2016/17	01 April	2017/18	01 April	2018/19	01 April	2019/20	01 April
	2016	movement	2017	movement	2018	movement	2019	movement	2020
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
General Reserve/Police Fund	3,000		3,000		3,000		3,000		3,000
General Reserve/Police Fund	3,000		3,000		3,000		3,000		3,000
General Capital reserve	2,810	(2,810)						1,743	1,743
North Resilience Flood Management		2,055	2,055	(1,177)	878	(878)			
West Resilience Flood Management	13,077	923	14,000	(750)	13,250	(1,050)	12,200	(6,600)	5,600
Total Capital Reserves	15,887	168	16,055	(1,927)	14,128	(1,928)	12,200	(4,857)	7,343
<b>Future Liability Reserves</b>									
Insurance	523		523		523		523		523
PFI Lifecycle	303		303		303		303		303
<b>Budget Stabilisation Reserves</b>									
PCC Operational	250		250		250		250		250
Constabulary Operational	250		250		250		250		250
Constabulary Contingency	500		500		500		500		500
Body Armour	41	50	91	50	141	50	191	50	241
<b>Short Term Project Reserves</b>									
ICT Business Plan (Revenue)	868	(578)	290	(290)					
Short Term Projects	345	(119)	226	(47)	179	(100)	79		79
Total Earmarked Revenue Reserves	3,080	(647)	2,433	(287)	2,146	(50)	2,096	50	2,146
Total All Reserves	21,967	(479)	21,488	(2,214)	19,274	(1,978)	17,296	(4,807)	12,489

## Other Key Financial Policies

The Commissioner is required to annually approve a Treasury Management Strategy Statement and Treasury Management Practices that sets out the policies for managing cash flow and investments and for giving priority to the security and liquidity of those investments. The investment policy contains limits for the amount and duration of specific categories of investment based on their credit rating.

General policy is that investments should be made prudently with primary importance given to security ahead of liquidity and finally the yield that an investment may bring. The Commissioner holds significant investment balances as a result of income being received in advance of expenditure. During 2015-16, the Commissioner's investment balance has ranged between £13.2m and £34.2m. The larger sum is due to the receipt in July 2015 of £15.6m pension top up grant from the Home Office which is drawn down steadily over the remainder of the year.

Balances in 2016-17 are forecast to be similar to those of 2015-16. It is anticipated that some grant funding may be received in advance of the capital spend and at the peak, when the pensions grant is received in July, balances for investment could approach £40m. All investment decisions are made with reference to credit ratings and with advice

**£40m: the  
estimated treasury  
management upper  
investment balance  
for 2016-17**

from professional external Treasury Management Specialists. Based on that advice, the strategy annually sets the rules within which investments can be made. Appendix B sets out for 2016-17 the approved categories of counterparty for investment and the authorised limits for each category and institution based on their credit rating. The policy is that, other than for day to day banking requirements, counterparties must achieve a minimum rating of A-, or be secure unrated institutions, for example UK Government or Local Authority.

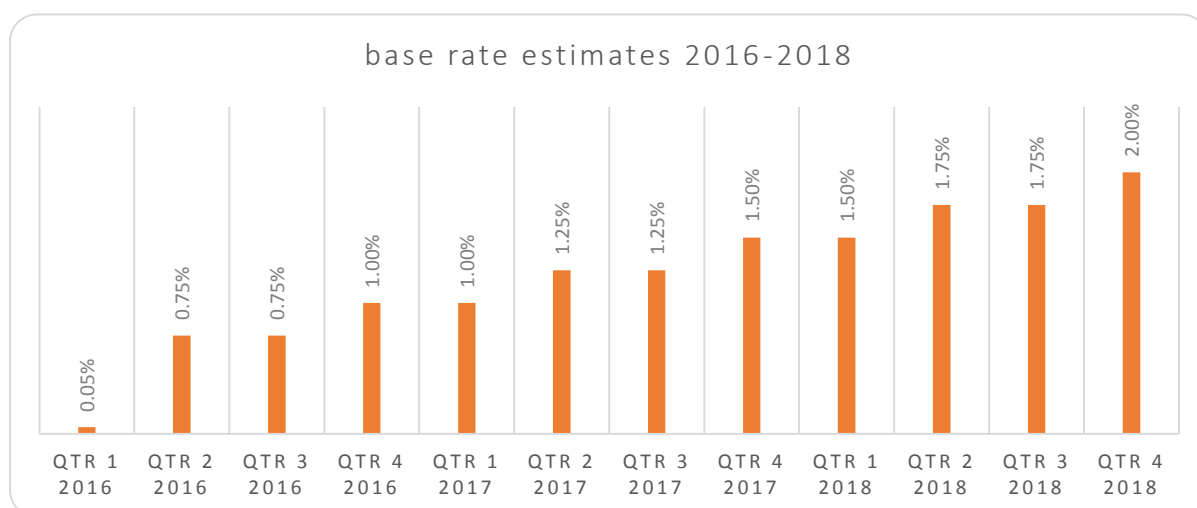
The Treasury Management Strategy is designed to be a dynamic framework which is responsive to prevailing conditions with the aim of safeguarding the Commissioner's resources. Accordingly, the Commissioner and its advisors continuously monitor corporate developments and market sentiment with regards to counterparties and amend the approved counterparty list and lending criteria where necessary.

The strategy takes into account the impact of treasury management activities on the Commissioner's revenue budget. Forecasts of cash balances, interest receipts and financing costs are regularly remodelled. The revenue budget for 2016-17 and forecasts for future years are updated in light of the

latest available information as part of the financial planning process. Day to day fluctuations in cash-flows due to the timing of grant and council tax receipts and out-going payments to employees and suppliers have an impact on treasury activities and accordingly are modelled in detail. The Commissioner’s level of debt and investments is linked to the above elements, but market conditions, interest rate expectations and credit risk considerations all influence the Commissioner’s strategy in determining exact borrowing and lending activity. The estimated treasury position at 31st March 2016 and for the following financial years are summarised below:

Estimated Treasury Position	Estimate 2016/17 £m	Estimate 2017/18 £m	Estimate 2018/19 £m	Estimate 2019/20 £m
external borrowing at start of year	0.000	0.000	0.000	0.000
interest payments	0.000	0.000	0.000	0.000
investments (average)	13.504	11.106	9.895	8.667
interest receipts	0.100	0.135	0.170	0.170

The figures in the table above are based on the revenue budget and capital programme 2016-2020. The estimate for interest receipts in 2016-17 is £100k, which is comparable to recent years. The low level of receipts reflects the historically low level of investment returns currently available where the Bank of England base rate stands at 0.5%. Interest rate prospects for the life of the treasury remain low.



Whilst interest rates are forecast to continue at historically low levels, the expected steady growth to 2% by the final quarter of 2018 produces a small benefit to the budget of £70k compared to 2016-17 despite a reduction in average investment balances from £13.5m to £8.7m. The forecast reduction in

average investments is based on the expected reduction in reserves over the strategy period as significant capital schemes are delivered.

In relation to capital financing, there is a statutory requirement for the commissioner to set and arrange their affairs to remain within prudential limits for borrowing and capital investment. The Treasury Management Strategy includes prudential indicators that govern borrowing over the course of the year to ensure revenue costs are affordable, prudent and sustainable. Whilst the Commissioner sets prudential limits for borrowing annually, over the course of this medium term financial strategy there are currently no plans to borrow externally.

As part of our suite of prudential indicators, consideration is given to the affordability and revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. This indicator is termed the Ratio of Financing Costs to Net Revenue Stream. The table below shows the current and estimated value of the indicator based on the capital programme and borrowing requirements set out in this medium term financial strategy. The indicator ranges between 0.27% and 0.33% of the net revenue budget between 2016-17 and 2018-19, demonstrating that capital financing is affordable within the overall resources available to the Commissioner.

Ratio of Financing Costs to Net Revenue Stream					
	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Financing Costs	0.207	0.242	0.314	0.288	0.262
Net Revenue Stream	96,714	94,871	95,222	96,171	97,149
Ratio	0.21%	0.26%	0.33%	0.30%	0.27%

Prudential indicators also consider the Incremental Impact of capital investment decisions on the council tax. This is a further indicator of affordability that identifies specifically the additional cost to the taxpayer of the new capital investment proposed for the three years between 2016-17 and 2018-19. The estimate of the impact of the capital investment approved in the 2016-17 budget on the council tax is set out in the table below. The figures are not cumulative and show the actual impact in each year. The table shows that in each year, the cost to the tax payer is between £9.14 and £9.48 from a Band D precept of £216.63. In practice funding from the revenue budget for the capital programme is

not met exclusively from precept income but from the full range of income sources available to the commissioner.

Impact of capital investment decisions on the Council Tax			
	2016/17	2017/18	2018/19
	£	£	£
Capital Expenditure funded from revenue	1.534m	1.573m	1.555m
Financing and direct revenue costs	0.000m	0.000m	0.000m
Total Incremental Revenue Effect of Capital Investment	1.534m	1.573m	1.555m
Incremental Impact on Band D Council Tax	9.146	9.481	9.302

The Treasury Management Strategy includes the policy for minimum revenue provision (MRP). DCLG guidance recommends that this policy is approved before the start of the financial year to which it relates. This policy states how we will apply accounting charges to the revenue budget to make provision for the repayment of borrowing associated with capital assets. Whilst the Commissioner has not undertaken borrowing externally, some long life assets (buildings) within the capital programme are resourced from internal borrowing. This results in an underlying need to borrow externally, that will be implemented when internal cash flows are no longer sufficient manage this requirement. The underlying need to borrow is currently estimated at £13.6m, our capital financing requirement. At some time in the future it will be necessary to undertake external borrowing. Advice will be sought as to the most opportune time and interest rate to undertake such borrowing. Our MRP policy is that the revenue budget will be charged with the cost of the capital asset over the life of the asset being financed (Asset Life Method). The DCLG Guidance on investments states that publication of Treasury and associated strategies is formally recommended. The full suite of strategy documents is published on the Commissioner's website <http://www.cumbria-pcc.gov.uk/governance-transparency/budget-finance.aspx>.

The Commissioner and the Commissioner's Chief Finance Officer annually approve the statutory financial statements. The statements include a section on the financial policies that are used to determine how the financial transactions for the year have been accounted for and presented in the statement of accounts. The accounting policies set out how we record and value our income and expenditure and assets and liabilities. This includes how we allocate overheads and the techniques we use to estimate costs. The policies adhere to all regulatory and code of practice standards for proper accounting practices and are subject to external audit.



This section of our strategy sets out our arrangements for financial governance, our financial controls and how we manage financial risk.

## Control Framework & Assurance

The Police Reform and Social Responsibility Act 2011 requires Police and Crime Commissioners' to have regard to any financial code of practice issued by the Secretary of State and to appoint a person to be responsible for the proper administration of the Commissioner's financial affairs. That person is referred to as the Commissioner's Chief Finance Officer. The Chief Finance Officer leads on the implementation and maintenance of a framework of financial controls and procedures for safeguarding public money and managing financial risk. This includes determining accounting processes and overseeing financial management procedures that enable the Commissioner to budget and manage within overall resources.



As part of these arrangements for financial stewardship the CFO is responsible for the development and implementation of governance structures that codify financial controls and assurance as well as defining a framework of financial accountabilities and reporting. This is set out in a set of Financial Regulations that are approved by the Commissioner and adopted by the Constabulary. They are supported by a funding arrangement that sets out the conditions and purpose of the budget provided annually to the Chief Constable. The regulations provide a framework for the development of more detailed financial rules and procedures that govern the administration of the Commissioner and Chief Constables financial affairs. As part of the annual budget process the Chief Finance Officer makes a statutory statement on the robustness of the Commissioner's budget and the adequacy of reserves and issues a number of financial reports annually including the statutory financial statements.

The Home Office Financial Management Code recommends that the Commissioner and Chief Constable have joint arrangements for Internal Audit including an Audit Committee. These arrangements are provided collaboratively through a shared internal audit service with County and District Council partners reporting to a Joint Independent Audit and Standards Committee (JASC). Internal audit and the JASC provide scrutiny and assurance on the arrangements for financial governance. The audit function is reviewed annually to ensure its on-going compliance with Public Sector Internal Audit

Standards (PSIAS) and provides a risk assessed annual audit plan within the framework of an Internal Audit Charter that defines the professionalism and standards that govern its delivery. The role and effectiveness of the JASC is assessed annually against a framework of best practice developed by the Chartered Institute of Public Finance and Accountancy. The table below sets out the draft audit plan for 2016-17.

Audit Review	Description	Days
<b>Procurement</b> <i>(Audit of Constabulary and OPCC)</i>	Internal Audit to provide assurance over managements arrangements for procurement	25
<b>Information Security</b> <i>(Audit of Constabulary)</i>	Review to provide assurance over management arrangements to secure data held by the Constabulary.	20
<b>Mobile and Digital</b> <i>(Audit of Constabulary)</i>	Internal Audit to provide assurance over management’s arrangements to ensure value for money, effectiveness and efficiency from the initiative.	15
<b>Command and Control</b> <i>(Audit of Constabulary)</i>	Internal Audit to provide assurance over the Constabulary’s arrangements for ensuring the new structure achieves its objectives and value for money.	20
<b>Criminal Justice Unit</b> <i>(Audit of Constabulary)</i>	Internal Audit to provide assurance that effective arrangements are in place within the Constabulary to ensure that case files are complete, robust and secure.	20
<b>Use of Stop Sticks (Stingers)</b> <i>(Audit of Constabulary)</i>	Audit review to provide assurance that the Constabulary has effective arrangements in place for complying with regulations and ensuring that effective training is provided and equipment is appropriately maintained.	15
<b>Stop Search</b> <i>(Audit of Constabulary)</i>	Audit review to provide assurance that the Constabulary has effective arrangements for ensuring compliance with the Best Use of Stop and Search Scheme.	15
<b>Offender Management</b> <i>(Audit of Constabulary)</i>	Audit review to provide assurance that the Constabulary has effective arrangements in place to ensure that offenders are progressed through the system efficiently.	15
<b>Receipt, handling and disposal of drugs</b> <i>(Audit of Constabulary)</i>	Internal Audit review to provide assurance that the Constabulary has effective arrangements in place to ensure that seized drugs are properly accounted for from receipt through to disposal.	12
<b>Self-service – travel expenses / overtime</b> <i>(Audit of Constabulary)</i>	Internal Audit review to provide assurance that the Constabulary has effective arrangements in place over the use of the system in relation to control and recording of travel expenses and overtime.	15
	<b>Subtotal for risk based audits</b>	<b>172</b>

## Other audit work to be included in the audit plan

Some audits are undertaken on a cyclical basis or because there are other requirements for the work to be done. This section outlines any additional non-risk assessed work.

Audit Review	Description	Days
<b>Governance</b> <i>(Audit of Constabulary and OPCC)</i>	Cyclical programme of governance themed reviews. The 16/17 review will focus on the arrangements in place to ensure the Code of Corporate Governance is compliant with the updated CIPFA / SOLACE governance framework.	15
<b>Annual Governance Statement</b> <b>(two separate reviews)</b>	Review to provide assurance that sufficient and suitable evidence is available to support the Annual Governance Statement.	6
<b>Financial System Reviews:</b> <ul style="list-style-type: none"> <li>• Pensions</li> <li>• Payroll</li> <li>• Main Accounting</li> </ul> <i>(Cross Cutting Review)</i>	A rolling programme of financial systems audits is undertaken. The frequency of each review has been considered by the OPCC and Chief Constable's Chief Finance Officers and a risk assessment prepared taking into account internal management assurance statements, transaction volume, value, system changes and assurance provided from Internal Audit work.	15 15 10
<b>Follow up:</b> <ul style="list-style-type: none"> <li>• Business Continuity Planning (Constabulary)</li> <li>• Business Continuity Planning (OPCC)</li> <li>• Duty Management System</li> </ul>	Internal audit follow up methodology includes the follow up of all audits resulting in less than Reasonable assurance	5 5 5
<b>Attendance at police audit training and development event</b>	n/a	2
<b>Internal Audit Management</b>	Time is built into the audit plan for the management of the shared service in relation to the work undertaken for the constabulary and the Commissioner's Office. To include: Attendance at Audit & Standards Committee (5 meetings in year); Preparation of progress reports and annual reports and opinions; Audit planning; Management liaison; Effectiveness of Internal Audit – Compliance with PSIAS	24
	<b>Subtotal for non-risk based audits</b>	<b>102</b>
	<b>Total for all proposed audit work for 2016/17</b>	<b>274</b>

Management assurances are provided annually to the Chief Finance Officer on the controls for any financial system not included in the audit plan for the year.

The internal audit plan supports the basis on which the Chief Internal Auditor can provide an annual opinion to the Commissioner regarding the adequacy and effectiveness of the organisations' systems of risk management, governance and internal control.

Wider independent scrutiny and assurance is provided through Grant Thornton LLP, the Commissioner and Chief Constable's external auditors. The external auditors provide a number of reports to the Commissioner, Constabulary and JASC including an audit findings report expressing an audit opinion on the financial statements and a value for money conclusion. This work includes a review of financial resilience. The external auditors annual audit letter presented to the Commissioner and JASC in October 2015 concluded that the Commissioner continues to show strong financial resilience and good financial planning and management. The audit letter also noted that the Chief Constable is working closely with the Commissioner to ensure that its finances are effectively managed.

## Managing Financial Risk

Strategic and operational financial risks are managed within the Commissioner's overall framework for risk management. Specific risks to the budget are managed through reserves and arrangements for insurance provide some mitigation for asset risks. Our principle financial risks are:

### **Lack of resources to deliver current levels of policing services (*strategic*):**

This risk primarily arises as a consequence of the review of the police funding formula. A change in our funding settlement places a high degree of risk regarding the level of policing services that can be provided and will challenge the longer term sustainability of an independent Cumbria Constabulary if the worst case for funding materialises. Risk mitigation strategies currently focus on investment in existing services to reduce longer term costs alongside work with partner forces nationally to demonstrate the costs of delivering rural policing. Whilst the planned review of formula funding makes this a strategic risk, lesser operational impacts may also be experienced as a result of the risk that any of the wider budget assumptions prove to be materially incorrect. This includes assumptions about pay and supplies inflation, the cost of future pension's liabilities, the deliverability of assumed savings plans and growth in the tax base /council tax income. Whilst the impacts of these risks will be significantly smaller, should one or more be experienced in full, there will be a need to re-base budgets and plans to address the deficit.

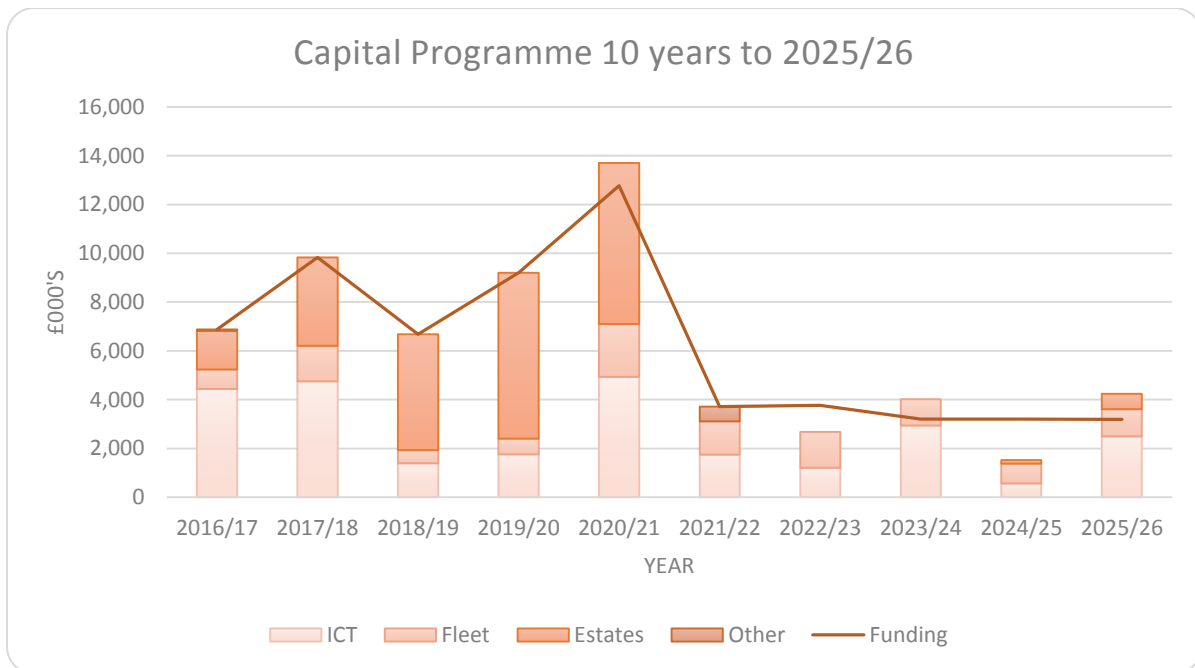
In addition to the strategic risk, the following financial risks are recorded on our operational risk register. The table shows each risk and the primary mitigations in place to manage them

Operational Risk	Mitigation and Assurance
<p><b>Budget Management:</b> Failure to effectively manage budgets in year resulting in either an under or overspend of actual expenditure</p>	<ul style="list-style-type: none"> <li>■ Arrangements for budget monitoring and reporting/reserves</li> <li>■ Financial Regulations</li> <li>■ Assured by Joint Audit and Standards committee and internal audit</li> </ul>
<p><b>Investment Counterparty Risk:</b> The risk that the counterparty we invest in fails or under banking regulations is required to restructure capital, resulting in the loss of our investment or a reduction in value</p>	<ul style="list-style-type: none"> <li>■ Independent external advisors</li> <li>■ Treasury Management Policies and Practices</li> <li>■ Assured by Joint Audit and Standards Committee and internal audit</li> </ul>
<p><b>Financial Governance:</b> The risk that financial governance fails either through failure to comply with arrangements or a lack of proper arrangements</p>	<ul style="list-style-type: none"> <li>■ Arrangements set out in the Code of Corporate Governance</li> <li>■ Annual review as part of the arrangements for the annual governance statement</li> <li>■ Assured by Joint Audit and Standards Committee, external and internal audit</li> </ul>
<p><b>Asset Management:</b> Failure to secure effective arrangements for managing the commissioner’s assets resulting in breach of regulations and/or public/employee liability, loss or damage to the asset, failure to secure value for money from the use of assets</p>	<ul style="list-style-type: none"> <li>■ Insurance &amp; Independent Insurance advice services</li> <li>■ Rules for safeguarding and use of assets within financial regulations and the terms of the Chief Constables funding arrangement</li> <li>■ Assured by Joint Audit and Standards Committee and internal audit</li> </ul>
<p><b>Insurance Failure:</b> The risk that the organisation is not insured against all of the risks that it faces and/or failure to procure sufficient insurance cover/failure of the insurance provider</p>	<ul style="list-style-type: none"> <li>■ Insurance broker procured to deliver professional advice on amount of cover and excess</li> <li>■ Annual reporting from director of legal services on current claims</li> <li>■ Risk assessed insurance provision and reserve for uninsured levels of liability</li> <li>■ Assured through Bi-annual actuarial review of liabilities and annual review by the broker</li> </ul>

This section of our Medium Term Financial Strategy sets out our plans for capital expenditure to fund the purchase and enhancement of property, vehicles, ICT and other equipment assets used to deliver policing. Our forecasts of that expenditure and how it is planned to be financed are consolidated within a 10 year capital programme.

## The Capital Programme

Capital expenditure funds the purchase and enhancement of property, vehicles, ICT and other equipment assets used to deliver policing. These assets have a balance sheet value of £64m at 31<sup>st</sup> March 2015 and over the next 10 years £62.5m will be spent replacing and enhancing those assets. The plans for resourcing and managing those costs are integral to the position within this strategy on the overall level of reserves, treasury management borrowing requirements and total revenue expenditure.



The capital programme estimates the financial resources needed to fund capital assets over 10 years. Expenditure within the programme is based on a proposal from the Constabulary that sets out the requirements to police Cumbria and is supported by detailed capital strategies for the estate, vehicles and ICT. Funding comes from capital grants, capital receipts and capital reserves with the balance provided for either through direct contributions from the revenue budget or revenue charges to fund

interest and repayment of borrowing. This strategy sets an objective that the capital programme will be fully funded for a minimum of four years, ensuring a fully balanced medium term revenue and capital budget. In addition, any major capital schemes requiring new investment over multiple years must be fully funded at the time of approval. The 10 year projection of costs ensures there is on-going review of future requirements facilitating financial planning to accommodate the peaks in expenditure that arise in the longer term.

## Capital Expenditure

The significant proportion of total capital expenditure provides for investment and replacement of the ICT equipment, vehicles and property estate used to deliver operational policing. This expenditure will amount to £32.6m over the four years of this medium term financial strategy, an average of over £8m per annum. Capital expenditure is high in the first four years of the 10 year programme as a result of major strategic investment in ICT and the estate. This level of investment continues and increases to 2020-21, following which capital expenditure returns to a more typical average level of £3.2m per annum. The table below sets out the capital programme for four years of this medium term financial strategy. The full 10 year capital programme is set out in Annexe 1.

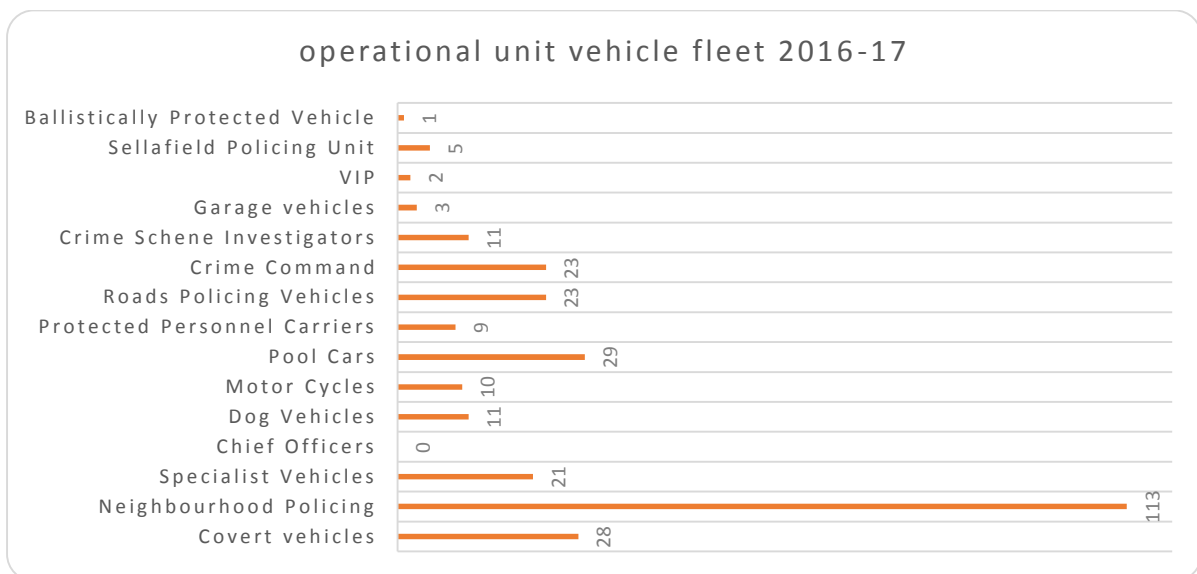
Capital Expenditure	Year 1	Year 2	Year 3	Year 4	Years 1-4
2016-17 to 2019-20	2016/17	2017/18	2018/19	2019/20	Total
	£000	£000	£000	£000	£000
ICT Schemes	4,440	4,753	1,398	1,759	12,350
Fleet Schemes	799	1,449	529	637	3,414
Estates Schemes	1,591	3,634	4,757	6,805	16,786
Other Schemes	54	-	-	-	54
<b>Total Capital Expenditure</b>	<b>6,883</b>	<b>9,836</b>	<b>6,684</b>	<b>9,201</b>	<b>32,604</b>

ICT capital expenditure provides for the cyclical replacement and improvement of the full range of ICT equipment, hardware and application software to meet the operational needs of the Constabulary. High levels of expenditure in 2016-17 and 2017-18 provide for strategic investment in mobile and digital working to support more efficient working and planned reductions in police office numbers. The ICT programme also provides for the renewal or replacement of core systems and applications such as the main crime and intelligence system SLEUTH, command and control, forensics management, prisoner information systems and case and custody. This includes digital files for integration with the crown prosecution service and the police national data base that supports the sharing of information between forces. From 2016-17 ICT capital expenditure also provides for the mandated replacement of the police radio (Airwave) system under the national Emergency Services Network (ESN) programme and

**5.2 million miles:  
the distance  
travelled by fleet  
vehicles in  
2015-16**

the cyclical replacement and improvement of networks, security and data storage capacity. Average ICT annual capital expenditure over the first 5 years of the programme is £3.5m, reflecting this investment. From years 6-10 expenditure returns to its typical annual average profile of £1.8m.

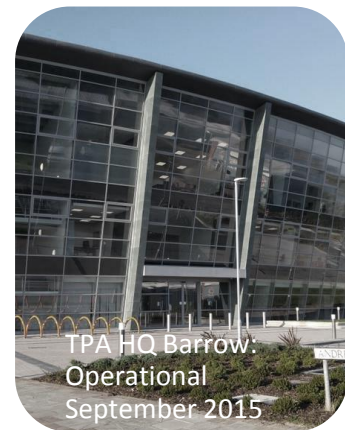
The Commissioner’s fleet consists of 289 vehicles that are used and maintained by the Constabulary. The capital programme provides for the replacement and adaptation of these vehicles on a periodic basis at the end of their useful life. Expenditure fluctuates annually as procurement arrangements seek to procure categories of vehicle through framework agreements that achieve competitive levels of pricing. Over the 10 year programme expenditure averages £1.2m per annum. The programme includes targets for the reduction in fleet costs of 10% in 2016-17, 15% in 2017-18 rising to 20% from 2018-19. The Estates & Fleet Manager will work with operational colleagues to deliver these savings through a combination of reducing vehicle numbers, extending vehicle lives or changing vehicle specifications. Progress against this target will be monitored through the Constabulary’s Strategic Vehicle Group



The Commissioner’s estate currently consists of 39 premises (including police headquarters, larger police stations/territorial policing area HQ which include custody suites, smaller police stations and a small number of residual police houses). The capital programme sets out the expenditure and capital schemes to deliver the estates strategy. This is a programme of works to reduce the size of the estate to make savings and ensure estate assets are efficient in their running costs and meet operational requirements. The programme includes cyclical replacement of major estate components, for example



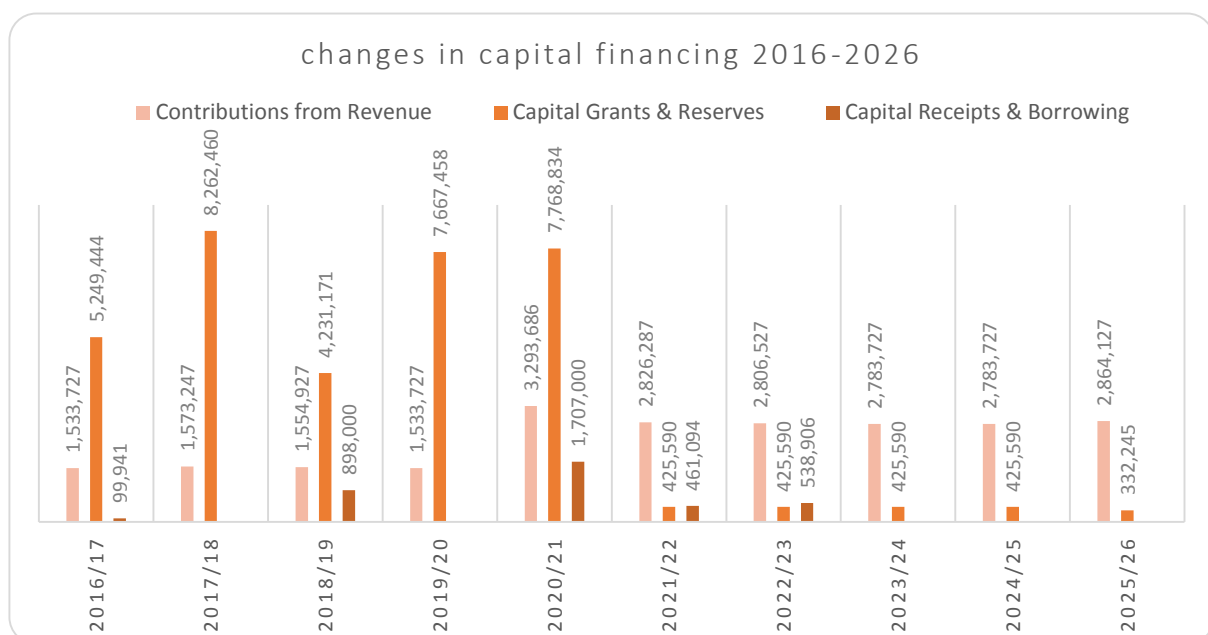
re-roofing, disposal of older property that is no longer fit for purpose and the build and/or lease of new buildings that meet modern performance and suitability standards. This includes ensuring custody facilities meet increasing regulatory requirements. Capital receipts from property disposals are recycled into the programme to fund new buildings.



The severe weather incidents in December 2015 identified a number of threats to resilience and business continuity arising at a number of sites across the Commissioner’s estate. This has resulted in the development of capital schemes in the north and west of the county to manage the impact of a number of significant resilience risks, in particular to communications and ICT infrastructure, but also in respect of wider issues concerning deployment and custody. The scheme for the west of the county is still in the early stages of development and will be fully scoped during the 2016-17 financial year. The programme includes an indicative budget for likely costs estimated at around £15m. The scheme also aims to provide a long term solution to the arrangements regarding the PFI building at Workington.

## Capital Financing

Our capital financing plans show how we intend to fund the capital programme over its 10 year life. It includes any capital receipts we expect to receive from the disposal of property and grant funding from the Home Office. The table below shows our plans for capital financing between 2016 and 2026.



Over the life of this medium term financial strategy funding for the capital programme is largely dependent on capital grants and capital reserves. This supports the revenue budget with direct revenue contributions being set at an annual amount of £1.2m. Beyond 2021 capital reserves and historic grants will be largely depleted. Over the same time the amount of annual capital funding from central government has been steadily eroded as a result of top-slicing to fund national projects. This has seen a 40% reduction in direct capital allocations to policing areas in 2016-17. This means that the capital programme going forward will be primarily funded from revenue after 2021 when historic capital grants and the reserves we have set aside for the programme have been fully utilised.

The chart below shows the expected movement in capital financing over the next 10 years. Significantly, in 2016-17 grants and reserves comprise 76% of funding for the capital programme with recurrent revenue contributions at 22%. During the last four years these respective contributions switch to 87% recurrent revenue funding and 13% from capital grant, rising to a 90%:10% ratio in 2025-26. This means that in the longer term capital expenditure will be in full competition with revenue expenditure for funding from formula grant and council tax income. From 2021 resource allocation mechanisms will need to manage these competing demands.

Capital financing %	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
	£	£	£	£	£	£	£	£	£	£
Revenue	-22%	-16%	-23%	-17%	-26%	-76%	-74%	-87%	-87%	-90%
Grants & Reserves	-76%	-84%	-63%	-83%	-61%	-11%	-11%	-13%	-13%	-10%
Receipts & Borrowing	-1%		-13%		-13%	-12%	-14%			

A summary of the full 10 year capital programme and financing is provided for information at **Annexe 1**. The annexe shows that the capital programme is in total fully funded over the ten year period to 2025/26. In individual financial years from years 5-10 of the programme there are some shortfalls and excesses which balance out over time. The detailed figures over the longer term will be subject to some refinement which will address these in year differences to ensure a fully balanced forecast for the relevant four year medium term financial strategy.

the budget for the Commissioner and the Chief constable	Budget	Budget	Budget	Budget	Budget
	2015/16	2016/17	2017/18	2018/19	2019/20
	£000s	£000s	£000s	£000s	£000s
<b>Constabulary Funding</b>					
Police Officers - Pay	57,452	56,303	57,851	58,799	58,117
Police Officers - Police Pension	18,006	18,134	21,577	22,095	24,010
Police Officers - Ill Health & Injury Pensions	889	889	900	915	931
Police Community Support Officers	2,811	2,814	3,031	3,023	3,120
Police Staff	18,556	18,993	18,369	18,533	18,698
Other Employee Budgets	803	672	534	544	555
Transport Related Expenditure	2,470	2,134	2,193	2,255	2,318
Supplies & Services	9,878	9,675	9,062	9,314	9,442
Third Party Related Expenditure	1,616	1,630	1,660	1,692	1,724
<b>Total Constabulary Expenditure</b>	<b>112,480</b>	<b>111,244</b>	<b>115,178</b>	<b>117,170</b>	<b>118,916</b>
Earned Income	(3,967)	(4,639)	(4,565)	(3,952)	(4,004)
<b>Total Constabulary Funding</b>	<b>108,513</b>	<b>106,605</b>	<b>110,612</b>	<b>113,218</b>	<b>114,912</b>
<b>Commissioners Budgets</b>					
Office of the Commissioner	799	759	768	777	786
Commissioned Services Budget	2,699	2,250	1,850	2,000	2,000
Sexual Assault Support Service	0	333	233	83	83
Premises Related Costs	3,717	3,529	3,610	3,694	3,780
LGPS Past Service Costs	799	799	1,199	1,199	1,199
Insurances and Management of Change	2,533	767	795	803	833
Accounting and Capital Financing	5,748	6,304	4,960	4,936	9,836
Contributions to Revenue Reserves	1,890	50	50	50	50
Contributions to Capital Reserves	0	3,473	0	0	2,000
Grants: Home Office Pension	(18,006)	(18,134)	(21,577)	(22,095)	(24,010)
Grants & Contributions - Other	(7,448)	(6,958)	(6,961)	(6,963)	(6,966)
Interest/Investment Income	(125)	(100)	(135)	(170)	(170)
<b>Total Commissioners Budget</b>	<b>(7,394)</b>	<b>(6,928)</b>	<b>(15,207)</b>	<b>(15,687)</b>	<b>(10,579)</b>
Revenue Reserve Drawdown	(4,127)	(697)	(337)	(100)	0
Capital Reserve Drawdown	(2,121)	(3,305)	(1,927)	(1,928)	(6,857)
<b>Total Use of Reserves</b>	<b>(6,248)</b>	<b>(4,002)</b>	<b>(2,264)</b>	<b>(2,028)</b>	<b>(6,857)</b>
<b>Budget Requirement</b>	<b>94,871</b>	<b>95,675</b>	<b>93,142</b>	<b>95,503</b>	<b>97,477</b>
General Police Grant	(59,884)	(59,543)	(49,643)	(49,643)	(49,643)
Council Tax Precepts	(34,987)	(36,132)	(36,830)	(37,812)	(38,821)
<b>Total Formula Grant &amp; Council Tax Income</b>	<b>(94,871)</b>	<b>(95,675)</b>	<b>(86,473)</b>	<b>(87,454)</b>	<b>(88,464)</b>
<b>Net Deficit/Savings Requirement</b>	<b>0</b>	<b>(0)</b>	<b>6,669</b>	<b>8,048</b>	<b>9,013</b>
Council Tax per Band D Property	£208.62	£212.58	£216.64	£220.78	£225.02
Increase over previous year	£3.96	£3.96	£4.06	£4.14	£4.24
Percentage Increase	1.93%	1.90%	1.91%	1.91%	1.92%

## Capital Expenditure and Financing 10 years 2016-17 to 2025-26

Capital Programme	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 1-10
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Capital Expenditure											
ICT Schemes	4,440	4,753	1,398	1,759	4,940	1,749	1,202	2,934	569	2,494	26,238
Fleet Schemes	799	1,449	529	637	2,161	1,364	1,473	1,085	806	1,121	11,424
Estates Schemes	1,591	3,634	4,757	6,805	6,600	0	0	0	150	620	24,156
Other Schemes	54	0	0	0	0	600	0	0	0	0	654
<b>Total Capital Expenditure</b>	<b>6,883</b>	<b>9,836</b>	<b>6,684</b>	<b>9,201</b>	<b>13,701</b>	<b>3,713</b>	<b>2,675</b>	<b>4,019</b>	<b>1,525</b>	<b>4,235</b>	<b>62,473</b>
Capital Financing											
Capital Receipts	0	0	898	0	1,707	461	539	0	0	0	3,605
Revenue Contributions	1,534	1,573	1,555	1,534	3,294	2,826	2,807	2,784	2,784	2,864	23,554
Capital Grants	1,945	6,336	2,303	811	426	426	426	426	426	332	13,854
Capital Reserves	3,305	1,927	1,928	6,857	7,343	0	0	0	0	0	21,360
Borrowing	100	0	0	0	0	0	0	0	0	0	100
<b>Total Capital Financing</b>	<b>6,883</b>	<b>9,836</b>	<b>6,684</b>	<b>9,201</b>	<b>12,770</b>	<b>3,713</b>	<b>3,771</b>	<b>3,209</b>	<b>3,209</b>	<b>3,196</b>	<b>62,473</b>
<b>Funding Gap</b>	<b>0</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>	<b>(932)</b>	<b>0</b>	<b>1,096</b>	<b>(810)</b>	<b>1,684</b>	<b>(1,039)</b>	<b>(0)</b>

## Objective Analysis Descriptions

- **Local Policing** – neighbourhood policing, incident management, community liaison, local command team and support overheads.
- **Dealing with the Public** – local call centre/front desk, central communications unit.
- Criminal Justice Arrangements – custody/prisoner handling, criminal justice arrangements, Police National Computer, civil disclosure/criminal records bureau, coroner assistance, fixed penalty scheme/central ticket office.
- **Road Policing** – traffic units, vehicle recovery, road safety partnership
- **Specialist Operations** – central operations command team and support overheads, underwater search/marine support, dogs sections, level 1 advanced public order, firearms unit, civil contingencies.
- **Intelligence** – central intelligence command team and support overheads, intelligence/threat assessments, covert policing.
- **Investigations** – crime support command team and support overheads, major investigations unit, economic crime, serious and organised crime unit, public protection, local investigation.
- **Investigative Support** – scenes of crime officers, external forensic costs, fingerprint/DNA bureau, photographic image recovery, other forensic services.
- **National Policing** – secondments (out of force), counter terrorism/special branch, ACPO projects/initiatives.
- **Corporate and Democratic Core Costs:** member expenses; officer time spent on appropriate advice activities; subscriptions to local authority associations etc.; costs of head of paid service; maintenance of statutory registers; statutory returns and statistics; external audit and inspections; treasury management; bank charges.
- **Central Costs:** Pension costs – past service costs, curtailments and settlements, depreciation costs and impairment losses in relation to assets under construction and surplus assets held for disposal.

## Treasury Management Investment Counterparties: Credit Rating, Groups & Limits

Credit Rating	Maximum	1	2	3	4	5
		Banks	Banks	Government	Registered	Pooled
		Unsecured	Secured		Providers	Funds
Category Limit 2016/17	Amount	£20m	£20m	Unlimited	£10m	£15m
Individual Institution/Group Limits						
UK Government	Amount	N/A	N/A	£ unlimited	N/A	N/A
	Duration			50 Years		
AAA	Amount	£2m	£4m	£4m	£2m	£4m per fund
	Duration	5 years	20 years	50 years	20 years	
AA+	Amount	£2m	£4m	£4m	£2m	
	Duration	5 years	10 years	25 years	10 years	
AA	Amount	£2m	£4m	£4m	£2m	
	Duration	4 years	5 years	15 years	10 years	
AA-	Amount	£2m	£4m	£4m	£2m	
	Duration	3 years	4 years	10 years	10 years	
A+	Amount	£2m	£4m	£2m	£2m	
	Duration	2 years	3 years	5 years	5 years	
A	Amount	£2m	£4m	£2m	£2m	
	Duration	13 months	2 years	5 Years	5 years	
A-	Amount	£2m	£4m	£2m	£2m	
	Duration	6 months	13 months	5 years	5 years	
None	Amount	N/A	N/A	£2m	£2m	N/A
	Duration			25 years	5 years	N/A

## Credit Rating Category Descriptions

Long Term Rating	The Commissioner will confine investments to those institutions with a minimum rating of A-.		
This category of ratings applies to investments over 12 months. The approved grading is in the range AAA, AA, A,	AAA Highest credit quality 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be affected by foreseeable events.	AA Very high credit quality 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A High credit quality 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

## Explanation of Counterparty Groupings

**Category 1 - Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a *bail-in* should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Commissioner's current account bank Nat West plc.

**Category 2 - Banks Secured:** Covered bonds, reverse repurchase agreements and other secured arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

**Category 3 - Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to *bail-in*, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

**Category 4 - Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are

tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

**Category 5 - Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value (NAV) will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Commissioner to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Commissioner's investment objectives will be monitored regularly.



## Further Information

Further information on the arrangements for finance and financial governance can be found on the Commissioner's website under the tab headed Governance and Transparency. This includes the following webpages:

- Budget and Finance: budget reports, treasury management strategy, financial monitoring
- Joint Audit Committee: arrangements for the committee, annual report of the committee
- Statement of Accounts: financial statements, annual governance statements and code of local government
- Document Library: a facility to search for key documents and information e.g. financial regulations

We welcome your views on the Commissioner's medium term financial strategy. You can do this by using the contact information below:

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