



MEDIUM TERM FINANCIAL STRATEGY

2016 - 2020

Incorporating

PART A

- PRECEPT PROPOSAL 2016 -2017
- REVENUE BUDGET 2016 -2017
- REVENUE FORECASTS 2017 - 2020
- CAPITAL STRATEGY 2016 – 2020
- VALUE FOR MONEY PLAN 2016 – 2020

PART B

- TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2016 -2017

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POLICE AND CRIME PANEL MEETING

1st February 2016

SUBJECT	
MEDIUM TERM FINANCIAL STRATEGY 2016 to 2020	
REPORT BY	POLICE AND CRIME COMMISSIONER FOR SOUTH WALES
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SUMMARY AND PURPOSE OF REPORT To set out the Medium Term Financial implications of the Police and Crime Reduction Plan and the government settlement for police funding in respect of both the Revenue and Capital Accounts for the financial years 2016 to 2020. To facilitate the determination of a balanced budget and the resulting police precept on Council Tax for 2016/17.	
PROPOSAL	<p>That the Police and Crime Panel considers the Police and Crime Commissioner's precept proposal in respect of 2016/17 which is lower than the previous briefings to the Police and Crime Panel but broadly consistent with the medium term financial projections.</p> <p>A 4% (£7.99) increase to the police precept results in a council tax on a Band D property of £207.85 and gives a total precept requirement of £99,278,585 which will be precepted on the relevant billing Authority in accordance with Appendix 13.</p> <p>On this basis the resulting Net Revenue Budget Requirement for 2016/17 would be £258,917,791 and this reflects the Value For Money Plan saving requirement of £5,370,496 in 2016/17 on top of £39,363,000 of savings since the start of the government's current austerity programme in 2010.</p>

INTRODUCTION

- 1.1 The Police Reform and Social Responsibility Act 2011 on the 22nd of November 2012 established two Corporations Sole for South Wales as the Police and Crime Commissioner for South Wales and the Chief Constable for South Wales who have complementary policing responsibilities and a shared responsibility to provide effective financial and budget planning for the short, medium and long term.
- 1.2 The Police and Crime Commissioner and the Chief Constable are duty bound to secure Value for Money which is independently examined by the Wales Audit Office (WAO) and by Her Majesty's Inspectorate of Constabulary (HMIC). The positive findings of the independent bodies are set out later in this report.

The Police and Crime Commissioner for South Wales is required, in consultation with the Chief Constable, to prepare:

- A Police and Crime Reduction Plan that reflects his priorities developed after public consultation and the resources available to him and which has regard to the requirements of the Strategic Policing Requirement.
 - Risk Management Strategy
 - A Medium Term Financial Strategy (Financial Strategy)
 - South Wales Police Treasury Management Strategy
 - Asset Management Strategy
 - Capital Programme
 - Annual Revenue Budget and Value For Money
- 1.3 The Commissioner must also propose a precept level for the forthcoming year. These plans are subject to review by the Police and Crime Panel for South Wales.
- 1.4 This report sets out the key issues to be considered in determining an appropriate level of budget and resulting precept necessary to provide an efficient and effective police service to the public across South Wales. This is the key responsibility laid upon each Police and Crime Commissioner in the legislation.

The Commissioner takes personal responsibility for the proposed level of precept, but has made his proposals in consultation with the Chief Constable, his Chief Financial Officer and the Treasurer. His decision is based on his assessment of what is required for the effective policing of South Wales and a careful consideration of the professional advice he has received in regard to policing and financial management.

- 1.5 In developing the Medium Term Financial Strategy the following Core Principles have been adopted
1. The Medium Term Financial Strategy will be consistent with the South Wales Police Vision of '**Being the best at understanding and responding to communities needs**'. It will support the Commissioner's Police and Crime Reduction Plan as well as the Chief Constable's Operational Delivery Plan.

2. It will minimise ambiguity and uncertainty over local funding decisions over the medium term planning cycle by establishing a benchmark for South Wales Police precept as attaining and maintaining a level of police precept which is neither the highest or lowest but the average of the other three Welsh police forces. Clearly, if central government funding decisions for South Wales Police changes dramatically then this will need to be reviewed, but based on the current funding levels from central government, this provides a reasonable planning assumption.
3. Whilst recognising that South Wales Police has had a £43M cut in funding and has already delivered £39M of cashable savings it remains a duty for South Wales Police to continue to focus on Value for Money throughout medium term planning horizon and prioritise efforts on delivering a continuous improvement culture with leadership that delivers the right people, skills, tools, at the right place and time, by 2020.
4. Bearing in mind that the establishment of police officers is currently 2,800 compared to 3,400 a few years ago, the Commissioner and the Chief Constable wish to move closer to 3,000 police officers (to help meet the new and escalating operational threats) over the medium term, whilst pushing for productivity gains to better align resources to Demand and Risk to deliver the Police and Crime Reduction Plan.
5. The Strategy therefore seeks to maintain collaborative momentum to secure further savings for South Wales Police and its partners.
6. It also seeks to secure a sustainable infrastructure particularly estates, transport and technology platform to secure long term productivity gains. Detailed strategies including Asset Management Plans will ensure effective provision, use and deployment of resources.
7. It is intended to ensure as a minimum, a safe secure property base compliant with Health & Safety and other legislative requirements to maintain operational effectiveness.
8. The Strategy seeks to maintain the purchasing power of base budgets particularly on fixed or unavoidable costs (e.g. overtime, allowances, utilities, licences, contracts) in order to ensure that financial plans are realistic and deliverable.
9. The aim is for the budget to actual outturn accuracy to be more than 99.5%.
10. It is intended to ensure that borrowing levels remain affordable and sustainable over the term of the Medium Term Financial Strategy.

2.0 GOVERNANCE AND ACCOUNTABILITY ARRANGEMENTS

- 2.1 The Police Reform and Social Responsibility Act 2011 together with the Policing Protocol Order 2011 and the Financial Management Code of Practice (as revised in 2013) set out the revised governance arrangement for policing with effect from 22nd November 2012. The Act established the Police and Crime Commissioner and the Chief Constable each as a Corporation Sole.
- 2.2 A Police and Crime Panel has been established to scrutinise the actions and decisions of the Police and Crime Commissioner for the area. **Appendix 1** provides an overview of the main governance and accountability arrangements that are in place in South Wales.
- 2.3 Her Majesty's Inspectorate of Constabulary (HMIC), the Wales Audit Office and the National Audit Office have all, in the past year, independently reviewed aspects of the South Wales Police Service and reported objectively on their findings.
- 2.4 The Police Effectiveness Efficiency Legitimacy (PEEL) assessment (**Appendix 2**) and the Annual Audit Letter by the Wales Audit Office (**Appendix 3**) the key findings are summarised below:

Her Majesty's Inspectorate of Constabulary's recent PEEL assessment concluded that:

***"HMIC judges South Wales Police to be 'good'.** South Wales Police has an extensive understanding of both its current demand and projected demand on its services. The force recognises that maintaining the current operating model with 2,800 police officers poses financial risks if expected savings are not realised, but it has undertaken scenario planning and has plans in place to alleviate these risks.*

South Wales Police's arrangements for matching resources to demand are impressive and the force has made a significant investment in assessing the demands placed upon it. This has allowed the force to reduce costs whilst improving the service it delivers to the public, as evidenced by its excellent victim satisfaction results.

The force's current operating model, implemented in 2010, has worked very well. Investments in new technology allowed it to reduce the numbers of basic command units (BCUs) from six to four, and neighbourhood teams from 30 to 19. These efficiency gains have allowed the force to reduce police officer numbers from 3,100 to 2,800. This was achieved against savings of £33M, or about 11 percent of the 2010/11 annual gross revenue budget, in the four years to 2014/15.

The force has a strong track record in financial management and is well positioned to tackle both the current and future financial demands placed upon it. The force has set balanced budgets and achieved its savings target for the four years up to 2014/15. It has balanced the budget for 2015/16, based on prudent assumptions which do not rely on reducing its reserves. Savings have already been realised and plans for delivering the remainder of these savings are well developed.

South Wales Police is vigorously pursuing all opportunities for additional funding, and has been highly successful in doing so. For example, for the years 2014/15 and 2015/16 the force has made successful Police Innovation Fund bids totalling nearly £5M".

In terms of our policing vision, of **'being the best at understanding and responding to our communities needs'**, the HMIC have now rated South Wales Police as 'outstanding' for the way we understand our communities.

Our overall crime outcome rates show South Wales Police performing better in many categories compared to the 'most similar group' of forces.

The Wales Audit Office and National Audit Office concurred on the findings of our understanding of demand and resource allocation and usage.

- 2.5 The Wales Annual Audit Letter is shown at **Appendix 3** and the key findings with the letter are summarised below

South Wales Police is well placed to respond to future challenges

- Our aligned work programme with HMIC involved jointly gathering evidence on whether the savings programmes are delivering positive and measurable changes towards a sustainable police service:
- In October 2015, HMIC published its second assessment of police effectiveness, efficiency and legitimacy (PEEL) for each force across England and Wales, summarising HMIC's findings from the previous 12 months' inspections. Their overall conclusions were that South Wales Police is very well prepared to face its future financial challenges. Through robust financial management and a commitment to continuous improvement, the Force has successfully reduced its spending over the last spending review period, and is effectively planning for future financial challenges. In particular:
- South Wales Police's arrangements for matching resources to demand are impressive, and the Force has made a significant investment in assessing the demands placed upon it.
- Reviews conducted by HMIC support my conclusions about arrangements to secure an efficient and effective police service. I continue to provide challenge and support to senior officers and staff through our ongoing discussions on the in-year and future plans of the Commissioner and Chief Constable.
- I issued unqualified opinions on the 2014-15 financial statements of both the Police & Crime Commissioner of South Wales and the Chief Constable for South Wales Police.
- I am satisfied that the Commissioner and the Chief Constable had appropriate arrangements in place to secure economy, efficiency and effectiveness in their use of resources
- I issued a certificate confirming that the audit of the accounts had been completed on in October 2015

- 2.6 The two Corporations Sole have established a Joint Audit Committee to monitor the effectiveness of the governance arrangements and the Joint Audit Committee reported their findings as follows:

“Having received these reports, the Committee are satisfied that there are no major issues of concern that affect the financial standing of the Corporations Sole, that the control methods are adequate, that the governance framework is robust and that the risk management framework reflects the risks to the Corporations Sole and that appropriate management controls and mitigation is in place.”

2.7 The above independent external scrutiny confirms the well developed governance arrangements in place to deliver an effective policing services to the public in South Wales as well as securing Value for Money in the use of public resources.

3.0 STRATEGIC CONTEXT – POLICING PLAN CONSIDERATIONS

THE POLICE AND CRIME REDUCTION PLAN 2016-2021

- 3.1 The Police and Crime Commissioner holds the legal responsibility of setting the policing priorities for South Wales through the Police and Crime Reduction Plan. In South Wales this is done in partnership with the Chief Constable, based on shared organisational values, principles and in consultation with the public and partners.

The revised Police and Crime Reduction Plan 2016-2021 was considered by the Police and Crime Panel at its December 2015 meeting and continues to be aligned to the South Wales Police Vision of: ***“Being the best at understanding and responding to our communities’ needs”***.

The Plan sets out key priorities for the Commissioner’s term in office with an overarching model of early intervention through prompt and positive action. The following six priorities include a mix of direct initiatives and research projects that will help inform future initiatives.

1. Reduce and prevent crime and anti-social behavior to keep people safe in their homes and communities;
2. Improve the way we connect with, involve and inform our communities;
3. Work to protect the vulnerable in our communities;
4. Spend your money wisely to protect policing in your community;
5. Make sure that the local criminal justice system works effectively and efficiently, meeting needs of victims and challenging offenders;
6. Make our contribution to the Strategic Policing Requirement and successfully police major events.

- 3.2 These priorities are underpinned by the Commissioner’s ethos; **“that co-operation is the overarching principle that inspires us. Together we achieve more than we can achieve alone.”**

The effectiveness of the effort we have invested in joint working with our partners was reflected in both the content and the attendance at the summit on Early Intervention hosted jointly by the Commissioner and Chief Constable in the Millennium Suite at the Principality Stadium on January 22nd. The event brought together public sector agencies (devolved and non-devolved) to explore how to build stronger, safer communities through prompt, positive action and making the most of all our shared resources. Speakers included Welsh Government Ministers Mark Drakeford and Carl Sargeant, Chief Executive of Public Health Wales, Tracey Cooper and Carey Oppenheim, Chief Executive of the Early Intervention Foundation as well as Future Generations Commissioner Sophie Howe.

The event highlighted shared visions and goals of all agencies, for example: the impact reducing Adverse Childhood Experiences (an aim of Public Health Wales and many other statutory and third sector organisations) can also have on reducing crime. Making every contact count, maximising joint resources and continuing to improve information sharing were key themes throughout the event. It highlighted the South Wales Police aspiration not only to be the best at listening to our communities but also to be the best at working with our partners to serve those communities.

- 3.3 The Financial Strategy supports the delivery of the Police and Crime Reduction Plan by setting out the provision and allocation of required resources. Crucially, it also sets out how the Commissioner will set a balanced budget for the forthcoming financial year together with a Value for Money Plan to continue to set balanced budgets over the medium term. The Net Revenue Budget for 2016/17 of £259M reflects £4.4M of determinations by the Commissioner with the balance of £254.5M to be expended on policing activities undertaken by the Chief Constable.
- 3.4 The Financial Strategy includes the Commissioner's precept proposal for 2016/17 and outline precept projections to 2019/20. The Police and Crime Panel must review the Commissioner's proposed precept and report on it. The Panel has power to veto the precept. In that event, the Commissioner will need to bring forward an alternative proposal.
- 3.5 The overall budget and the financial plans have been developed jointly with the Chief Constable and his staff. The Commissioner and the Chief Constable have established an effective governance process to ensure the delivery of the Police and Crime Reduction Plan and to develop an effective risk management process to address emerging threats to such delivery.

4.0 STRATEGIC CONTEXT - OPERATIONAL DELIVERY CONSIDERATIONS

4.1 South Wales Police provides a policing service to 1.3 million people covering 42% of the total Welsh population, over 803 square miles, with around 48% of the total crime in Wales. The Force area includes 64 of the 100 most deprived communities in Wales. The policing area is diverse with urban and rural policing challenges including the two most populated cities in Wales, Cardiff and Swansea. In 2015/16, South Wales Police remained one of the busiest forces (7th in England and Wales in terms of crimes per 1000 population, and the 8th most effective in terms of detections). The Capital City of Wales presents some additional policing challenges which receives no recognition whatsoever within the funding formula. The scale and complexity of incidents routinely dealt with by the force and the additional issues involved in policing a Capital City make it unique within Wales and more widely.

4.2 Quality improvements in the South Wales policing service

South Wales Police throughout the five years of cuts has protected and maintained neighbourhood and community presence. We have avoided shroud waving and focussed on **being the best at understanding and responding to our communities needs** in a **professional, positive and proud manner**.

Despite the financial challenges we've faced we have achieved some significant improvements in performance and we are now recognised as one of the best performing forces in England and Wales. It's a long list, but some of the improvements achieved despite the Comprehensive Spending Review and accompanying austerity challenges include:

- Crime at a 30+ year low
- Anti Social Behaviour reduced by over 60,000 incidents
- Detections at an all time high particularly burglary and violence against the person
- Victim satisfaction propelled from the worst force in England and Wales to a top five position among forces in England and Wales.
- Public confidence improved by 50%
- Excellent improvements in closing the Black and Minority Ethnic (BME) gap in public confidence.
- Mobile technology that has transformed the way we work
- A modern vehicle fleet and a new workshop that is fit for purpose
- Modernised and legislatively-compliant custody facilities
- A consistent model of neighbourhood policing
- A beacon Public Service Centre

This year on year improvement has brought the service up to a level that we believe the public of South Wales expect and need. The Commissioner and Chief Constable are committed to continuing with this impressive level of improvement.

4.3 South Wales Police is also recognised as the lead regional force on Serious and Organised Crime and receives specific ring fenced funding for an all Wales

Extremism and Counter Terrorism Unit (WECTU), and a Regional Organised Crime Unit (ROCU) which encompasses Regional Intelligence Unit (RIU), a Regional Asset Recovery Team (RART) and has established through collaborative funding a Regional Task Force (RTF) along with a number of other initiatives to tackle cross border issues with other police forces in Wales and England.

Tarian is our joint operations unit (with Gwent and Dyfed Powys Police) for serious and organised crime. The unit receives contribution from the Welsh Government and the continued financial and political support recognising this threat to the communities in Wales is essential. Further collaboration opportunities established in the areas of Forensic Services, Specialist Crime and Firearms bolster the operational capabilities and effectiveness of regional resources.

- 4.4 Chief Constables across Wales continue to provide substantial commitment to combating criminality operating at regional and national level which not only benefits the communities of the South Wales Police force area but also those in our neighbouring forces.

Strategic Policing Demand Risk Resources Assessment

4.5 Vulnerability

The latest PEEL report on vulnerability identifies that the force takes 314 calls for assistance per 1,000 population, for the year ending 31 March 2015. Putting victims at the heart of the force's activity is central to how South Wales Police works. Supporting victims is a main part of the Police and Crime Commissioner's overall plan and is a thread through all the priority areas of the force's work. The force Control Strategy (dated 1 June 2015) highlights vulnerability as a priority. From this a number of baseline problem profiles have been established, primarily focusing on child sexual exploitation.

The number of occurrences identified as involving a vulnerable adult accounts for around 1% of all occurrences received by the force and has increased by 40% over the last 12 months. A proportion of this increase is likely to be linked with the introduction of changes to the recording process that took place in the first half of 2013.

Whilst in the vast majority of cases the vulnerable adult is the identified victim, this is not always the case. In almost half of occurrences identified as involving a vulnerable adult, the nature of the vulnerability has related to mental health with a similar proportion categorised as concern for safety reasons.

Assault, burglary, criminal damage, fraud and theft are the commonest types of crimes associated with vulnerable adults. The Social Services and Wellbeing (Wales) Act 2014 is due to be implemented in April 2016. Section 127 of the act introduces Adult Protection and Support Orders (APSOs) which are designed to enable an authorised officer and any other person specified in the order to speak in private to a person suspected of being an adult at risk of abuse or neglect.

HMIC found that in South Wales the requirements of some vulnerable groups are better understood than others. *The force has a good understanding of crime trends and patterns of offending, but a limited understanding of the nature and scale of missing persons.*

The force identified that there were 5,373 reports of missing persons in the 12 months to March 2015. The force's strategic assessment of missing people identifies that care homes and hospitals are the principal source of reports of missing people. The force continues to gain understanding of the threat of 'street grooming' of vulnerable young

people in the care system. The force has produced a problem profile of child sexual exploitation and missing persons for all Basic Command Units (BCUs), which aims to establish the level, patterns and profile of missing persons and their vulnerability. Such issues are discussed regularly in the quarterly meetings that the Commissioner and the Chief Constable hold with the Leader and Chief Executive of each of the seven Local Authorities in South Wales as well as with leaders and managers in Health and other agencies.

The HMIC recognises that *the management of missing persons is a high priority for the force at an operational level and staff demonstrated a good understanding of the potential risks to people who go missing, particularly those who are more vulnerable.* **However, a threat remains where by there is no BCU or force-level governance structure in place to understand repeat and vulnerable missing persons in order to guide safeguarding.**

As a result of a review of violence against women and girls in South Wales commissioned jointly by the Commissioner and the Chief Constable in 2013, considerable work has been undertaken to develop and implement an action plan to improve the partnership response to domestic abuse, sexual violence and other forms of violence against women and girls in South Wales.

In the 12 months to 31 March 2015, recorded domestic abuse increased by 29% against the previous 12 months and accounted for 11% of all police recorded crime. The HMIC have found that *public protection officers and staff working in the Multi Agency Safeguarding Hub focused on evaluating the risk of harm correctly and taking effective measure to provide appropriate safeguarding to those cases referred to their units. However, whilst the force deal with high-risk cases of domestic abuse to a high standard, there is still work to be done to improve the way the force deals with cases of domestic abuse assessed as having standard and medium risk.*

4.6 Child Sexual Exploitation

- **Online CSE**

According to the force Strategic Assessment 2015, the level of referrals from Child Exploitation and Online Protection (CEOP) remains constant, however the environment is dynamic and could be subject to change. The level of resources and expertise required for such investigations is increasing as technology evolves and cases become more complex. **It is important that the force is equipped to respond to these challenges.**

The recently published National Strategic Assessment of Serious and Organised Crime 2015 suggests that **the live streaming of abuse from the developing to the developed world is judged to be an emerging threat.**

The force online CSE profile has highlighted that the age of young people engaging in risky behaviour online is of concern with some as young as 8 being put at risk. There is some evidence to suggest that young people in the force area are being blackmailed by offenders trying to obtain indecent images. There continues to be debate around the issues relating to criminalisation of children who are sending indecent images amongst themselves without understanding the risk.

According to a recent survey, almost twice as many children aged 5-15 were online via a tablet device in 2014 than in 2013. The vast majority of reports that are brought to police attention are via a parent who has had cause to check their child's device, rather than self reporting. This potentially illustrates the difficulties in protecting victims as they either

do not perceive themselves as at risk or are too scared of being in trouble to tell a parent or person in authority.

The force continues to see high levels of reporting of 'sexting type' incidents.

- **Contact Child Sexual Exploitation (CSE)**

Contact CSE, is further sub-divided into that carried out by lone offenders and that which is committed by groups or gangs. To date no groups meeting the national definition of an Organised Crime Group (OCG) have been identified in South Wales, although **there are several CSE operations ongoing in force across the four BCUs.**

Data quality relating to the flagging of CSE is inconsistent which will affect the ability to assess the full scale of the problem in the force area. There will be a mandatory requirement to provide data in relation to this area of business in order that a comprehensive local and national intelligence picture can be obtained.

The CSE vulnerability analysis process has been developed in force to identify potentially at risk individuals, to ensure that they are effectively safeguarded. The system is being further developed to support BCU management in identifying those most vulnerable with a view to early identification and to ensure safeguarding.

A new regional CSE analyst has been appointed to assist in ensuring that regional trends relating to CSE are identified and any good practice and/or areas for improvement are shared.

4.7 Serious Sexual Offences

There has been a 20% year on year increase in the number of recorded Serious Sexual Offences. This equates to a 17% increase in the number of recorded rapes and 23% in the number of recorded SSOs (excluding rape). There continues to be a high level of scrutiny in this area of business particularly following high profile cases both in force and nationally.

Local Sexual Assault Referral Centre's (SARC) recorded 911 victim referrals during 2014/15 which equates to a 19% decrease on the previous year. A total of 14% of SARC referrals were male victims, with stranger offences accounting for 9%.

The 'night-time economy' continues to be a contributory factor in a number of serious sexual offences, with the presence of alcohol or drugs affecting decision making and increasing vulnerability. In addition to this, large and increasing student populations throughout the force area have also been linked to a disproportionate number of serious sexual offences likely linked to similar vulnerabilities as the night time economy.

The emergence in recent years of social media, online dating and 'hook-up' apps such as Tinder and Grinder have led to changing attitudes and behaviours towards casual sexual encounters. **There is a growing potential for such sites to facilitate an environment that can be exploited by predatory offenders.**

The number of Registerable Sex Offenders (RSOs) being managed by the force continues to increase year on year. As of the end of July 2015, there were 1,238 RSOs being managed in the community, 24% of which are assessed as Very High Risk, or High Risk.

4.8 Internet Enabled Crime (Cyber)

The force Strategic Assessment 2015 has identified that increased internet usage means that more people are making themselves 'accessible' and therefore vulnerable to criminals online, who continue to quickly adapt to the dynamic cyber environment.

It also identified that increased numbers of people, especially adults, own and use mobile devices including tablets. Use of social media, particularly amongst adults, has also increased while use of 'traditional' messaging services such as SMS and MMS continue to decline.

Whilst the requirement for a force cyber crime unit has been identified, it has not yet been established and resourced. The lack of such a unit has resulted in a relatively high risk in regard to the capacity and capability available to mitigate the potential risk; especially for cyber dependent crime.

In October 2014 the former ACPO definition of cyber crime was amended to cover three aspects:

- Cyber Dependent Crimes, where a digital system is the target as well as the means of attack.
- Cyber Enabled Crimes. 'Existing' crimes that have been transformed in scale or form by their use of the Internet.
- The use of the Internet to facilitate drug dealing, people smuggling and many other 'traditional' crime types.

Examples of all three types of cyber crime have been recorded within the force area.

Although, due to the cross-cutting nature of this type of criminality and confusion as to what constitutes cyber crime, exact levels of offending are difficult to establish. This is further complicated by the role of Action Fraud as the national means by which all fraud reports are made; many of which are cyber enabled. The highest levels of recorded cyber-enabled crimes within the force relate to harassment.

In particular, the use of social media as a platform for one individual to harass another is an increasing problem, in some cases transferring from a 'virtual' platform to a real one in which violence or other offences follow.

Nationally, whilst most other acquisitive crimes recorded by the police have continued to decline there has been an increase in the volume of fraud offences recorded by Action Fraud with a large proportion of these relating to non-investment fraud (up 15%) which includes frauds related to online shopping and computer software services. 'Online' fraudulent activity reporting remains reasonably constant within force compared to the previous year, despite nationally reported increases.

The increasing range of devices and means of accessing the internet, along with the move away from 'traditional' messaging and voice communication systems mean that investigations are becoming more complex and require more specialist resources to support them. It is accepted that large scale cyber crime often has an organised crime dimension.

The global nature of cyber crime means that victims and perpetrators may not necessarily be resident in the same country making it very difficult to police. Cyber crime offending is only likely to increase in the future as the use of the internet becomes more and more widespread and central to day to day life. Methods of offending are also likely

to evolve and increase in complexity with the improvement of investigative techniques, the development of new devices and the emergence of new online trends.

- 4.9 An assessment of resources required to address the above issues through a combination of internal learning and good practice as well as undertaking a benchmarking exercise using HMIC analysis of the forces that were rated as 'good' following their recent Vulnerability Inspection. It is understood that the additionality needs to be a mixture of specialist police staff and officers which will require consideration and implementation plans to be effective first time. Consequently the medium strategy seeks to incrementally increase capacity as funding permits from 2017/18 onwards using average staffing costs we will need to invest around £7M per annum to address the above pressures.

The resource assessment below is our current estimate which is informed in part by some recent experience in relation to a Child Sexual Exploitation operation which is outlined as follows:

Operation Red Eclipse

This required a dedicated team of 52 staff set up in January 2015 in response to an internet blackmail campaign relating to online child abuse. The suspect was residing in the Force area at the time of arrest, although his crimes were of a global nature. Over 4,600 intelligence packages have been distributed worldwide, 1,150 of which were to UK forces. 3 officers remain committed to the operation on a full time basis, building intelligence packages for further investigation by BCUs.

Operational Focus	Potential additional resources
Domestic Abuse	25+
Child Sexual Exploitation	34
Serious Sexual Offences	60
Internet enabled crime	20+
TOTAL	139 +

4.10 Mental Health

Detail provided by the force advisor on Mental Health informs that from 2013/14 to 2014/15, the number of mental health incidents responded to by SWP increased from 15,495 to 27,100 an increase of 74.9% respectively.

Work is ongoing between South Wales Police and the 3 Local Health Boards to reduce the number of people detained under section 136 ending up in police custody. Such individuals are frequently intoxicated by drugs and/or alcohol and held for their own protection as well as the protection of the public. There is general agreement that the root of the problem is not a policing issue but the lack of alternatives, so the Commissioner has commissioned detailed work which has just been completed about how best to provide an alternative in partnership with the NHS and others. Both the Commissioner and Assistant Chief Constables Support are members of the Task and Finish Group established by the Minister, Mark Drakeford AM, to put into practice the principles set out in the recent Concordat.

Considerable progress has been made in protecting vulnerable people in the night-time economy, not least through the establishment of the 'Help Point' in Swansea which has enabled police officers to get back on the street, knowing that those vulnerable individuals are in safe hands, while avoiding over a thousand ambulance journeys and almost as many admissions to Accident and Emergency. Students who give up their time voluntarily to help in the scheme have been recognized by national awards and the scheme is underpinned by the expertise of St John's Ambulance staff and volunteers. Abertawe Bro Morgannwg University Health Board is a valued partner and has agreed to share future funding with South Wales Police and the Welsh Ambulance Trust has also been approached. This builds on the existing success of the 'Alcohol Treatment Centre' in Cardiff where a firm partnership arrangement has been in place for a number of years, serving the Capital City.

South Wales Police have agreed that all children and young persons detained under section 136 would be taken to health place of safety and that the use of police custody suites should be a 'never event'. This depends on the availability of alternative safe and secure locations for young people.

From November 2015, police officers are required to contact the crisis teams in the 3 LHBs for advice prior to any decision to detain a person under the Mental Health Act. Using the advice lines should benefit the force in not only providing an alternative to using S136, but will reduce time spent escorting S136 detainees and provide a better service to those in crisis.

In December 2015, the force signed the 'Time to Change Wales' pledge to initiate a range of measures for its workforce and external partners. Earlier in the year Chief Constable and the Commissioner launched the Keep Safe Card scheme for persons with mental illness, learning disability and dementia. The scheme was designed by members of staff in the Response Centre based on experience of need, and currently there are 617 persons registered.

4.11 Serious and Organised Crime/Terrorism

The Southern Wales Regional Organised Crime Units (ROCU) is recognised as one of the earliest example of effective regional units and continues to provide an exemplar for other regional units.

HMIC have in their assessment ROCU of capability and effectiveness found that ROCUs could be more fully integrated with both the National Crime Agency (NCA) and the national counter-terrorist policing network. Some capabilities – for example surveillance – are used by ROCUs, the NCA and the counter-terrorism network, which creates opportunities for sharing.

Progress is being made, particularly with the NCA, and some alignment of structures and processes has been achieved. Joint management arrangements have been introduced in three regions which assign responsibility for serious and organised crime and counter-terrorism to one assistant chief constable. This joint leadership model may enable fuller exploitation of opportunities for collaboration between those focused on tackling serious and organised crime and those responsible for preventing terrorism. As this convergence continues, the debate about the way in which policing capabilities should be provided – and in particular their distribution between different bodies – will become increasingly important.

4.12 Tactical Firearms Capability

Following the horrific attacks in Paris the Home Secretary has announced that additional funding would be provided to enhance the national response to a terrorist firearms attack. The funding for this has been top-sliced from force allocations and the exact process for allocating this funding to forces is yet to be determined but will be informed by demand resource and risk process centrally to safe guard communities. However an assessment of training capacity, equipment and sourcing of appropriate officers will be made by forces when exact numbers are confirmed.

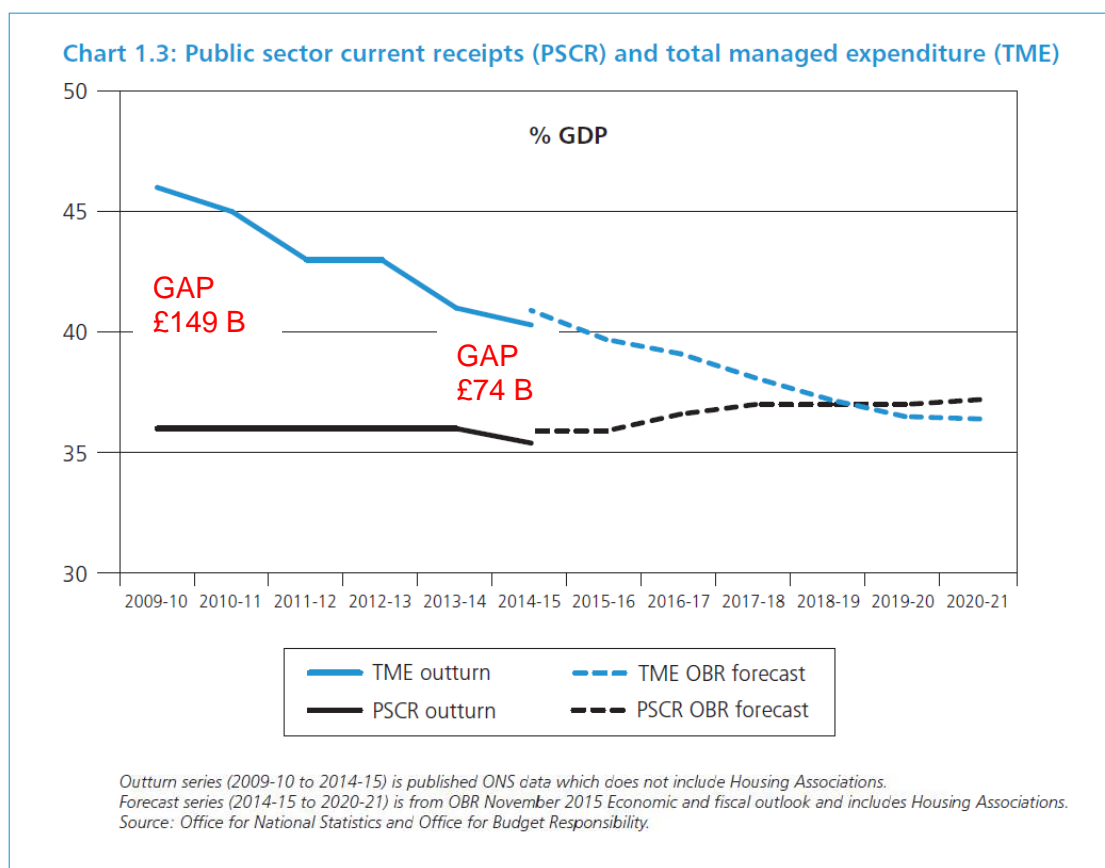
It is recognised that the CT threat has a local footprint and consequently South Wales Police throughout the CSR, protected neighborhood policing and response resources. The above pressures require new investment if we are to continue to protect local presence.

4.13 Conclusion

This context of local, regional and national policing requirements, coupled with the impact of the largest reduction in police funding in a generation (with strong indications of further austerity to 2020) presents a huge challenge to the Chief Constable and the Commissioner in seeking to maintain an effective police service while continuing to dramatically improve performance which is our ambition. **The Medium Term Financial Strategy therefore takes account of the additional resource assessment needed to increase capability and capacity as well as the need for significant savings and reduction in expenditure elsewhere to balance the budget year on year.**

5.0 STRATEGIC FINANCIAL CONTEXT – NATIONAL AUSTERITY PROGRAMME

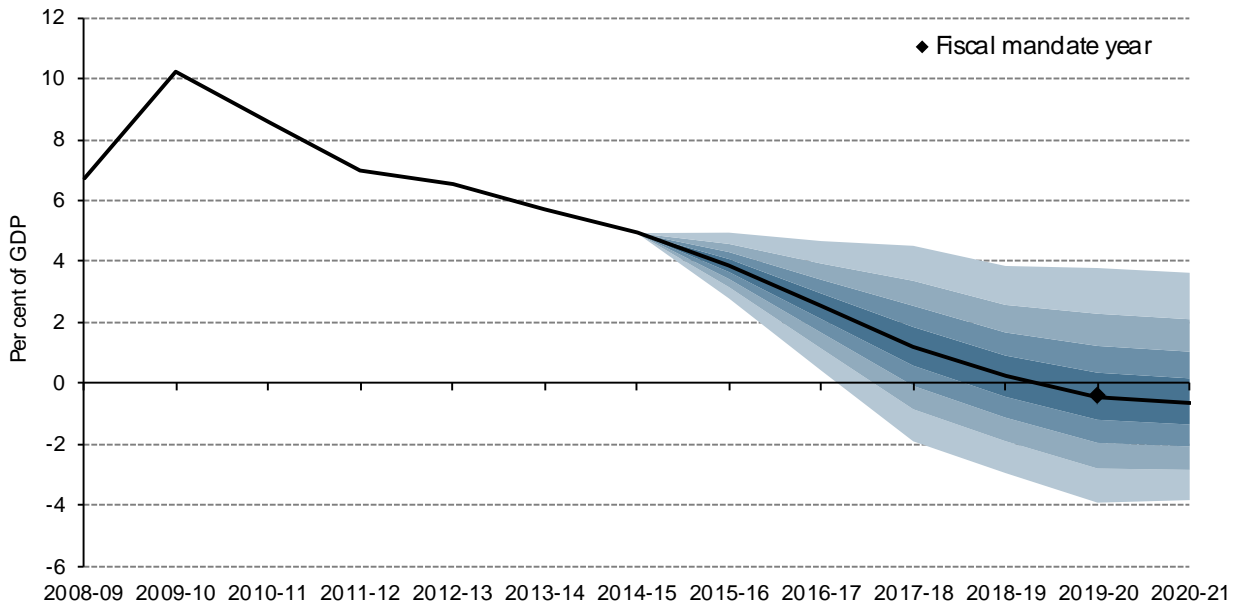
- 5.1 The global economic crises manifested in a UK annual budget deficit of £149B at the start of 2010 and prompted the Comprehensive Spending Review 2010 to deliver a balanced budget by 2015. This had an unprecedented significant negative impact on the central funding allocations to policing and as one of the unprotected departments, resulted in the single largest reduction in central government funding for policing in a generation.
- 5.2 The latest position as announced by the Chancellor in his autumn statement on the 25th of November 2015 was that the annual budget deficit by the end of 2015/16 will still be more than £70B. In effect the structural budget deficit is expected to have been reduced by only a half by the end of the financial year after 6 years of austerity.
- 5.3 Having missed the first target to eliminate the deficit by 2015, the revised proposal is to continue with the austerity programme (effectively for a decade) and deliver a balanced budget with a small surplus by 2020. The past performance on forecast would suggest that this remains aspirational given the latest pronouncement on the state of the economic forecast.



- 5.4 With half the structural deficit yet to be eliminated and with the total national debt being now £1.5 Trillion (nearly twice the level in 2010 which is equivalent to £23k for every person in the UK), the future funding of public services will therefore continue to decrease.

5.5 The Office for Budget Responsibility (OBR) judge that the Government has a greater than 50% chance of meeting its fiscal mandate. However, the OBR goes on to say “if our central forecasts are as accurate as official forecasts were in the past, then there is a roughly 55% chance that public sector net borrowing will be in balance by 2019-20. The range of probabilities is shown on the chart below:

Public sector net borrowing fan chart:



Source: ONS, OBR

5.6 An improvement in the underlying forecast of tax receipts of £27B has enabled the chancellor some flexibility in the austerity programme. The latest announcement of “protected” status for police budgets is therefore welcome, but we are still in an environment of cuts. Budgets are declining in real terms as demands are increasing.

5.7 The Spending Review provides some clarity over the next 4 years but there is a real risk that, not all of the £27bn forecast receipts will actually materialise. This will mean that the reduction in national debt will slow and the Chancellor may introduce further cuts on an annual basis. This was the pattern we saw after the 2010 Spending Review and we will need flexibility in our Value for Money Plans and Precept Strategy to deal with these uncertainties in future years.

5.8 The fragility of the national budget remains a key risk. In addition the impact of the above budget cuts and reductions in the funding of public sector partners in the National Health Service and Local Government as well as the wider Criminal Justice family compounds the pressures on policing resources.

Each public body will make its own decisions on cost reduction and service priorities. Local Authority budget plans within the South Wales Police Area are already indicating a reduction in non-statutory community safety initiatives and the impact on crime and anti-social behavior as a consequence of the resulting service contraction has yet to be assessed. Reductions in youth services, in sport and leisure, and in support for voluntary and community groups in some parts of the South Wales area are bound to have an impact on our communities and the demands on local policing.

6.0 STRATEGIC FINANCIAL CONTEXT – THE NATIONAL POLICING POSITION

6.1 On the 17th of December 2015, the Policing Minister announced the provisional policing settlement for 2016/17 and confirmed that the total revenue provision for policing across England and Wales to be supported by grant in 2016/17 will be £8.2B (see **Appendix 4**). This covers the next four years assuming the national economic projections are in line with current projections. The past record would suggest that further deeper cuts are still likely. The Home Secretary made the following statements with regard to the overall police settlement:

- *This is a tough but fair settlement for the police. The experience of the last five years has shown that, with reform, it is possible to cut crime, maintain public confidence and save money for the taxpayer.*
- *Between 2010 and 2015, you reduced central government spending by £1.5 billion, or 22%, even as police confidence was maintained and crime was cut by more than a quarter, according to the Crime Survey for England and Wales.*
- *There can be no doubt that, with continued reform, you can do even more. The Chancellor and I have agreed a fair deal for the police. This settlement gives you immediate certainty that police spending will be protected in real terms over the Spending Review period, when local income is taken into account. This is an increase of up to £900 million cash by 2019-20.*
- **Total central Government resource funding to policing, including funding for counter terrorism, will be reduced by 1.3% in real terms over four years.** *Taking into account the scope that you have to raise local council tax, this means a flat real settlement for policing as a whole.*

6.3 Therefore despite the rhetoric the settlement reflects further cuts to police funding with a total cash reduction of 0.6% per annum.

6.4 What is also not highlighted is the extra National Insurance Costs imposed by the budget which effectively equate to 2% of budget (£4.5M) or a 3% equivalent cut in funding in 2016/17. In addition, the effects of price inflation over the CSR period gives an equivalent cut closer to 8% to 2020, part of which is expected to be met through council tax increases as there will be no further provision of council tax freeze grant in England to 2020.

6.5 In the case of the budget for South Wales Police the extra National Insurance Costs alone are equivalent in cash terms to a 4% rise in the Precept

6.6 The implementation of the new Police Formula Allocation methodology was aborted at the last moment due to fundamental errors in the statistics underpinning the formula. Following a formal apology by the Home Office Permanent Secretary a revised formula is now expected to be implemented for 2017/18. It is very important to note that the exemplification of the abandoned formula (by Devon and Cornwall Police) indicated a planned reduction to South Wales Police Funding of around £7M per annum using the corrected indicators. This is clearly a cause for concern and we will continue to make robust challenges and representation to the new working group being established by the Home Office.

6.7 Top slicing has **increased** yet again to reach £937M per annum in 2016/17 as well as a major reduction in capital funding (41% per annum cash cut starting from 2016/17). There is a **new** top-slice in 2016/17 of £76M for a transformation fund as well as increases in existing top-slices, the amount of top-slicing means that nearly £1 Billion is allocated by the Home Office outside a funding and needs based formula and is detailed below together with ministerial justification:

Top Sliced Initiatives	2015-16 £M	2016/17 £M
Police Innovation Fund	70	55
IPCC Transfer – Revenue	30	32
Major Projects Fund	40	22
Police Special Grant	15	25
Direct Entry Scheme – New	5	5
Transformation Fund	0	76
Counter Terrorism	564	640
PFI Grant	73	73
Council Tax Freeze Grants	100	0
Welsh Top-up for Dampening	13	9
Revenue Top Slicing	910	937
National Police .Air Service- Capital	10	17
Other Capital Grant reduction	1	45
Total Top Slicing	920	999

Police Innovation Fund

The Minister comments that “I will continue to promote innovation, collaboration and improved efficiency by allocating £55m to the Police Innovation Fund for 2016/17. This year, we want to reward more breakthrough ideas than ever before. We will continue to fund high-quality, large-scale, ‘Implementation-Ready’ bids to bring innovation to life more quickly. But we are also looking for ideas for smaller-scale, early-stage, ‘Proof-of-Concept’ bids to make ideas a reality, at scale and pace”.

Independent Police Complaints Commission (IPCC)

This is the third year of funding for the expansion of the IPCC to investigate all serious and sensitive allegations involving the police. At the midway point in 2015/16 the IPCC have opened more independent investigations than it delivered in the whole of 2014/15. The Minister says that “In 2016/17 I am providing £32m from the police settlement to allow the IPCC to expand and focus on investigating the most serious and sensitive cases.”

Major Programmes

This year the Home Office will provide £21.8m from the police settlement to support the continuing development of Home Office Biometrics, a transformation programme looking to provide a single platform for all users (police, immigration and border, Counter Terrorism and Her Majesty’s Passport Office) for all three biometric platforms (fingerprint, DNA and face), and the National Police Database Programme that will develop a new national platform whose scope is likely to include that of the current Police National Computer, Police National Database and Automatic Number Plate Recognition systems.

Police Special Grant

This is the second year the Home Office have decided to provide funding from the police settlement for the discretionary Police Special Grant contingency fund, which supports police force areas facing significant and exceptional events which might otherwise place them at financial risk. The Minister confirmed that “In 2016/17 I am providing £25m from the police settlement for Police Special Grant”.

Direct Entry Scheme

£4.6M will be given to the College of Policing to deliver direct entry schemes. These schemes aim to attract, select and train exceptional people who have the potential to become senior leaders in policing. Next year the College of Policing will be opening a new direct entry route in to policing at the rank of Inspector to further open up policing ranks and encourage people from different stages in their careers to consider policing.

Police Transformation Fund

The Minister states that “After consideration, we are allocating £38m New Transformation Funding to incentivise and facilitate transformation in policing to invest in cross-force specialist capabilities, to exploit new technology and to improve how we respond to changing threats. Further details will be provided in the New Year. We will provide £34m to enable a national uplift in armed policing capability and capacity to respond more quickly and effectively to a firearms attack. This will be distributed via the Counter Terrorism Policing Grant.”

Counter Terrorism Fund

The Overall settlement will increase counter-terrorism funding in real terms to £670M by 2020 with an increase to £640M in 2016/17.

Private Finance Initiatives Grant

Specific funding will be given to cover the costs of Police Private Finance Initiative (PFI) projects which are currently operational. This funding was added to the police settlement for this specific purpose. South Wales Police have never benefited from PFI funding although other forces in Wales have benefited.

Other funding Adjustments

Legacy Council Tax Grants

In 2016/17, the Home Office will provide Council Tax Freeze Grant to Police & Crime Commissioners in England relating to the 2011/12, 2013/14, 2014/15 and 2015/16 council tax freeze schemes and Local Council Tax Support (LCTS) funding previously paid to Commissioners in England by DCLG. This will total £507m in 2016/17. This source does not apply to us.

National and International Capital City Grant

The Metropolitan Police, through the Greater London Authority, will receive National and International City (NICC) funding worth £174m, and the City of London Police will also receive increased NICC funding worth £4.5m. This is in recognition of the unique and additional demands of policing the capital city, and also ensures that total direct resource funding to both forces is similarly protected.

Emergency Services Network (ESN)

£80m will be reallocated for ESN which will give all officers priority access to 4G mobile broadband data on a single network, including in some areas where it is currently not available at all, allowing them to get even more benefits from mobile working than many forces are already achieving. This investment will bring productivity and operational benefits as well as substantial savings to the taxpayer of around £400m per year, with the police accounting for around £260m of that saving.

6.7 Police Capital Grant

Police capital funding in 2015/16 was £120.9M in total, of which £10.4M was top-sliced for the National Police Air Service (NPAS) and £1M held as contingency, with the remaining £109.5M distributed to Police and Crime Commissioners. In 2016/17 the NPAS top slice has increased to £17M and only £64.5M is being allocated to Commissioners with each receiving the same percentage cut in capital grant. There is no explanation as to how the £45M cut is being lost or reallocated. This represents a 40% cut to individual forces. We are moving to a position where forces will need to sustain capital investment from their own revenue resources as central support rapidly diminishes.

6.8 Beyond 2016/17

The original Comprehensive Spending Review 2010 (CSR2010) set out the proposed police funding levels for four years from 2011 to 2015 and was acknowledged as the most financially challenging funding settlement for policing in a generation (HMIC). This first announcement translated into a real terms reduction of 20% (after taking into account inflation). However this reduction was added to over each successive year resulting in a real terms reduction of 25% (twice the HMIC assessed manageable level).

6.9 The funding announcements in respect of the 2016/17 to 2019/20 period were to expect cuts of similar level as that of the previous CSR. The new settlement is better than this worse case scenario and whilst the settlement announcements suggest a flat position in respect of police funding the reality is a combination of grant cuts, top-slicing, National Insurance Costs, Apprenticeship Levy and no pay and price inflation result in a near 8% cut over the CSR to 2020 without considering new formula allocation methodology. Also given the slippage in balancing the national budget deficit the only reasonable conclusion to be drawn is that in order to remove the UK National Budget Deficit within this parliamentary period further austerity will continue and may get worse by 2020 than currently indicated to achieve a balanced budget before the next general election which will be a political given.

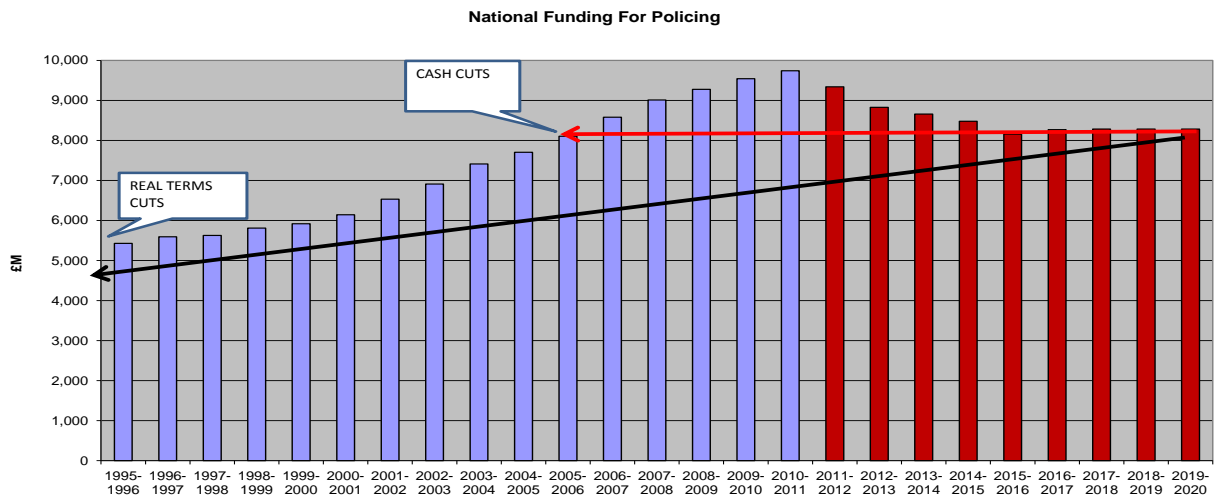
6.10 Using the assessment of the Independent Office of Budget Responsibility the Medium Term Financial Strategy assumes that a further 0.6% per annum grant reduction is highly likely.

	2011/12 £M	2012/13 £M	2013/14 £M	2014/15 £M	2015/16 £M	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M	Total £M
Actual Percentage Reduction	-3.8%	-5.5%	-1.9%	-4.8%	-5.1%	-0.6%				-21.7%
Forecasted Percentage Reduction							-0.6%	-0.6%	-0.6%	-1.8%
										-23.5%

Since the start of the national austerity programme the police service has lost cash funding of 21.7% with another 1.8% anticipated. **This is 23.5% cash cut which in**

real terms after 2% per annum inflation gives a reduction of close to 30% cut in spending. It is vital that appropriate local decisions on funding are taken to ensure an effective sustainable police service over the medium term. The only effective funding mechanism locally is the Police Precept and this is addressed later in the report.

- 6.11 It is impossible to assess the long term consequences of this reduction but there is cause for concern given that:
- There has been a loss in police resources, skills, knowledge, and experience.
 - Internet-related crime and online fraud offences of nearly 7.5 million nationally are increasing demand on scarce policing resources.
 - Cases of historic abuse and increased focus on vulnerability also add to demand pressures. The emphasis on protecting the vulnerable is a key part of our Police and Crime Plan so it is high on the priorities of the Chief Constable and the Commissioner but it is not cost-free.
 - The increased threat of terrorism and extremism, together with the consequences for a liberal society, have shown the urgent need for enhancing national capability some of this will impact on local resources and priorities.
- 6.12 Public Service partners are also reducing funding in community safety areas to protect funding for other functions. The Commissioner and the Chief Constable take the view that we cannot allow such crime trends and silo-based cuts to develop in South Wales. Efforts must be made with our Partners to squeeze out every last drop in crime reduction in order to reduce the number of victims and to help vulnerable victims in particular while creating some headroom in future years for both the police service and our partners.
- 6.13 The overall impact of the reductions to police funding are illustrated below. The graph shows the police cash allocations by the Home Office since 1995/96 (blue bars) and how the recent and proposed settlements progressively reduced cash funding to below 2005/06 levels already (red arrow). The real terms reduction however (after adjusting for inflation) presents a much different picture and shows that policing is receiving effectively less funding than in 1995/96 (black arrow). At the same time the current policing environment is radically different from that of the past two decades. Our local risk assessment and the National Counter Terrorism assessment indicate that a growth in police resources for this area of work is required to meet the new demands for protection.



6.14 More than two decades of growth in police funding has been removed with no sign of improvement over the parliamentary cycle.

7.0 EXTERNAL FUNDING - SOUTH WALES POLICE GRANT POSITION

- 7.1 The financial year 2016/17 represents the sixth consecutive year of reductions in funding and the allocations for South Wales Police have now been confirmed as a reduction of £0.9M compared to 2015/16. The total loss in funding since 2011/12 is now £42.5M (21%). This is the highest percentage and cash reduction in Wales compared with the other centrally funded public services in Wales.
- 7.2 The allocations for 2017 to 2020 remain provisional and are based on an analysis of UK financial position by the Office of Budget Responsibility. It is assumed at this stage that further reductions in grant funding are highly likely in view of the Government's wish to eliminate the national structural budget deficit in the remaining parliamentary period – as this has been spelt out as a political imperative. The national debt - currently £1.5 Trillion - is growing year by year with ever increasing call on the national budget.
- 7.3 This Medium Term Financial Strategy therefore prudently assumes further reductions in funding until 2020 of at least 0.6% per annum. The resulting analysis over this period is set out in the following table.

Source of Funding	2015/16 £M	2016/17 £M	Indicative		
			2017/18 £M	2018/19 £M	2019/20 £M
Police Grant	89.338	87.463	86.444	85.432	84.425
Revenue Support Grant/NNDR	71.218	72.176	72.176	72.176	72.176
Total Formula Based Grant	160.556	159.639	158.620	157.608	156.601
Percentage Reduction	-4.8%	-0.6%	-0.6%	-0.6%	-0.6%
Rule 1 Floor Funding Adjustment	(8.814)	(10.129)	(10.129)	(10.129)	(10.129)

* These percentage levels are considered to be the minimum level expected - the reality, given the trend to date, is probably that higher cuts than these will be realised.

- 7.4 The Home Office had confirmed that the Home Secretary 'will be commissioning a fundamental review of the Police Funding Formula once Police and Crime Commissioners are established in their roles and able to engage fully in the review processes'. This was expected to begin in early 2013; the latest indications following the abandoned proposals for 2016/17 are now that any new arrangements are likely to be in place for 2017/18 with some form of transitional arrangements. The Police and Crime Commissioner for South Wales, supported by the Chief Constable, has provided successive Ministers with evidence of the inequity that affects South Wales. Ministers have acknowledged that there is a problem but the recent proposals still fail to take into account the issues raised by South Wales Police.
- 7.5 The Policing Minister has continued to apply damping (Rule 1 Floor Funding Adjustment) in respect of 2016/17 and this shows an increase now to £10M. However, £1.3M of this relates to a technical adjustment between Revenue Support Grant and Police Grant. The Home Office has reduced the "Welsh Top Up" that is paid to Dyfed Powys and North Wales and transferred the balance into the Revenue Support Grant paid by Welsh Government to all 4 Welsh forces. To compensate for this adjustment, the floor funding has been increased from £8.8M to £10M. The net difference is still £8.8M of formula dampening.

7.6 If the current needs based formula allocation was applied as intended South Wales Police would actually have £8.8M additional funding for local policing.

7.7 **This £8.8M is removed from SWP for redistribution to the other three Welsh Forces. Formula damping has now been in place for over a decade and the cumulative effect of this for South Wales Police has been a loss £66M of grant to date.**

8.0 PERSISTENT FUNDING INEQUITIES AFFECTING SOUTH WALES POLICE

8.1 Previous Medium Term Financial Strategies have cited a number of areas where South Wales Police is significantly disadvantaged in terms of funding and these issues continue to remain unresolved due mainly to the failure to address the funding formula anomalies. We are committed to seeking a resolution to these issues and will continue to raise them at the highest levels to seek redress.

8.2 The below table summarises the annual detriment in funding faced by South Wales Police which is further detailed as referenced within the report. The assessment shows that around £25M of annual funding inequity persists which if addressed would transform policing for the public in the South Wales Area.

Funding Inequities Impacting on South wales Police	£M	Medium Term Financial Strategy Reference
Police Precept Differential Wales	7.5	See section 16
Funding Formula Damping	8.8	See Appendix 5 for details
Area Cost Adjustment	4.0	See Appendix 5 for details
Capital City Requirements	3.0	See Appendix 5 for details
Capital Infrastructure Funding	1.6	See Appendix 5 for details
Total Impact of Funding Inequities	24.9	

8.3 The HMIC and Wales Audit Office (as independent reviewers of our operational and financial performance) have confirmed we have appropriate arrangements for the use of public finances and deliver Value for Money.

8.4 We have consistently improved our performance and delivered an effective policing service within a declining resource envelope. However the combination of a decade of cuts to police funding with new policing demands and the added burden of funding inequities presents a real challenge to the delivery of frontline services which we will inevitably be forced to prioritise and rationalise.

8.5 The recent review of the funding formula (which was eventually abandoned subject to a further review during 2016/17) indicated a further £7m cut in the South Wales Police Allocation. There was no recognition of the Capital City Requirements and the initial removal of the Area Cost Adjustment was reintroduced inexplicably in the final iteration of the proposed formula. This is a major area of concern as the expectation was that after a decade of not applying a funding formula that we would see some re-dress. While we will continue to argue our corner, the most prudent assumption at this stage is that changes in the funding formula are likely to result in a further real-terms cut in funding.

9.0 REVENUE BUDGET 2016/17 AND REVENUE FORECAST TO 2019/20

9.1 The Revenue Account projections made by the South Wales Police finance team throughout the CSR 2010 period have been highly accurate and consistent. Similarly the Value for Money Plan savings have been carefully considered and robustly challenged which has ensured the delivery of the Value for Money Plan year on year.

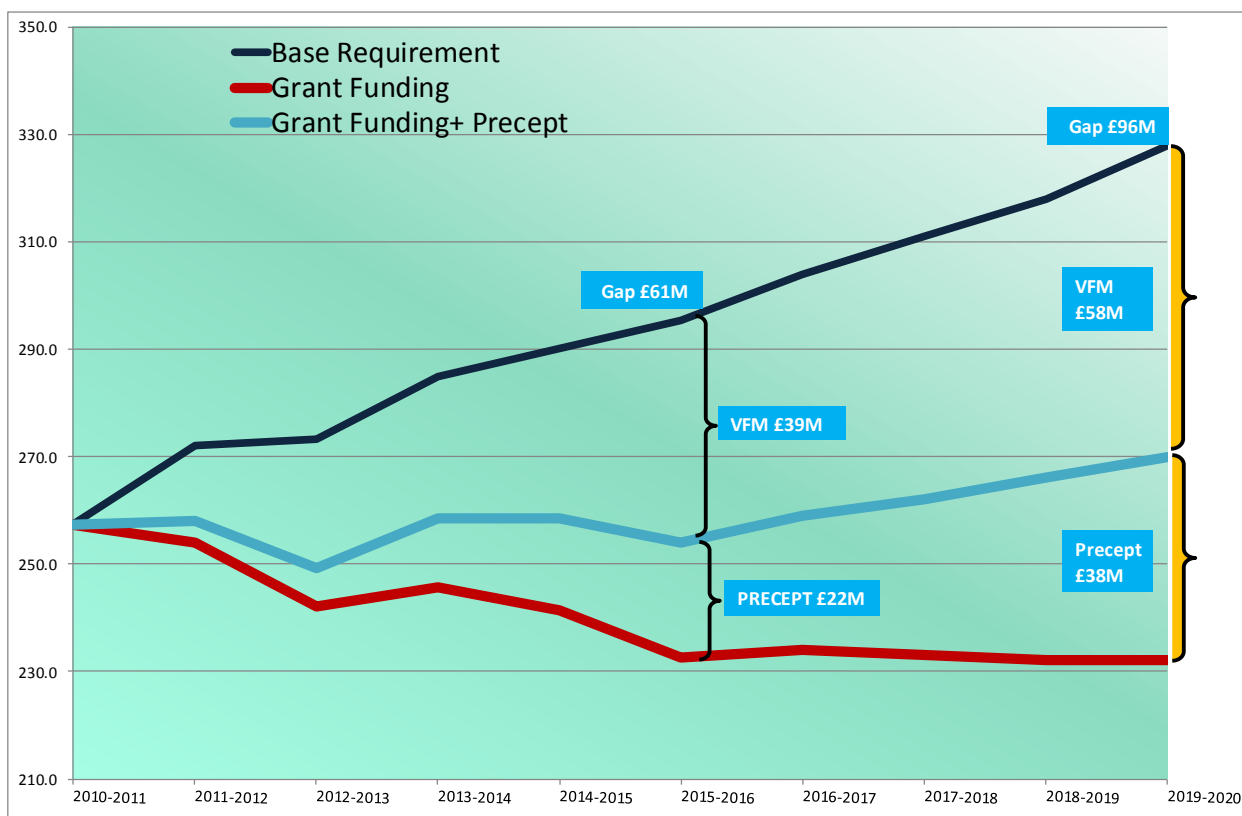
The current Financial Strategy to bridge budget gaps has been a combination of recurring cash releasing efficiency savings and measured increases in police precept and this strategy has been proven to be effective and will continue to be applied. This approach is supported by the comments by the HMIC that financial management is a strength in South Wales Police.

9.2 The refreshed medium term financial projections 2016 to 2020 are summarised below: The overall budget gap to 2016/17 before police precept is £70M (based on the actual reductions in central police grant allocations and known expenditure requirements). This £70M gap is bridged through additional income from police precept of £25M and a Value for Money Plan target to March 2017 of £45M. Having delivered £39M of cash releasing efficiency savings by March 2016 leaves a further target of £5.4M of savings to achieve a balanced budget in 2016/17.

Essentially for every £1 increase in police precept is broadly matched with £2 of internal cost improvements and savings to minimize the impact for local tax payers.

SUMMARY REVENUE ACCOUNT	CSR 10					CSR 2016			
	2011/12 £M	2012/13 £M	2013/14 £M	2014/15 £M	2015/16 £M	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M
Net Revenue Expenditure (Pre VFM)	272	274	285	290	294	304	311	318	328
External grants	(183)	(170)	(174)	(169)	(161)	(160)	(159)	(158)	(157)
Precept base	(71)	(72)	(72)	(72)	(73)	(74)	(74)	(75)	(75)
Total Resources	(254)	(242)	(246)	(241)	(233)	(234)	(233)	(232)	(232)
Cumulative Unfunded Expenditure	18	32	39	49	61	70	78	86	96
Precept increase	(4)	(7)	(13)	(17)	(22)	(25)	(29)	(34)	(38)
Value For Money Plan Savings Required	15	24	27	32	39	45	48	52	58
Current Value For Money Plan	19	24	27	32	39	45	46	48	48
Net VFM Plan (Surplus)/Deficit	(4)	(0)	(0)	(0)	(0)	(0)	2	5	10

9.3 Given the clear indications of continued austerity a further budget gap beyond 2016/17 covering the three year period 2017-2020 of £26M (£96M less £70M) is forecasted of which £13M of saving initiatives have been identified leaving £10M of unplanned cuts. This results in a total gap since the present austerity measures were introduced of over £96M which is effectively a reduction in resources of a 1/3rd over the period and this is illustrated below.



9.4 The detailed medium term financial projections 2016 to 2020 are shown at **Appendix 6** and are summarised below in broad income and expenditure classifications: The overall budget gap in 2016/17 before police precept is £10.1M and is reduced to £5.4M by the proposed (4%) contribution from the police precept.

SUMMARY REVENUE ACCOUNT	2015/16 £M	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M
Employees	233.9	239.2	244.9	251.5	260.0
Indirect Staff	1.9	1.9	2.0	2.0	2.1
Premises	9.4	9.6	9.8	10.0	10.3
Transport	4.5	4.6	4.7	4.9	5.0
Supplies and Services	19.5	19.8	20.3	20.8	21.4
Agency Services	10.0	10.2	10.4	10.7	10.9
Capital Financing Costs	3.4	5.8	5.8	5.8	5.8
Gross Expenditure	282.6	291.1	298.0	305.7	315.5
Less income & specific grants	(27.5)	(26.8)	(26.8)	(26.8)	(26.8)
Net Expenditure	255.1	264.3	271.2	278.9	288.7
External grants	(160.6)	(159.6)	(158.6)	(157.6)	(156.6)
Precept based on 4% per annum	(94.5)	(99.3)	(103.8)	(108.5)	(113.4)
Total Resources	(255.1)	(258.9)	(262.4)	(266.1)	(270.0)
Cumulative Unfunded Expenditure 2015/16 onwards	0.0	5.4	8.8	12.9	18.7

9.5 A comprehensive reconciliation of the requirements between the two financial years 2015/16 and 2016/17 is detailed at **Appendix 7** with further analysis of the revenue budget changes in **Appendix 8**. This shows a shortfall in funding on the budget requirement of £10.1M (before the application of further Value for Money Plan savings and precept increase) and reflects the following assumptions.

a) **Pay Awards and Inflation**

Pay awards for 2016/17 have been uplifted in accordance with the Chancellors Autumn Statement in November 2015 which sets out that public sector pay awards **funding** would average at 1% throughout the Comprehensive Spending Review. The actual settlement is subject to review body proposals. The MTFs assumes the following Pay and Price increases due to inflation.

Financial Year	Police Officers %	Police Staff %	Inflation- RPI OBR %	Inflation - CPI OBR %
2010/11	2.6	2.6	4.8	3.7
2011/12	1.1	1.1	4.8	4.2
2012/13	-	-	3.1	2.7
2013/14*	0.6	0.6	2.7	2.0
2014/15	1.0	1.0	1.6	0.5
2015/16	1.0	1.0	3.2	2.0
Sub-Total	6.2	6.2	20.2	15.1
2016/17	1.0	1.0	2.0	1.0
2017/18	1.5	1.5	2.9	1.8
2018/19	2.5	2.5	3.2	1.9
2019/20	2.5	2.5	3.2	2.0

*Part year impact 13/14

It is clear from the above table that the protracted period of public sector pay restraint and the erosion of pay through inflation has had a considerable detrimental impact on take-home pay which is further compounded by Pension and National Insurance increases which are likely to drive up wage claims by staff representative bodies. Therefore prudent assumptions on pay increases to reflect inflation from 2017 have been projected including the 0.5% apprenticeship levy for all large employers.

The budget requirement for 2016/17 recognises the specific inflationary requirements in relation to contracted services as well as general inflationary uplifts of 2.5% to both expenditure and income targets.

b) **Pensions & National Insurance**

The Government Actuary Review has concluded in respect of police officer contribution rates and although the underlying employer rate has reduced from 24.2% to 21.3%, the accompanying revised accounting arrangements still require us to budget at the higher level, as the savings have been retained by the government.

The Local Government Pension Scheme (LGPS) triennial actuarial review was undertaken in 2013 and this set out the required contribution rates and capital sum payments up to and included in 2016/17.

In addition, the government will in April 2016 introduce a simplification of the State Pension Scheme for a single 'flat rate' state pension. In effect this will remove the lower contracted out National Insurance contribution rate for the both the employees and employers. An increase in the Employers National Insurance costs for South Wales Police of approximately £4.5M from 2016 and this has been include in the budget provision.

c) Establishment Police Officers and Staff

The proposed budgets for 2016/17 reflect a zero-base budget for all staff drawing a salary. Using the revised base budgets, all calculations on potential savings resulting from a reduction in staffing levels are undertaken on real costs to ensure budget accuracy. The figures reflect a reduction in police staff establishments of 121 posts (**see Appendix 12**).

The zero-base ensures appropriate budget provision for each individual based on their specific entitlements including increments and cost savings from individuals who leave the organisation. Projected budgets for 2017/18 onwards, reflect the ambition to move towards the target of 3,000 funded officer posts, with the inclusion of an additional 50 posts per annum in order to address the operational risks identified in paragraph 5.5.

d) Bear Scotland

A budget provision has also been included to reflect the Bear Scotland v Fulton employment appeals tribunal whereby it was determined that certain overtime payments/allowances had to be taken into account when calculating entitlement to holiday pay. As a result salary costs would increase for those days when leave was taken following periods when overtime was worked or allowances claimed.

10.0 POLICE AND CRIME COMMISSIONER'S BUDGET

The Police and Crime Commissioner and the Chief Constable have an agreed governance process which ensures that the Chief Constable has sufficient resources to fulfil his operational requirements. The majority of the budget is delegated to the Chief Constable. The Police and Crime Commissioner retains direct allocation and management resources in the following areas (**detailed at Appendix 9**) in order to pursue those aspects of the Police and Crime Reduction Plan that are outside the scope of operational policing although, in reality, there is often a close connection and the Commissioner works closely with the Chief Constable and his team on sustainable long-term initiatives to reduce and prevent crime.

10.1 Partnership Fund

The Partnership Fund is used to fund non-recurrent expenditure. It is the main source of funding for thematic reviews and provides the financial stimulus to initiate new projects. It has been particularly helpful in providing the match funding for the Violent Crime and Preventing Offending and Re-offending in the 18 – 25 Year Age Group projects, which are key elements of the Police and Crime Reduction Plan and have attracted significant Home Office funding (see below). The Partnership Fund is assessed annually.

10.2 Community Safety Fund

Funding for Community Safety ceased to be a specific grant from 2014/15, when it was subsumed within the main Police Grant. The money for community safety has therefore not been protected in any way by the Home Office and was potentially subject to the same percentage cut as the overall Police budget. However the Commissioner and the Chief Constable decided that the Community Safety budget will be maintained at its base level. We can hardly ask partner organisations who are subject to severe reductions to maintain their input to community safety and partnership working unless we demonstrate our clear and continuing commitment as the Commissioner and the Chief Constable are doing. The overall value of this fund is £3.4M, of which the largest element is £2.4M which has funded the former Drug Intervention Programme, operated in conjunction with the Probation Service. This service has recently been re-tendered in partnership with the National Probation Service and Prisons Service to create a cost-effective and joined-up service. The new contract will come into effect from 1st April, 2016 with a combined annual value of £3.5m. The new contract will provide a wide range of intervention services to offenders. This new service "Offender Interventions" will be provided by the consortium Dyfodol which includes both third sector and commercial partners..

The balance funds Police and Crime Reduction Grants which are key to facilitating joint working with strategic partners, such as local government, and enables the Commissioner to ensure that his Police and Crime Plan priorities are reflected in wider partnership objectives. Police and Crime Reductions Grants typically help to support Youth Offending Services and Community Safety Partnerships.

10.3 Victim Services

The Ministry of Justice transferred responsibility for most victim services to Police and Crime Commissioners with 2015/16 being the first year when the service was fully funded. The grant allocation for 2015/16 was £1.4m (the 2016/17 grant announcement awaited and has been described as “imminent” for some time). The grant is used to commission a range of services for victims, including restorative justice solutions. The largest share of the grant (£0.59m) is provided to Victim Support who provide engagement with all victims of crime in South Wales who request contact. More specialist services e.g. for young victims of crime are being commissioned to complement this force-wide service.

10.4 Police Innovation Fund

Two of the successful bids which the Commissioner and the Chief Constable submitted to the Police Innovation Fund in 2015-16 fall within the Commissioner’s budget. These were:

- Reducing Violent Crime £210,000
- Preventing Offending and Re-offending in the 18 – 25 Age Group £160,000

Bids have recently been submitted to seek funds for a range of projects in 2016/17 that will enable the delivery of the Police and Crime Reduction Plan to be accelerated. In each case the decisions taken by the Commissioner and the Chief Constable have been aimed at core priorities by accelerating improvements in operational policing, crime reduction and harm prevention.

10.5 Police and Crime Commissioner’s Management Costs

The Commissioner and the Chief Constable agreed an approach to the unusual constitutional arrangements established by the 2011 Police Reform Act. South Wales Police is no longer a separate legal entity but includes everyone – with two individuals, the Commissioner and the Chief Constable, each defined as a “corporation sole”. In our case the Chief Constable and the Commissioner were agreed that this was a detail that all employees would need to provide a service and support to both irrespective of who was the employer. On that basis it was agreed that the vast majority of staff would be formally “employed” by the Chief Constable under stage 2 of the Police Reform and Social Responsibility Act 2011.

The Commissioner is the employer for a small support team. This team includes the Deputy and Assistant Police and Crime Commissioners, the Chief of Staff, the Treasurer and their support staff. The core roles of this team include:

- The development of the Police and Crime Reduction Plan and monitoring progress;
- Liaison with the Chief Constable and his management team;
- Partner relationships, especially initiatives to target outcomes agreed by the Commissioner and the Chief Constable as illustrated earlier in this report;
- Administration of those matters where the Commissioner has direct legal responsibility e.g., overall budget, contracts and estates;
- Oversight of complaints and appropriate requests for information

10.6 The budget for next year is £1.054M. Her Majesty's Inspectorate of Constabulary statistics show the management costs within South Wales to be below average of all forces and those forces most similar to South Wales.

11.0 CAPITAL PROGRAMME

CAPITAL STRATEGY

- 11.1 The Capital programme is based on comprehensive medium term Estate, Transport and Information Systems and Technology Strategies which are regularly refreshed and which have been prioritised to maximise the limited resources available to maintain the capital infrastructure upon which effective policing services are hugely dependent.

Given the prudential regime, it is important to prepare a statement and approve a Capital Strategy. The statement is intended to describe how the Police and Crime Commissioner and the Chief Constable collectively determine the programme of capital investments including how key priorities are identified. The Capital Strategy is important because:-

- a) It promotes the most effective use of capital resources by ensuring that the capital investment programme is closely aligned to key priorities;
- b) Its assessment by HMIC and External Audit contributes to both the financial and operational management of the police service.

11.2 The Capital Strategy objective is:

To ensure the delivery of an effective policing service through sustainable infrastructure management aligned to the policing priorities.

The key objectives for the three main components of the infrastructure are:

- Transport – Fit for purpose vehicles that address operational requirements in terms of availability and function.
- Estate – A safe, warm and dry operating environment that is conducive to effective policing.
- Technology – Technology platform that facilitates agile/mobile working with information and intelligence systems delivered to the point of need.

The detailed requirements Transport, Technology and Estate are informed by:

- An Asset Management Plan that identifies the medium term asset replacement requirements.
- Capital Programme Monitoring within the context of the agreed financial framework to ensure delivery of capital projects.
- Appropriate Planning Seminars to ensure requirements are relevant
- The Performance Management regime and;
- The Risk Management Strategies.

In this context the force has a ten year asset replacement programme and annually reviews its requirements against the asset base and changing operational need. The ten year estate strategy is currently being refreshed following wide consultation on the future policing model. The Technology platform is migrating to an integrated mobile capability, and the Transport programme is being aligned to national collaborative standardised specifications for vehicles.

Medium Term Programme 2016 TO 2020

- 11.3 The financing of the capital programme is derived from three major sources (Capital Grant, Supported Borrowing and Revenue Contributions to Capital) as shown below. **The capital grants have been notified and reflect a 43% reduction since 2014/15 (£2.3M down to £1.3M). This is a continuation of an unhelpful trend in shifting funding for infrastructure away from direct capital grant to the Revenue Account.** The central government grants for Capital Expenditure have declined year on year to a level that does not support the maintenance of the capital asset base (pre CSR2010 Capital Grant £3.1M). Consequently an element of the recurring spend has been supported from revenue funding and in respect of 2016/17 this is now £2.5M giving total recurring capital resources of £6M.

Summary of Core Funding	2015/16 £M	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M	Total £M
Capital Grants*	2	1	1	1	1	5
Revenue Contribution	1	3	3	3	3	12
Unsupported Borrowing	2	2	2	2	2	7
Core Funding	4	6	6	6	6	24
Additional One-off Funding						
External /other	26	9	3	-	-	12
Total Capital Funding	31	15	9	6	6	36

- 11.4 The medium term Capital Programme spend has been developed in accordance with approved strategies for Estates, ICT and Fleet A fully costed programme based on the current announced funding is included in summary form at **Appendix 10** and further summarised below:

Area	2015/16 £M	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M	Total £M
Infrastrure Maintenance						
Estates	1	1	1	2	1	6
Fleet	3	2	2	2	2	8
Information Services	2	1	2	2	2	6
Total InfrastrureMaintenance	5	5	5	5	5	20
One - Off Projects Internally Funded						
Estates	3	1	-	-	-	1
Information Services	2	2	0	5	3	10
One - Off Projects Internally Funded	5	2	0	5	3	10
Projects Supported by External Funding						
Estates	15	7	-	-	-	7
Information Services	3	3	7	-	-	11
Total Projects Supported by External Funding	18	10	7	-	-	17
Total Capital Programme	29	17	12	11	8	47
Balance of Reserves Bfwd		2		(3)	(8)	
Total Available Funding	31	15	9	6	6	36
Balance of Reserves Bfwd		2				2
Net Funding Shortfall/(Cfwd)	2	0	(3)	(8)	(9)	(9)
Deferred Estates Condition Surveys			(6)	(6)	(8)	(8)
Total Capital Funding Shortfall			(9)	(14)	(17)	(17)

****It is important to note that the 2017-20 requirement is currently not fully funded.**

- 11.5 The infrastructure maintenance elements are seen as essential capital expenditure and include:-

- The independent professional Property Condition Surveys have identified critical works to ensure force properties are compliant with health and safety regulations and other legislative operational requirements. The current affordability envelope restricts works to a 'safe, warm and dry' standard. Hardwiring/asbestos plant and mechanical engineering work is also being undertaken to ensure compliance with legislation. The deferral process continues to add to the backlog of required works and this amounts to £8.2M of unfunded expenditure which in addition to the above £9M capital programme funding shortfall gives an overall £17M capital funding shortfall.
 - The Vehicle Replacement Programme has been actively reduced through the use of IR3+ and is now 20% lower. In addition we are also participating in a National Fleet Standard which results in lower acquisition costs on patrol vehicles in particular. The core fleet is now at an acceptable standard and the replacement cycle ensures effective operational response capability from an efficient and effective transport service.
 - In terms of Information Services, South Wales Police has successfully transitioned to an enhanced mobile data capability (following successful innovation funding) and is on target to deliver the ambition of the Right Person, Right Place, at the Right Time, with the appropriate access to force intelligence systems that enable more work to be undertaken remotely that will also enhance visibility. It is now evident that the new operating model is heavily dependent upon use of technology to deliver policing that meets public expectations. The short life cycle for technology requires regular refresh and the programme reflects these requirements.
- 11.6 It is also important to note that for an organisation the size of South Wales Police the level of 'core' infrastructure maintenance funding is critically low and will continue to require careful and prioritised management. It has also been recognised that in 2018/19 the current Airwave (police radio communications) will become obsolete and will be replaced by the Emergency Services Communications Network. We are advised that central funding will cover service coverage costs but actual devices will need to be procured and funded locally the current estimates are £5.2M funding for which has yet to be identified.
- 11.7 Following the hugely successful completion of the Bridewell facilities, the Joint Vehicle Maintenance Facility/Property Store the disaster recover facility as well as the Tri service centre project (underway) have now depleted the capital reserves set aside. Therefore internal resources are now limited to the core recurring programme only.
- 11.8 ***The funding for new capital bids over and above on going maintenance and replacement programme will have to broadly be met from Revenue Funding and consequently these have been added to the Value for Money Plan gap (Appendix 11)***
- 11.9 Projects supported by external funding.
South Wales Police has been highly successful in securing £28M of external funding for infrastructure development including a collaborative Build funded by the Home Office (successfully completed to time and budget) as well as the Tri-Service Centre.

And Fusion programme (integrated intelligence systems) Project Fusion aims are specifically to:

- Integrate back office systems
- Integrate with Command and Control
- Integrate intelligence systems with partner agencies
- Integrate with mobile data and capture real time updates
- Create enhanced public satisfaction for case progression.

This project continues to make excellent progress has received national recognition. It also creates a significant appetite for future collaboration with neighbouring forces.

12.0 TREASURY MANAGEMENT POLICY AND PRUDENTIAL BORROWING

12.1 South Wales Police borrowing requirements are determined by the application of the Prudential Code which is designed to ensure that any borrowing is affordable and sustainable.

12.2 The prudential indicators are summarised below and the detail is contained within the Treasury Management Strategy (attached at Part B)

No.	PRUDENTIAL INDICATORS FOR PRUDENCE	2015/16	2016/17	2017/18	2018/19	2019/20
		Estimated £M	Estimated £M	Estimated £M	Estimated £M	Estimated £M
1	Estimates of Capital Expenditure	28.762	16.491	12.373	10.438	7.478
2	Capital Financing Requirement (CFR) (as at 31 March)	23.552	24.135	23.734	23.352	25.989
3	External Borrowing	19.033	18.745	18.401	17.953	17.468

12.3 The Capital Financing Requirement measures the underlying need to borrow for capital purposes and is linked to asset values and proposed capital expenditure. In accordance with best practice there is no association between individual loans and particular types of expenditure. External borrowing arises as a result of both capital and indirectly, revenue expenditure and funding. Therefore, the Capital Financing Requirement and actual external borrowing can be very different. The revenue budget requirement proposed for the medium term includes appropriate provision to meet repayments with regard to all existing borrowings.

13.0 Home Office Innovation Fund

13.1 The Home Secretary established the Police Innovation Fund during 2013/14 by providing a £20M initial sum. This sum was then increased to £50M in 2014/15 but was top-sliced from the core police fund. The fund has been increased again to £70M in 2015/16 with more top-slicing from the core Police Fund but in 2016/17 the fund top-slicing has returned to £55M.

13.2 The Commissioner and the Chief Constable made substantial Bids in respect of 2014/15 and 2015/16 and successfully secured funding for 2015/16 as follows:

- Reducing offending and re-offending amongst 18-25 age groups working in partnership with Local Authorities- £0.4M match funding over three years, underwritten from the partnership fund with £1.2M from the Police Innovation Fund and other partners.
- Tackling Violent crime including domestic abuse and sexual violence working in partnership with Local Authorities - £0.5M match funding over three years underwritten from the partnership fund with £0.8M from the Police Innovation Fund and other partners.
- Tri-service Centre – to create a collaborative control room for South Wales Police, Mid and West Wales Fire and Rescue Service and South Wales Fire and Rescue Service as well as a clinical desk for the Welsh Ambulance Service Trust (WAST) with potential to house the WAST 111 service for out of hours GP and NHS Direct. This hugely ambitious project received the highest single allocation of innovation funding £3.5M with £1.6M from the Fire and Rescue Services. The project is on target for a go-live for the joint control room element by March 2016.

13.3 The Commissioner and the Chief Constable have made a range of bids to the Police Innovation Fund in respect of 2016/17 to accelerate the priorities of the Police and Crime Reduction Plan and take forward partnership working:

		Total Cost of Bid £M	Total Match Funding £M	Total Bid £M
1	Early intervention preventing vulnerable people entering the criminal justice system	2.0	0.9	1.1
2	The Wales Integrated Serious and Dangerous Offender Management (WISDOM) project (in partnership with the National Offender Management Service and the other 3 Welsh forces)	8.5	5.6	2.9
3	Cyber Crime Victimology – Predicting victims of internet and digital crime (Led by City of London Police)	1.1	0.4	0.7
4	Digital services programme (Fusion) (in partnership with Gwent Police)	5.3	2.1	3.2
5	Early intervention and prevention – breaking the generational cycle of crime and Improvement Wellbeing	1.1	0.4	0.7
	TOTAL	18.0	9.4	8.6

The Commissioner is also the named lead for a bid by the Police ICT Company for a project in respect of the licensing of offenders (IDIOM). This is a significant development which will enhance joint working between police, probation and other parts of the criminal justice system and reflects the South Wales contribution to national as well as local priorities. ACC Jon Stratford is the National Police Chiefs Council Lead on this area of work while the Commissioner has represented Commissioners on the Board of the Police ICT Company.

The Innovation fund process is rigid and approval process is opaque. We therefore remain cautious in our assumptions of success and consequently the above funding needs are reflected in the Target for reserve funding (para 14.5).

14.0 FINANCIAL STANDING 2016 - 2020

RISK MANAGEMENT AND FINANCIAL CONSEQUENCES

- 14.1 South Wales Police has developed a robust risk management framework and supporting process which drives resource decisions to mitigate the identified risk and capitalise on opportunity. This process has been independently examined (by the independent audit functions) and deemed to be fit for purpose.
- 14.2 The Joint Risk Register is also regularly considered by the Joint Audit Committee to ensure risk management processes are actually operating as intended, are effective and embedded.
- 14.3 This Financial Strategy has considered the resource implications arising out of the Police and Crime Reduction Plan which in turn has considered the wider threats to service delivery to the public of South Wales. The risk register has identified a number of threats linked to the present economic circumstances which are well documented within this report. There are also resource implications arising from the identified risks and opportunities as follows:
- Over the medium term, a replacement for the current secure Emergency Services communications network will be necessary and plans to ensure continuity of equipment and service are being developed nationally. There is a requirement to fund the hand held and vehicle based devices locally and this is reflected in the capital reserve requirement as £5.2M
 - The overall condition of the police estate requires a significant investment that is no longer funded from either direct capital grant allocation or supported PFI funding. The investment requirement could be as much as £30M and this remains an outstanding risk. These issues continue to be risk managed going forward particularly as the protracted austerity measures are increasing the risk in other critical infrastructure areas. Therefore the risk to the investment in the estate will remain for the foreseeable future. The unfunded requirement to 2020 is reflected in the Capital Reserve Target as £8.6M
 - In addition, the reductions in staffing locally and nationally bring a risk of resilience at the various levels. The critical mass for police officer numbers in South Wales Police has been assessed at 3,000 full time equivalent officers which fits well with the professional advice given to the Commissioner and

Chief Constable. This was following a detailed review which examined demand for policing services and the availability of resources particularly during major events and national support obligations. However, as a consequence of the cuts in funding in CSR2010 and ongoing, the police officer establishment is funded at 200 officers short of this critical mass. On the basis of the Chief Constables operational advice, the stated aim of the Commissioner and the Chief Constable is to seek to increase numbers to 3,000 or as close as possible to that number as soon as circumstances permit.

- The economic environment could present a threat to the Commissioner's commitment to develop a partnership approach to deal with crime and the causes of crime. Both the Commissioner and Local Government partners have taken the view that in a time of severe cuts in public services, their public duty requires them to do more through partnership and collaboration rather than retreat into separate silos. The Commissioner's stated approach, strongly supported by the Chief Constable, is that if we have to shrink due to funding cuts then we have to **"Shrink Together Not Shrink Apart"**. However, the cuts facing public bodies are now more widespread and there is a risk of organisations seeking to re-trench to their core statutory functions. In particular, there is a real risk that preventative measures could suffer in such an environment. The Commissioner will sustain Crime and Disorder Reduction Fund in 2015/16 at the same cash level as the previous year to demonstrate his commitment to partnership working. In addition the Partnership Fund established in 2012-13 will also be maintained at its existing level to enable partnership opportunities to be developed and provide a ready source of match-funding for government initiatives, such as the Police Innovation Fund. These are issues that the Commissioner and the Chief Constable have discussed in their regular quarterly meeting with each Leader and Chief Executive of the seven local authorities across South Wales.

- 14.4 There is an obligation on the Police and Crime Commissioner to have proper regard to the totality of the settlement when considering the approach to the budget for 2016/17 and subsequent years, including an assessment of the contingency reserve.
- 14.5 The table below shows the balance in our Reserves at the end of March 2015 together with a forecast estimate of the reserves and provisions at the end of the 2015/16 financial year against the target level and shows a target shortfall in contingency reserves of £20.9M.

Reserves and Provisions	Balances 01/04/2015 £M	Forecast 2015/16 £M	Target 2016/17 £M	Shortfall £M
Unallocated Reserves				
General Reserve	9.0	9.0	9.0	0.0
Transformation Reserve	4.4	5.4	6.4	1.0
Earmarked Reserves				
Specific Requirements	4.4	4.5	4.5	0.0
Partnership Fund	1.0	1.0	1.0	0.0
Capital Reserve	12.0	1.8	12.2	10.4
Innovation Contingency Reserve	0.0	0.0	9.5	9.5
Provisions				
Insurance Liabilities	4.7	5.2	5.2	0.0
Total	35.5	26.9	47.8	20.9

- 14.6 There is a requirement to maintain a prudent level of balances in line with the sound financial management principles and guidelines. It is even more important in times of austerity (when budget flexibility is severely constrained) that an adequate level of contingency reserves is maintained to avoid adverse impact on policing plans in the event of a critical incident or incidents.
- 14.7 Sound financial principles would therefore advocate a provision of at least 1% for major incidents, 1% for day to day operating cashflow risk and 1% for other unknown events. This would suggest that a General Reserve should be maintained at a level of 3% of the gross operating expenditure. This would result in maintaining a General Reserve of c£9.0M. This represents a considerable achievement over many years and reflects positively on the financial standing of the force. Given the experienced and future austere environment, a risk assessed reserve is vital to maintain an effective service.
- 14.8 The Transformation Reserve is utilised in the change management requirements arising from the austerity cuts. It is anticipated that further funding will be need to address the potential costs of staffing restructures.
- 14.9 The specific requirements set out above are necessary to address known liabilities and the current forecasted level of provisions will need to be reassessed at the year end.
- 14.10 The material cause for concern continues to be the Capital Reserve shortfall with increasing health and safety concerns resulting from the property condition survey assessment as well as the need to maintain critical infrastructure in communications and mobile technology.
- 14.11 The Innovation Bids represent activity necessary to further the Police and Crime Reduction Plan as well as delivering Value for Money. The above requirement reflects the need to match fund and cover the costs if bids are not awarded funding through the innovation fund process.

15.0 VALUE FOR MONEY

- 15.1 The confirmation of a further round of cuts to police funding to 2020 continues to highlight the importance of effective forward planning and development of efficiencies measures to meet resource pressures for the Police Service.
- 15.2 The police service has been unique in demonstrating year on year compliance with the efficiency agenda since 1999. It is also important to note that due to the historic under funding and the inequities of the formula South Wales Police has had to exceed the national targets to achieve a balanced budget, which in latter years have been achieved through budget cuts.
- 15.3 The Value for Money Plan savings are detailed at **Appendix 11** and are summarised below. South Wales Police will have delivered £39M of savings as part of the CSR2010 consequences and the forecast over the next four years requires further savings of £19M giving a total savings target of £58M to 2020. The current plans identify £47.8M savings to 2020 leaving a £10M residual gap after taking into account precept growth. In addition the capital programme funding gap (**Appendix 10**) of £17.2M increases savings requirements in the absence of any other funding resources.

VALUE FOR MONEY CASH REDUCTIONS		
	Grant Cuts	VFM Plan
	%	£M
2010/11	1.9%	2.6
2011/12	5.1%	16.4
2012/13	6.7%	5.2
2013/14	1.6%	2.3
2014/15	4.8%	5.3
2015/16	5.1%	7.5
Sub-Total		39.3
2016/17* Plus NI increase	0.6%	5.4
2017/18	0.6%	1.5
2018/19	0.6%	1.4
2019/20	0.6%	0.2
Total VFM Plan Revenue Savings		47.8
Residual Gap Revenue		10.2
Additional Capital Funding Gap		17.2

- 15.4 The latest announcements by the Chancellor, Home Office Ministers and the Office of Budget Responsibility all confirm a continued reduction in public expenditure until at least 2020. This is predicated on the national structural budget deficit now being addressed by 2019, however based on the performance to date the national deficit reduction target has already slipped from 2015 to 2019 and there is every likelihood that the revised 2019 date will not be met which suggests austerity extending to 2020.
- 15.5 Given the national economic circumstance a sustained efficiency drive is necessary for the foreseeable future. The South Wales Police Financial Strategy has enabled a year on year balanced budget but this has been a challenging process and whilst some difficult decisions have had to be taken to deliver an effective police service with declining resources the continued austerity programme now provides a tangible threat to the police service over the planning horizon.

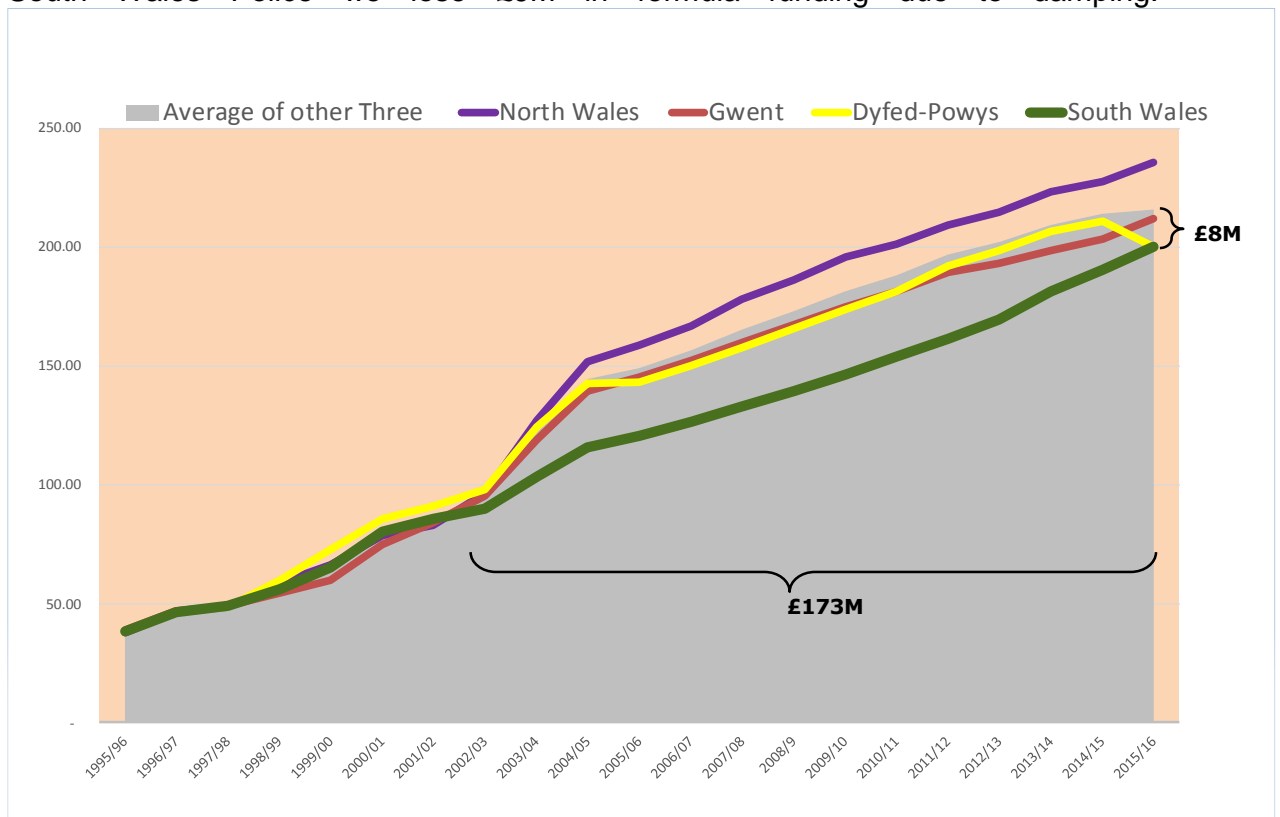
- 15.6 The Financial Strategy sets out the scale of the task arising from the funding reductions imposed by CSR2010 and CSR 2016. The detailed plan (**Appendix 11**) continues to reflect reductions in both pay and non-pay budgets. Given that over 80% of the revenue budget is pay related it is inevitable given the scale of funding cuts that the majority of the required savings have been and will continue to be required through a reduction in pay budgets. **However, every effort will be made to reduce non-pay budgets whilst ensuring an adequate infrastructure support.**
- 15.7 Despite every effort to maintain the staffing levels on which the force depends a reduction in police staff establishment equivalent to a further 121 posts on top of some 442 posts disestablished since the CSR 2010 is the likely consequence of the Plan. A reconciliation of the proposed establishment changes is detailed at **Appendix 12** which shows a loss of 563 full time equivalent posts to 2016/17.
- 15.8 The plan assumes police numbers will be held at 2,800 whole time equivalents which is below the level of 3,000 which is the critical mass required through our detailed assessment of the work on force resilience but given the funding circumstance a budgeted establishment of 2,800 has been reflected within the Financial Strategy for 2016/17. The pre austerity establishment was 3,244 and therefore 444 police officer posts will have been lost since austerity was imposed. The Chief Constable has a stated aim of seeking to return the police officer establishment to 3,000 as soon as circumstances permit. The HM Inspectorate of Constabulary has confirmed that South Wales Police is one of the busiest Forces in the country in terms of emergency and priority incidents and our analysis of emerging risks increases demand for additional resources in order to keep the public in Wales safe.
- 15.9 The Financial Strategy reflects a PCSO establishment of 200 full time equivalent (FTE) posts funded from the South Wales Police budget which complements the 206 Community Support Officers funded by the Welsh Government resulting in 406 PCOS's or 100 PCSO's per Basic Command Unit (BCU). Detailed operational assessments have been undertaken to ensure the positive community impact of this partnership is realised. Our investment in officer and PCSO tracking and tasking has already shown a 20% increase in the visibility of PCSO's in the community and we are unique in being able to demonstrate PCSO activity across the force.
- 15.10 The level of cuts required on top of over a decade of efficiency targets and funding inequities will unavoidably have an impact on the frontline services that we have sought to protect. Unfortunately the scale of cuts identified suggest further savings are still required and the current Value for Money Plan is insufficient to address the additional budget gap imposed by government. Whilst the 2016/17 budget can be balanced through a combination of cuts and precept increases the 2017/20 budgets remain unbalanced by a significant margin and £10M of savings yet to be defined. Work will need to continue at pace to address this over the next 12 months.
- 15.11 There is, therefore, a considerable operational risk if the Financial Strategy is not implemented fully (i.e. combination of efficiencies and modest precept increases). Each 1% increase in police precept is a £2 increase on a Band D property but has an annual consequence of £1M or £4M cumulative over the period of the MTFs, which equates to the annual costs of 20 police officers or 40 police staff. These further reductions on top of the unfunded forecast gap would materially threaten policing resilience in South Wales.

16.0 POLICE PRECEPT AND BUDGET REQUIREMENT FOR 2016/17

16.1 Set out below is the history and context of police precept levels (based on a Band D property) since 1995 across police forces in Wales.

16.2 It has been acknowledged by Ministers that police forces with lower levels of police precept as a proportion of their total budgets will face a greater financial challenge as the cuts are in central grant funding only. The chart below shows that South Wales Police has the lowest level of police precept in Wales and this has been the case over the last decade.

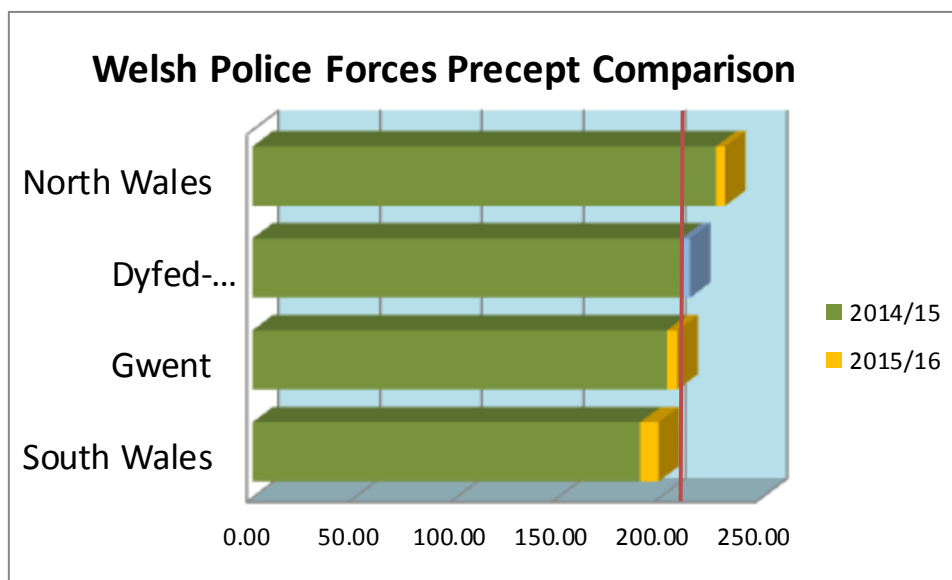
16.3 Nationally the amount of local funding as a percentage of total funding including grant varies between 16% to 55%, in this context South Wales Police percentage of local funding is 37%. It is also important to note where the percentage of local funding is low those forces also gain from funding formula damping where as in South Wales Police we lose £9M in formula funding due to damping.



16.4 It is important to note that the £8M differential in local police precept funding coupled with the other funding inequities disadvantages South Wales Police by £25M per annum as shown below:

Funding Inequities Impacting on South Wales Police	£M	Medium Term Financial Strategy Reference
Police Precept Differential Wales	7.5	As above Chart
Funding Formula Damping	8.8	See Appendix 5 for details
Area Cost Adjustment	4.0	See Appendix 5 for details
Capital City Requirements	3.0	See Appendix 5 for details
Capital Infrastructure Funding	1.6	See Appendix 5 or details
Total Impact of Funding Inequities	24.9	

- 16.5 With £8.8M of formula allocation that is redistributed away from South Wales Police as part of the floor funding guarantee, this amounts to a loss in funding of almost £50M over the past six years. It is also important to note that the floor funding guarantee takes no account of local police precept levels and the clear differentials shown above.
- 16.6 The 2015/16 average level of Police Precepts in Wales, excluding that of South Wales Police is £215.71. South Wales Police precept is currently £199.86 or £15.85 below the average which is equivalent to annual additional investment of £8M or sufficient to recruit up to 200 police officers.



- 16.7 The level of precept in 2015/16 for each Welsh force is:

Force	2015/16 £	Potential Impact of a 1% increase £
North Wales	235.44	2.35
Dyfed Powys	200.07	2.00
Gwent	211.62	2.12
South Wales	199.86	2.00

- 16.8 In essence the higher the current precept base the greater the amount of local income that can be generated for the same percentage increase. For example, a 1% increase for North Wales Police (£2.35 per Band D property) would require a 1.2% increase in South Wales Police to achieve the same cash increase. Therefore a 5% Band D increase in North Wales would result in a cash increase of £11.77 but the same percentage results in an increase of £9.99 for a Band D in South Wales. Essentially to achieve parity with North Wales Police on income would require a 6% increase for South Wales Band D property (total additional income of £0.8M per annum).

- 16.9 The Commissioner and the Police and Crime Panel have considered the medium term financial implications in briefings and seminars during the current 2016/17 planning process and members of the Panel will be conversant with issues concerning the poor financial position facing South Wales Police and the potential for major shortfalls in funding over the medium term.
- 16.10 Whilst recognising the pressures to comply with government guidance on council tax increases there are a limited number of alternative options to bridge the budget gap:
- Generating even more additional cash releasing efficiencies
 - Phasing development requirements in line with delivery of efficiencies
 - Increasing borrowing for long life assets
 - Minimising developmental expenditure
 - Making service cuts
 - Raising additional income through police precept/grants.
- 16.11 In preparing the detailed budget, all the above factors have been considered and addressed. The delivery of cash releasing efficiencies of £39M over the past five years is unprecedented in the history of South Wales Police. These plans have already delivered some unpalatable reductions through police officer numbers and realignment of ranks, BCU mergers, overtime reductions and changes in traffic management and Project Reform. The Value for Money Plan considerations at paragraph 14 has detailed the delivery of Value for Money and its independent verification through scrutiny by the HMIC.
- 16.12 The determination of the level of police precept depends on a combination of operational need, judgments on affordability and Welsh Government powers to limit increases if deemed by Welsh Ministers to be excessive. Whilst there is no expectation that the historic differential in police precepts can be bridged over the medium term or indeed longer term, the strategy of modest increases in precept alongside efficiency cuts is sound.
- 16.13 The Commissioner has undertaken extensive public and partner consultation on his precept proposal, together with consultation on the revised Police and Crime Reduction Plan. The precept consultation ran from 2nd November to 21st November. Nearly 800 individuals and organisations were directly contacted and the consultation featured on our website and was featured in Wales Online.
- 16.14 The consultation was sent to all County Councillors in the South Wales Police area (around 420 Councillors) as well as all members of the Police and Crime Panel, it was sent to 24 Assembly Members and 16 MPs, 30 business contacts including the CBI, the Federation of Small Businesses and others, and was circulated to our contacts in the academic community and in the Third Sector. In all cases we asked for the consultation to be forwarded to the recipients' contact lists to extend the reach of the consultation, for example Cardiff Council circulated it to their contacts through their partnerships team and so the consultation was received by a large number of our partner organisations. The consultation featured on the Commissioner's website and Facebook pages.

Despite the extensive efforts, there was not a large number of specific responses and few of them made direct reference to the precept – here are some of the ones that did, showing a wide range of opinions:

I personally do not believe that a 5% increase would be a bitter pill to swallow for the majority of tax payers.

Very briefly, I think your Council Tax Precept proposals will not provide sufficient resource for adequate policing of the South Wales area. Although you have a difficult balancing act to perform when asking residents to pay more for services, I think the vast majority would be happy to pay more, providing visible policing is stepped up.

How can an increase of 5 percent be justified when most peoples' income is somehow attached to the retail price index (or "cost of living), which is running at circa 1 to 2 percent? I suggest that whoever is responsible for this proposal becomes more "in tune" with Mr and Mrs Average

I don't think the Council tax to be increased any further? However, the big businesses, City centres, other public sectors including Universities, Schools and colleges and where the Police spend more time of their day should pay a bit extra to cover the gap.

I would be very happy to increase my Council Tax to protect police services

Personally, I'd be prepared to pay three times your proposed amount for a better service. I wonder if a quick referendum would help and be possible?

- 16.15 Given the relatively small number of responses and range of views, it is difficult to draw firm conclusions from the consultation. The level of precept is clearly a concern to some consultees but so is maintaining and effective police force in South Wales. I have carefully considered this balance of views in formulating my precept proposal.
- 16.16 It is important to recognise that the Financial Strategy currently matches every £1 increase in police precept with nearly £2 of cash releasing efficiency savings thus clearly demonstrating the balanced approach taken to provide an effective service within the given circumstance and recognise the implications of the wider economic downturn.
- 16.17 South Wales Police has seen its grant funding reduced by over £42.0M in cash terms to date with further cuts anticipated. Whilst we have remained positive and

embraced the challenge to reduce the cost base and improve services as evidenced by cash releasing savings and independent external reviews, HMIC has confirmed that we have an impressive track record of delivering to plans with a robust financial management process that has provided highly accurate financial projections and delivered Value for Money.

The task of finding ever more savings and at the same time address new operational pressures is proving to be extremely difficult.

The precept proposal in respect of 2016/17 is to increase the Police precept by 4%, which will raise £3.8M but which still means that South Wales Police will have to deal with a budget gap of £5.4M next year and nearly £19M to 2020 based on prudent assumptions.

- 16.18 A 4% (£7.99 Band D) increase in the police precept will enable the Chief Constable to sustain Police Officer numbers at the current level of 2,800. Further budget savings will still be required from Police staff numbers and from non-staff costs. The pressure to return the police establishment closer to 3,000 full-time equivalent officers' remains and work is underway to establish the minimum resources to address the Emerging Threats identified earlier in the strategy.

The financial implication of a 4% police precept are outlined below and detailed at Appendix 13.

	2015/16	2016/17	2017/18	2018/19	2019/20
Band D Precept	£199.86	£207.85	£216.17	£224.81	£233.80
Annual Increase in Precept	£9.52	£7.99	£8.31	£8.65	£8.99
Weekly Increase in Precept	£0.18	£0.15	£0.16	£0.17	£0.17
Percentage increase	5%	4%	4%	4%	4%

- 16.19 A 4% increase would add £7.99 to the annual Band D precept which equates to an increase of 15p per week. However, the Council Tax Property analysis shows that 65% of the residents in the South Wales Police area are below Band D and the majority would pay between 10p and 14p extra per week if they are not in receipt of any council tax discounts or benefits.

- 16.20 **It is important to note that South Wales Police will continue to have below average cost for policing in Wales in terms of Band D property but has the lowest overall cost for policing for the tax payer in terms of local funding as a percentage of overall funding.**

17.0 CAPPING CONSIDERATION

- 17.1 Under devolution arrangements the power to determine capping levels on the council tax are administered by the Welsh Government. The current arrangements for capping are set out below.

17.2 There are two forms of capping – designation and nomination. Welsh Government may designate or nominate an Authority for capping its precept if in their opinion its budget requirement is excessive. Designation requires an Authority to reduce its budget requirement and re-bill the Council Tax payers (through the Unitary Authorities). Nomination effectively puts an Authority on notice that Welsh Government will stipulate a budget limit for the following year. Welsh Government is responsible for determining the criteria (the principles) for capping for all Local Authorities and Police Forces in Wales. The principles must include a comparison between the calculated budget requirement with that calculated for a previous financial year. Ministers are free to include in the principles any other matters they consider relevant. Effective communications have been maintained with Welsh Government including the impact of the unprecedented cuts being faced by the police service which are considerably greater than the cuts being faced by many other public bodies in Wales.

18.0 COUNCIL TAX BASE

18.1 The Council Tax to be paid has to be allocated to the billing councils on the basis of the relevant tax bases notified by them. The tax base is calculated from the number of properties in each area allocated to each property band and discounted for single occupancy, non-payers, etc. The tax base is expressed as a “Band D” equivalent as follows:-

Councils	Band D Equivalent Properties			%
	2015/16	2016/17	Change	
Cardiff County Council	139,500.00	141,288.00	1,788.00	1.3%
City & County of Swansea	89,066.00	89,151.00	85.00	0.1%
Bridgend County Borough	51,071.48	51,916.19	844.71	1.7%
Merthyr Tydfil County Borough	17,725.11	17,896.23	171.12	1.0%
Neath Port Talbot County Borough	46,324.67	46,538.38	213.71	0.5%
Rhondda Cynon Taff County Borough	73,297.81	74,301.87	1,004.06	1.4%
The Vale of Glamorgan Council	55,980.00	56,550.00	570.00	1.0%
Total Council Tax Base	472,965.07	477,641.67	4,676.60	1.0%

18.2 The localisation of Council Tax Benefit has caused turbulence in Councils’ Tax bases. A national approach was agreed within Wales based on a maximum eligibility of 90% of Council Tax bills. The move away from a fully funded scheme increased the potential for non-payment and many councils adjusted their Council Tax bases downwards accordingly. Relatively late in the 2013/14 budget cycle, Welsh government reverted to a scheme with a maximum 100% eligibility and this has now settled as an issue and with new housing developments and population growth the council tax base has increased overall by 1% for the South Wales Police area.

18.3 Using the above tax base the impact of the police precept on property bandings for each local authority area is detailed at **Appendix 13**. The Force precept will be added to the figures for the Unitary Authorities and will form part of the overall Council Tax demand bills. Under the regulations, the billing authority must determine a schedule of instalments for payments to precepting authorities. The agreement is that the Unitary Authorities will pay the Force in 12 instalments on or before the last working day of each month.

**19.0 TREASURER'S COMMENTS
(THE CHIEF FINANCIAL OFFICER TO THE COMMISSIONER)**

- 19.1 The Local Government Act 2003, Part 2 Section 25, requires additional statements by the Treasurer to be included in the budget report. The Treasurer is required to report to the Police and Crime Commissioner on the robustness of the estimates, which underpin the budget requirement, and the adequacy of the proposed financial reserves. The Panel is required to have regard to this report when considering the budget.
- 19.2 The proposed budget presented in this report is based upon robust figures, prepared by the Chief Financial Officer. The detailed estimates have been prepared on a realistic basis. A wide range of Senior Officers have been involved in the budget process. Proper provision has been made for pay and price increases, achievable levels of income and deliverable efficiency savings.
- 19.3 There is a detailed monthly budget monitoring system in place involving all budget holders and reports are provided to facilitate financial management. Both the Wales Audit Office and Her Majesty's Inspectorate of Constabulary have commented on the robustness of financial planning by South Wales Police.
- 19.4 The General Reserve has now reached the target level. The adequacy of both the General reserve and specific reserves are under constant review.
- 19.5 Similarly the robust approach on risk management has enabled critical infrastructure developments and ensure a sustainable police service, however the Estate condition continues to be a cause for concern.
- 19.6 It is clear that the financial environment will remain extremely challenging for the foreseeable future. The Medium Term Financial Plan predicts that the main external grant will fall by £4M between 2015/16 and 2019/20. Increase in demand and additional costs, such as the increase in National Insurance contributions mean that this will only be partly offset by a Council Tax strategy that assumes 4% increases throughout this period.
- 19.7 The comprehensive Value for Money plan is the sensible and measured way to reduce expenditure in a controlled and structured manner. It is recognised however, that the Value for Money Plan carries a higher risk than the budget in terms of attainment. The Value for Money Plan for 2016/17 is forecast to deliver sufficient savings to balance the 2016/17 budget. However, beyond 2016/17, the current plan is insufficient to produce a balanced budget through the Medium Term Financial Plan period and shows a residual budget gap of £10M for revenue and £17M for capital by 2019/20. There will need to be a continued focus on Value for Money over the next 4 years if operational effectiveness is to be sustained and improved.

20.0 LOCAL GOVERNMENT ACT 2003 – “SECTION 25” STATEMENT

20.1 When setting the Budget and Capital Programme for the forthcoming year the Police and Crime Commissioner must be satisfied that adequate consideration has been given to the following:

- a) Government policy on spending, as applied to the Police.
- b) The medium term implications of the Budget and Capital Programme
- c) The CIPFA Prudential Code
- d) The size and adequacy of general and specific earmarked balances
- e) Whether the proposals represent a balanced budget for the year
- f) The impact on the Council Tax
- g) The threat or risk of capping
- h) The prevailing pressure for service development and associated risk to performance.

20.2 This Financial Strategy proposal has fully considered and documented the requirements above. I am satisfied that the proposals for 2016/17 produce a balanced budget and that the current level of reserves is adequate. South Wales Police will nevertheless face difficult challenges in the coming year and I have highlighted above, in paragraph 19.7 the need to bring forward savings proposals to address the residual budget gap of £27M for the period 2017/18 to 2019/20.

**Geoff Petty –
Treasurer to the Police and Crime Commissioner South Wales Police**

21.0 CONCLUSION

21.1 Whilst the ongoing national economic climate has a significant bearing on the acceptability in level of police precept to be levied on local taxpayers it is also recognised that in times of economic decline the requirements for an efficient and effective police service rise considerably.

21.2 This Financial Strategy has attempted to balance the difficult equation of risk, demand, affordability and the threat of capping. The need to make £5.4M of further cuts on top of the £39M delivered in 2011 to 2016 remains unprecedented.

21.3 The Force Change Programme has made a significant contribution to both operational performance and Value for Money and will remain a key agent for delivering continuous improvements to 2020.

21.4 It is important to note that there is still a shortfall in the Value For Money plan (Revenue Account) of £10.2M based on the national projections on future police funding levels and risk assessed resource requirements whilst modelling a 4% precept increase per annum to 2020.

21.5 There has been a significant contraction in Capital Funding and the programme has an unfunded pressure of £17M.

21.6 The 4% police precept proposal is therefore the minimum necessary to maintain an effective police service in 2016/17 only. South Wales Police has balanced the budget two thirds through efficiency savings and one third through the police precept. We

remain the lowest local cost for policing in Wales in terms of percentage of local funding as a proportion of total funding.

22.0 PRECEPT PROPOSAL

- 1. That the Police and Crime Panel considers this report and supports the Police and Crime Commissioner's precept proposal in respect 2016/17 which is line with previous briefings to the Police and Crime Panel and is also consistent the medium term financial projections.**
- 2. That the Panel notes that a 4% increase to the Police precept results in a £207.85 council tax on a Band D property. This gives a total precept requirement of £99,278,585 which would be precepted on the relevant billing Authority in accordance with Appendix 13.**
- 3. That the Panel notes that on this basis the resulting Net Revenue Budget Requirement for 2016/17 would be £258,917,719 and this reflects the Capital and Value for Money Plan saving requirements of £5,370,496.**

WIDER GOVERNANCE CONSIDERATIONS

A LEGAL

The Commissioner is required to set a balanced budget, determine the rate of Council Tax and issue a precept in accordance with the Local Government Finance Act 1988 and the Police Act 1996.

Under the Police Reform and Social Responsibility Act 2011 the Commissioner may only issue a precept after consultation with the Police and Crime Panel.

B. PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES AND HUMAN RIGHTS CONSIDERATIONS

South Wales Police has a comprehensive Community and Equalities Impact Assessment process that is embedded within the change management programme. Each workstream will consider the wider service implications and undertake an equalities and Human Rights impact assessment in the planning phase.

C. REVIEW ARRANGEMENTS

There will be regular monitoring of the 2016/17 Revenue Budget, Capital Programme and Value for Money by the Commissioner and Police and Crime Panel.

D. RISKS

1. The risk of capping has been mitigated through discussions with Welsh Government and a 4% precept is not expected to initiate capping action.
2. The main uncontrolled risk relates to the long term estate issues and these are reviewed regularly to ensure legislative compliance is not compromised.
3. The Value for Money plan is by its nature a fluid process and will need careful monitoring to achieve the targeted level of savings.

E. LIST OF BACKGROUND PAPERS

Local Government Finance Report 2016 to 2017 (National Assembly for Wales)
Police Grant Report England and Wales 2016 to 2017 (Draft)

Schedule of Appendices

- Appendix 1 Overview of the Governance Framework within South Wales Police
- Appendix 2 HMIC Police Effectiveness Efficiency Legitimacy Assessment
- Appendix 3 Wales Audit Office Annual Management Letter 2014/15
- Appendix 4 Summary of the Police Revenue funding announcement for 2016 - 2020
- Appendix 5 Funding Inequities Impacting on South Wales Police
- Appendix 6 South Wales Police Budget Summary 2016/17 to 2019/20
- Appendix 7 Reconciliation of Revenue Budget Changes 2015/16 to 2016/17
- Appendix 8 Detailed Analysis of Revenue Budget Changes 2015/16 to 2016/17
- Appendix 9 Police & Crime Commissioner Budget 2016/17
- Appendix 10 Summary Capital Programme and Financing Arrangements 2016/17 to 2019/20
- Appendix 11 Value for Money Plan 2016/17 to 2019/20
- Appendix 12 Reconciliation of Establishment Changes
- Appendix 13 Police Precept 2016/17

OVERVIEW OF THE GOVERNANCE FRAMEWORK WITHIN SOUTH WALES POLICE**1.0 The Police and Crime Commissioner**

The Police and Crime Commissioner has a statutory duty and electoral mandate to ensure an efficient and effective police service and to hold the Chief Constable to account on behalf of the public with respect to delivery of policing service.

The Commissioner has a strategic role in leading and developing partnership working with local government and other key partners such as health and the voluntary sector and has demonstrated this commitment through a series of consultations with partners to date.

The Commissioner is the recipient of funding relating to policing and crime reduction, including government grant and precept and other sources of income. How this money is allocated is a matter for the Commissioner in consultation with the Chief Constable, or in accordance with any grant terms. The statutory officers of the Commissioner and the Chief Constable will provide professional advice and recommendations.

2.0 The Chief Constable

The Chief Constable is responsible for maintaining the Queen's Peace, and has direction and control over the force's officers and staff. The Chief Constable holds office under the Crown, but is appointed by the Police and Crime Commissioner. The Chief Constable is accountable to the law for the exercise of police powers, and to the Commissioner for the delivery of efficient and effective policing, management of resources and expenditure by the police force. At all times the Chief Constable, his officers and staff, remain operationally independent in the service of the public. The Commissioner's Oath of Office includes an undertaking to protect the independence of police officers.

3.0 The Police and Crime Panel

The Police and Crime Panel consists of ten local councillors representing the seven local authorities in South Wales and two co-opted independent members. The Panel meets quarterly with the remit to hold the Commissioner to account for:

- The implementation of the priorities within the Police and Crime Reduction Plan;
- The relevance and content of the Plan.

The Panel also has the remit to scrutinise the Commissioner's precept proposal and the appointment of a Chief Constable. The Panel has powers to veto the precept proposal and require the Commissioner to make an alternative proposal. The Panel can veto the appointment of a Chief Constable and require the Commissioner to propose a reserve candidate. The Commissioner was supported by the Panel in re-appointing the current Chief Constable, Peter Vaughan QPM, for a further term to the end of 2017.

4.0 The Chief Finance Officers to the Police and Crime Commissioner and Chief Constable

Both the Police and Crime Commissioner and the Chief Constable are each required to appoint a person to be responsible for the proper administration of their financial affairs. Each Chief Finance Officer has a personal fiduciary duty by virtue of their appointment as the person responsible for proper financial administration under the Police Reform and Social Responsibility Act 2011 and the Local Government Finance Act 1988. This includes requirements and formal powers to safeguard lawfulness and propriety in expenditure. Throughout this document the ‘Chief Financial Officer’ to the Commissioner is referred to as the ‘Treasurer’ for the sake of clarity.

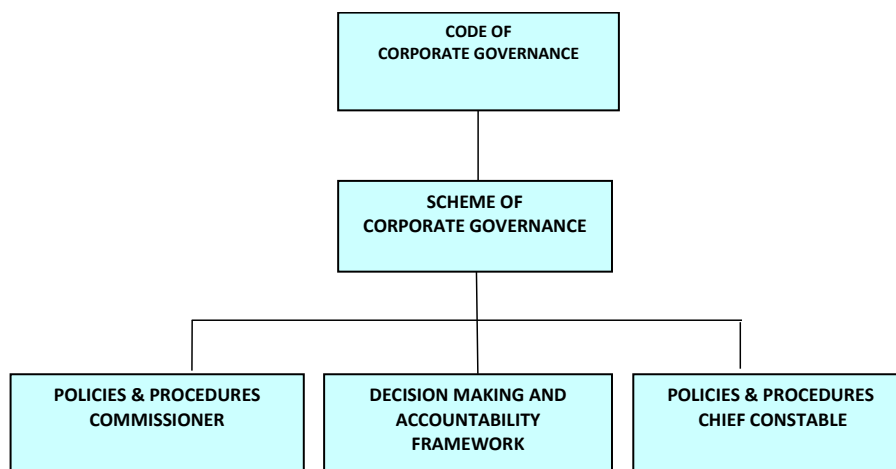
5.0 The Chief Executive (Chief of Staff) to the Police and Crime Commissioner

The Police and Crime Commissioner is required to appoint a Chief Executive. The Chief Executive is designated as Monitoring Officer for the purposes of the Local Government and Housing Act 1989 with responsibility for ensuring the legality of the actions of the Police and Crime Commissioner and his staff and acts as the ‘proper officer’ for the recording of all decisions made by the Police and Crime Commissioner. In South Wales the appointed officer is referred to as the Commissioner’s Chief of Staff.

6.0 Manual of Corporate Governance

The corporate governance framework within which both corporations sole will govern, both jointly and separately consists of:

- Code of corporate governance – statutory framework which sets out how the core principles will be implemented.
- Manual of Corporate Governance – defines the parameters within which the corporations sole will conduct their business. This includes delegations/consents from the Commissioner, financial regulations and standing orders relating to contracts.
- Separate policy and procedures for each corporations sole, with protocols where they operate jointly.

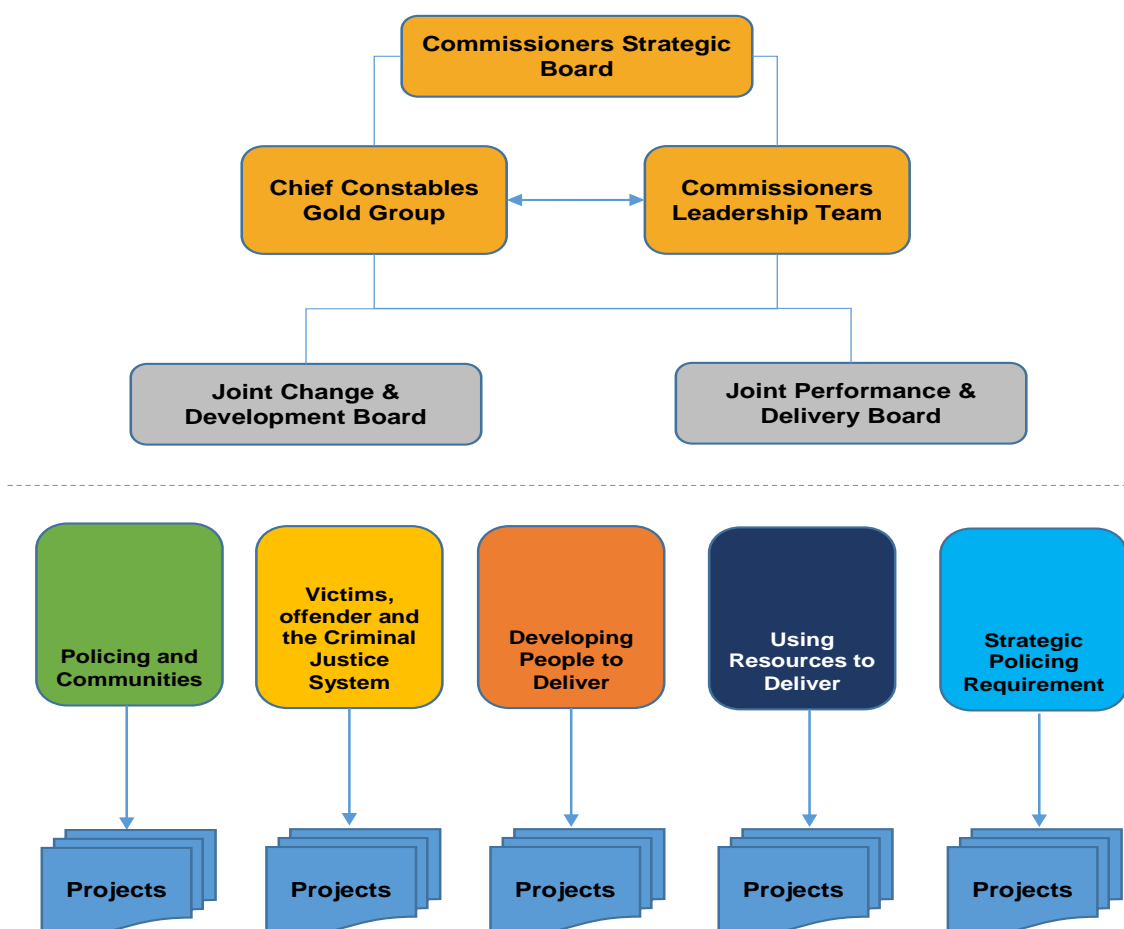


7.0 Commissioners Strategic Board

The Commissioner’s Strategic Board is the key vehicle to co-ordinate the activities of both corporations sole. The Board is attended by both the Commissioner’s and Chief Constable’s management teams. The purpose of the Board is to ensure a strategic approach to the development and delivery of the Police and Crime Reduction Plan and to other areas of strategic importance.

8.0 Chief Constables Gold Group

This holds chief Officers to account on the delivery of the operational plan
The overall governance framework and links to delivery boards is shown below:



9.0 Annual Governance Statement

The Police and Crime Commissioner and the Chief Constable are each required to produce and sign an Annual Governance Statement. Each Statement is a key document which describes the governance arrangements, reviews their effectiveness and highlights significant governance issues. The Statements follow the CIPFA/SOLACE Framework “*Delivering Good Governance in Local Government*” and are published as part of the Statement(s) of Accounts.

10.0 Joint Audit Committee

The Police and Crime Commissioner and the Chief Constable have established a Joint Audit Committee. The Committee comprises five members who are independent of both the Commissioner and the Force. The Committee considers internal and external audit reports. The Committee advises the Commissioner and Chief Constable according to good governance principles and reviews the appropriateness of risk management arrangements in accordance with proper practices and the provisions of the Financial Management Code of Practice.

11.0 Internal Audit

Both the Police and Crime Commissioner and the Chief Constable are required to maintain an effective internal audit of their affairs. In addition to the statutory requirement, Internal Audit is needed:

- To satisfy the Commissioner and the Chief Constable that effective internal control systems are in place; and
- To satisfy the external auditor that financial systems and internal controls are effective and that the Police Fund is managed so as to secure Value for Money.

Internal audit services are provided jointly to the Commissioner and Chief Constable currently by TIAA. TIAA attend and report to the Joint Audit Committee.

12.0 External Audit

The Auditor General for Wales is responsible for the appointment of external auditors. Wales Audit Office are the appointed auditors for the Police and Crime Commissioner and the Chief Constable. The external auditor must satisfy themselves that:

- The annual accounting statements have been prepared in accordance with the Accounts and Audit (Wales) Regulations;
- They comply with all relevant regulations;
- Proper practices have been observed when the accounts were compiled; and
- The audited body has made proper arrangements to secure effectiveness, efficiency and economy in use of resources.

Wales Audit Office attend and report to the Joint Audit Committee. In addition it provides statutory review of the governance arrangements the 2014/15 Annual Audit Letter is shown at Appendix 3.

13.0 Her Majesty's Inspectorate of Constabulary

Her Majesty's Inspectorate of Constabulary (HMIC) independently assesses police forces and policing. HMIC is independent of Government and the police. HM Inspectors of Constabulary are appointed by the Crown. HM Chief Inspector of Constabulary reports to Parliament on the efficiency and effectiveness of police forces in England and Wales. HM Inspectors have powers to seek information from police forces and to

APPENDIX 1

access their premises. HMIC decides on the depth, frequency and areas to inspect based on their assessment of risk to the public. HMIC's annual inspection programme is subject to the approval of the Home Secretary in accordance with the Police Reform and Social Responsibility Act 2011. The Police and Crime Commissioner has to provide a response to any HMIC report to the Home Secretary.

The HMIC has conducted a number of Value for Money inspections over the last three years and has commented favourably on the Medium Term Financial Strategy and the approach taken to meet the austerity cuts.

During 2013, The Chief Inspector of Constabulary attended a meeting with the Commissioner and the Chief Constable following a presentation on the use of technology. He confirmed that South Wales Police were in his opinion the leading force in the use of technology in the operational environment. The Financial Strategy reflects a continuation of investment in this area under Project Fusion.

HMIC PEEL ASSESSMENT FOR SOUTH WALES POLICE 2015

The HMIC will be publishing their assessment in February 2016

PEEL: EFFICIENCY

HMIC found that South Wales Police is very well prepared to face its future financial challenges. Through robust financial management and a commitment to continuous improvement, it has successfully reduced its spending over the last spending review period, and is effectively planning for future financial challenges. In last year's value for money inspection programme, which considered how forces had met the challenge of the first spending review period, South Wales Police was judged to be good.

HMIC judges South Wales Police to be good. South Wales Police has an extensive understanding of both its current demand and projected demand on its services. The force recognises that maintaining the current operating model with 2,800 police officers poses financial risks if expected savings are not realised, but it has undertaken scenario planning and has plans in place to alleviate these risks.

South Wales Police's arrangements for matching resources to demand are impressive, and the force has made a significant investment in assessing the demands placed upon it. This has allowed the force to reduce costs whilst improving the service it delivers to the public, as evidenced by its excellent victim satisfaction results.

The force's current operating model, implemented in 2010, has worked very well. Investments in new technology allowed it to reduce the numbers of basic command units (BCUs) from six to four, and neighbourhood teams from 30 to 19. These efficiency gains have allowed the force to reduce police officer numbers from 3,100 to 2,800. This was achieved against savings of £33m, or about 11 percent of the 2010/11 annual gross revenue budget, in the four years to 2014/15.

The force has a strong track record in financial management and is well positioned to tackle both the current and future financial demands placed upon it. The force has set balanced budgets and achieved its savings target for the four years up to 2014/15. It has balanced the budget for 2015/16, based on prudent assumptions which do not rely on reducing its reserves. Savings have already been realised and plans for delivering the remainder of these savings are well developed.

South Wales Police is vigorously pursuing all opportunities for additional funding, and has been highly successful in doing so. For example, for the years 2014/15 and 2015/16 the force has made successful Police Innovation Fund bids, totaling nearly £5m

Further Detail

1. How well does the force use its resources to meet its demand?

South Wales Police has an extensive understanding of the scale and nature of the demand it is facing, and is undertaking further work with partners to better identify newly emerging or hidden demands.

The force has robust tasking and demand management arrangements in place for matching resources to demand, and recognises the need to continue to align resources to changing demands.

The force has an 88.3 percent victim satisfaction rating, one of the highest in the country. This demonstrates a PCC and South Wales Police commitment to put the victim at the centre of everything the force does.

The force's management of demand is already good, but is being further enhanced as it continues to apply the ongoing learning from its analysis of demand, with data shared across partner agencies.

The force has an excellent understanding of outputs, outcomes and costs through monthly budget and performance meetings, underpinned by strong financial governance.

South Wales Police is a forward-looking force that is committed, through the chief constable, to improving its working methods to deliver improved services for the public.

OUTSTANDING

2. How sustainable and affordable is the workforce model?

The force's current operating model, implemented in 2010, has worked very well. There has been a reduction in crime, increase in detections, and improved public confidence and satisfaction.

The force has invested in new technology which has allowed it to reduce the number of BCUs and neighbourhood teams. These efficiency gains have allowed the force to reduce police officer numbers from 3,148 to 2,864.

South Wales Police is well positioned to continue to meet its projected demand, organisational and financial requirements with its enhanced current operating model.

The force believes that it will require about 2,864 police officers to meet continuing and projected demand. It also recognises that its projected operating model needs to be aligned to available funding, which currently shows a gap of £23.4m at March 2019. The force has concluded that the current operating model can be sustained through further investment in new technology, reduction in demand, and increasing the skills of its police officers, and it believes that this may produce savings of 10 percent on demand (or about £25m per annum).

South Wales Police recognises that maintaining the current operating model with 2,864 police officers poses financial risks if expected savings are not realised, but it has undertaken scenario planning and has plans in place to mitigate against these risks.

GOOD

3. How sustainable is the force's financial position for the short and long term?

South Wales Police has a strong track record in monitoring expenditure and delivering efficiency savings. The force has set balanced budgets and achieved its savings target for the four years to 2014/15. Savings over this period totaled £33m, or about 11 percent of its 2010/11 gross annual revenue spend.

The force budget for 2015/16 is based on prudent assumptions. The force is well placed to achieve the £7.4m savings through its change programme and without the need to use reserves. The force is vigorously pursuing all opportunities for additional funding, and has been very successful.

The police and crime commissioner's (PCC's) and the chief constable's plans are closely aligned. The PCC and chief constable receive regular financial performance information, with reports produced on a quarterly basis.

The force has identified further savings of £8.1m for the three years to 2018/19. However, plans are still being developed to deliver the remaining budget gap of £23.4m for 2018/19. The force recognises the significant scale of the financial challenge and is confident that its change programme should enable it to release the savings required. It has completed scenario planning to assess risks and options and is developing contingency plans, including changes to the current workforce model. Early consideration of these risks and possible mitigations demonstrate the forward-thinking outlook of the force.

GOOD

PEEL EFFECTIVENESS

Assessment to be published in February 2015

Further Detail

1. How effective is the force at preventing crime and anti-social behaviour, and keeping people safe?

Results to be published in February 2015

2. How effective is the force at investigating crime and managing offenders?

Results to be published in February 2015

3. How effective is the force at protecting from harm those who are vulnerable, and supporting victims?

South Wales Police identifies and supports vulnerable victims effectively. Domestic abuse and child sexual exploitation are priorities for the force. Staff are clear that the victim's needs are paramount and demonstrate this in their daily activity. The force generally provides vulnerable victims with a good service when investigating offences. The force has well-developed partnerships, focused on providing services for vulnerable victims to meet the needs of victims.

South Wales Police has a good understanding of local crime trends and patterns of offending. The force's control strategy, which gives an overview of the current and long-term issues affecting or likely to affect communities, highlights vulnerability as a priority. The force is developing a vulnerability tool kit to map the locations of victims and perpetrators and to identify vulnerable children who may become victims of child sexual exploitation.

The force provides a good level of service to high-risk victims of domestic abuse, but less so for standard and medium-risk victims. Domestic abuse is very clearly a priority for the force and is seen as important to frontline staff. The force does not fully understand the nature and scale of missing persons. The force is working on its preparedness to tackle child sexual exploitation.

REQUIRES IMPROVEMENT

4. How effective is the force at tackling serious and organised crime, including its arrangement for fulfilling its national policing responsibilities?

Results to be published in February 2016

PEEL: LEGITIMACY

Assessment to be published in February 2016

Further Detail

1. To what extent does practice and behaviour reinforce the wellbeing of staff and an ethical culture?

Results to be published in February 2016

2. To what extent are forces recording crimes in accordance with the Home Office Counting Rules?

Results to be published in February 2016

3. How well does the force understand, engage with and treat fairly the people it serves to maintain and improve its legitimacy?

Results to be published in February 2016

4. To what extent are decisions taken on the use of Stop & Search and Taser fair and appropriate?

Results to be published in February 2016

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Annual Audit Letter for 2014-15

Police & Crime Commissioner for South Wales and Chief Constable of South Wales Police

Issued: November 2015

Document reference: 606A2015|

Status of report

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at info.officer@audit.wales.

The team who delivered the work comprised Ann-Marie Harkin, Matthew Coe, Andy Bruce, and Gareth Lucey.

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Summary report

Introduction

1. This report summarises my findings from the audit work I have undertaken in relation to both the Police & Crime Commissioner and Chief Constable of South Wales during 2015.
2. The work I have done allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of accounts and both corporation soles arrangements to secure efficiency, effectiveness and economy in their use of resources.
3. More detail on the specific aspects of my audit can be found in the separate reports that I have issued during the year. My team discussed and agreed these reports with officers and presented them to the Commissioner, the Chief Constable and Joint Audit Committee. My 2015 Audit Plan set out the significant financial audit risks for 2015 and how they were addressed as part of the audit is set out in [Appendix 1](#).

I issued unqualified opinions on the 2014-15 financial statements of the Police & Crime Commissioner, Chief Constable and Police Pension Fund

4. The financial statements are an essential means by which the Police & Crime Commissioner for South Wales (the Commissioner) and the Chief Constable of South Wales Police (the Chief Constable) accounts for their stewardship of the resources at their disposal and their financial performance in the use of those resources. It is the responsibility of the audited body to:
 - put in place systems of internal control to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare financial statements in accordance with relevant requirements.
5. I am required to audit the financial statements and to issue audit reports which include an opinion on whether the financial statements give a 'true and fair' view of the state of affairs of the Commissioner, the Chief Constable and the Police Pension Fund. The reports also give my opinion on whether the financial statements have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 and relevant regulations.
6. On 30 September 2015, the Auditor General for Wales issued unqualified audit reports on the Commissioner's, Chief Constable's and the Police Pension Fund's financial statements.

-
7. We received all the draft financial statements for the year ended 31 March 2015 on 30 June 2015, which is in line with the agreed deadline. However, these draft accounts were awaiting information on collaboration income and expenditure and a provision for backdated pension lump sum payments. This information was subsequently provided and entered into the accounts.
 8. I found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
 9. There were no significant difficulties during the audit. We received information in a timely and helpful manner and were not restricted in our work. In 2013-14 we noted a number of deficiencies in the accounts preparations process and management implemented a detailed action plan to address them. The quality of the 2014-15 draft accounts submitted for audit was significantly improved from previous years, reflecting the substantial additional work undertaken by management and staff as part of the year-end closedown process.
 10. One area that was material and particularly complex that required specific attention, was a liability on the Police Pension Fund arising from updates to the calculation of historic lump sum payments to pensioners retiring between 2001 and 2006. This was the result of changes to historic commutation factors applicable to all police forces. The statements presented for audit correctly included a provision for this item which was updated when further information became available from the government actuary department in July 2015. We concluded that the updated provision included in the accounts was a reasonable estimate of the potential liabilities.
 11. International Standard on Auditing (ISA) 260 requires auditors to report to 'those charged with governance' the findings of the audit of the financial statements. The Audit of the Financial Statements Report was presented to the Commissioner and Chief Constable, and to the Joint Audit Committee at their meeting on 29 September 2015. A summary of the findings is set out in [Exhibit 1](#).

Exhibit 1: Audit of Financial Statements Report to the Commissioner and Chief Constable

Reporting requirement	Audit findings
Modifications to the auditor's report	No modifications required.
Unadjusted misstatements	One uncorrected misstatement identified. The full impact of the share of benefits from collaborative operations was not shown in the accounts. We were content that the net impact of £528,000 was not material to an understanding of the accounts, but we recommended that this information is obtained earlier in future and reflected in full in the 2015-16 draft accounts prior to them being passed for audit.

Reporting requirement	Audit findings
Views about the qualitative aspects of the entity's accounting practices and financial reporting	No matters reported.
Matters corresponded upon with management	2014-15 was the first year that the accounts have been required to disclose the ratio of the Chief Executive's and the Chief Constable's remuneration to the median remuneration of offices and staff. We noted that further refinement to the calculation of the ratios is needed for 2015-16. No other significant matters were reported.
Matters significant to the oversight of the financial reporting process	No matters reported.
Material weaknesses in internal controls	No material weaknesses identified.
Matters specifically required by other auditing standards to be communicated to those charged with governance	No matters reported.

I am satisfied that the Commissioner and the Chief Constable had appropriate arrangements in place to secure economy, efficiency and effectiveness in their use of resources

12. My consideration of the Commissioner's and Chief Constable's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts. I have also placed reliance on the results of the audit work undertaken on the Commissioner's and the Chief Constable's systems of internal control, as reported in the Annual Governance Statements and my reports thereon; the results of work carried out by the Auditor General; the results of the work of other external review bodies, eg HMIC, where relevant to my responsibilities; and any other work, including from Internal Audit, that I considered necessary to discharge my responsibilities.
13. For the purposes of my work, I evaluated the Commissioner's and the Chief Constable's systems against a number of questions. This approach is set out in detail in [Appendix 2](#). For each question, I consider whether there are gaps in the arrangements expected to be in place, and the significance of those gaps.

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14. In the 2015 Audit Plan to the Commissioner and Chief Constable, we stated our performance work programme would focus on a review of the effectiveness of the Commissioner's collaboration and partnership arrangements, focusing primarily on Community Safety activities. Our force-level review of community safety forms part of a national study, which is being undertaken at an all Wales (Welsh Government), regional (PCC area) and local (local authority/Community Safety Partnership) level. Whilst we have completed our local fieldwork in South Wales, our findings will also be informed by other streams of work within the national study that have yet to be completed. This work includes data analysis, surveys of the public and Community Safety Partnership members and fieldwork at local authorities, partnerships and Welsh Government. Taking account of this additional work will significantly add value to our local work by providing additional evidence and perspectives from a broad range of South Wales' stakeholders.
 15. When this additional work is completed early in 2016, we will produce a report for the Commissioner and Chief Constable setting out our local findings on community safety partnership working, taking account of the broader findings from evidence gathered for the national study. Our national report will be published during 2016 and will provide conclusions on the work of all of the partners involved in the management of community safety in Wales.
 16. Based on the Commissioner's and Chief Constable's Annual Governance Statements, the results of the work carried out as part of my audit of the 2014-15 accounts, and all other information that I have considered to be relevant, I am satisfied as to the existence of the arrangements that the Commissioner and Chief Constable had in place during the year to properly support the achievement of his responsibility to secure economy, efficiency and effectiveness in their use of resources. Based on, and limited to, the work carried out I have raised various issues with, and made recommendations to, improve the Commissioner's and Chief Constable's arrangements.

The Commissioner and Chief Constable continue to respond positively to significant financial challenges

17. In 2015-16, the Commissioner and the Chief Constable continue to receive regular reports from the Chief Finance Officer and the Assistant Chief Officer – Resources, respectively, on expenditure and position against budget. This information is also provided to the Strategy and Performance Board. The reported position up to 31 August 2015 showed that the Commissioner was on course to deliver all of the £7.5 million of efficiency schemes required in 2015-16.
18. However, there is increasing pressure to identify savings that cover the predicted cumulative financial deficit of £71.0 million to 31 March 2019 identified from the 2010 and 2013 Comprehensive Spending Reviews. Total savings/cost reductions of £32.0 million were delivered to 31 March 2015, including £5.3 million of savings delivered in 2014/15. Further savings of £39.0 million are forecasted to be required over the next four years.

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19. As part of our audit, we consider the effectiveness of the controls and processes in place for the Commissioner and his staff to monitor budgets and the overall financial position. Our work did not identify any significant weaknesses in the budgetary controls or processes used by management in the year.

South Wales Police is well placed to respond to future challenges

20. Our aligned work programme with HMIC involved jointly gathering evidence on whether the savings programmes are delivering positive and measurable changes towards a sustainable police service:
21. In October 2015, HMIC published its second assessment of police effectiveness, efficiency and legitimacy (PEEL) for each force across England and Wales, summarising HMIC's findings from the previous 12 months' inspections. Their overall conclusions were that South Wales Police is very well prepared to face its future financial challenges. Through robust financial management and a commitment to continuous improvement, the Force has successfully reduced its spending over the last spending review period, and is effectively planning for future financial challenges. In particular:
- South Wales Police's arrangements for matching resources to demand are impressive, and the Force has made a significant investment in assessing the demands placed upon it.
 - The Force's current operating model, implemented in 2010, has worked very well. Investments in new technology allowed it to reduce the numbers of basic command units (BCUs) from six to four, and neighbourhood teams from 30 to 19.
 - The Force has a strong track record in financial management and is well positioned to tackle both the current and future financial demands placed upon it.
 - South Wales Police is vigorously pursuing all opportunities for additional funding, and has been highly successful in doing so.
22. Further details of the PEEL methodology and the detailed PEEL assessment conclusions relating to South Wales Police are available on HMIC's website at www.justiceinspectors.gov.uk/hmic/.
23. Reviews conducted by HMIC support my conclusions about arrangements to secure an efficient and effective police service. I continue to provide challenge and support to senior officers and staff through our ongoing discussions on the in-year and future plans of the Commissioner and Chief Constable.

I issued a certificate confirming that the audit of the accounts had been completed on 8 October 2015

24. I issued a certificate confirming that the audit of the accounts for the Commissioner and the Chief Constable had been completed on 8 October 2015.
25. I have also completed the audit of the Whole of Government Accounts return, and submitted the audited return to the Wales Audit Office central audit team by the required deadline of 2 October 2015. The return was generally well compiled and there were no matters of significance to report.
26. I estimated in the Annual Audit Outline that the 2014-15 audit fee would be £111,599. The actual audit fee is in line with my original estimate.

Appendix 1

Significant audit risks

My 2015 Audit Plan set out the significant financial audit risks for 2015. The table below lists these risks and sets out how they were addressed as part of the audit.

Significant audit risk	Proposed audit response	Work done and outcome
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team will: <ul style="list-style-type: none"> test the appropriateness of journal entries and other adjustments made in preparing the financial statements; review accounting estimates for biases; and evaluate the rationale for any significant transactions outside the normal course of business. 	No issues were noted from our review and testing of journal entries. There were no issues noted in relation to other significant estimates in the accounts.
There is additional income and expenditure due in 2014-15 relating to the policing of the NATO summit. This will need to be accounted for and disclosed correctly within the financial statements. Similarly any changes following the Stage 2 transfer between the Commissioner and the Chief Constable will need to be accurately reflected in the financial statements.	My audit team will specifically test the additional expenditure relating to NATO and agree with management the correct accounting and disclosures for this event and the Stage 2 transfer.	No issues were noted from our testing and appropriate disclosures made within the accounts.
Changes to the definition of jointly controlled operations within the Code and audit regulations, means that additional activities may now need to be included in disclosures relating to collaboration. These changes affect all local government bodies in England and Wales.	I will work with police bodies in Wales to agree a common set of principles and consistent approach to recognition and disclosure with the financial statements.	Adjustments were made to the 2014-15 financial statements to reflect the share of benefit from collaborative operations, but there is more work to do to refine the calculations and provide this information earlier in the draft accounts process.

Significant audit risk	Proposed audit response	Work done and outcome
<p>There has been clarification of a number of ongoing pension-related issues including the treatment of deductions from ill health pension of Employment Support Allowance, and the protected pension age.</p>	<p>My audit team will liaise with management on the year-end position regarding these issues and ensure they are appropriately disclosed and accounted for in the financial statements.</p>	<p>The 2014-15 financial statements include a provision for a reasonable estimate of backdated lump sum payments. Appropriate disclosures have been made in the financial statements.</p>
<p>The financial statements need to comply with International Financial Reporting Standards (IFRS). The Commissioner and Chief Constable and their staff must:</p> <ul style="list-style-type: none"> • ensure that each set of accounts are prepared to appropriately reflect the substance of day-to-day control of activities as well as legal positions; and • have a full understanding of IFRS requirements, keeping up-to-date with new requirements and ensure risks and issues are identified and dealt with appropriately. 	<p>We will continue to work with and support the Commissioner and Chief Constable and their staff to agree the most appropriate presentation in both sets of financial statements and the group statements.</p> <p>We will also agree improvements to the methodology and working papers supporting the financial statements, where necessary.</p>	<p>Various amendments to the disclosures in the accounts were made. There were significant improvements made to the 2014-15 accounts production and audit process which resulted in fewer amendments to the draft accounts.</p>
<p>A new payroll module is being implemented in the year as part of the FIRMS system. The intention is to process the March 2015 payroll through the new module and post entries from that module into the general ledger.</p>	<p>If the new module is used to post March 2015 information into the general ledger, we will test the upload of data to ensure that postings are accurate.</p>	<p>No issues were noted from our testing of the payroll expenditure in the year.</p>
<p>The Home Office and Ministry of Justice have provided several funding streams to the Commissioner in the year.</p>	<p>We will test these additional funds to source documents, verify they have been distributed appropriately and ensure they are accounted for correctly in the accounts.</p>	<p>No issues were noted from our testing of the Commissioner's income/funding.</p>

Appendix 2

Criteria to assess arrangements for securing economy, efficiency and effectiveness in his use of resources

Corporate performance management and financial management arrangements	Questions on arrangements
Establishing objectives determining policy and decision making	Has the Commissioner/Chief Constable put in place arrangements for setting, reviewing and implementing his strategic and operational objectives?
Meeting the needs of users, stakeholders and the local population	Has the Commissioner/Chief Constable put in place channels of communication with the local population, users of the service, and other stakeholders including partners, and are there monitoring arrangements to ensure that key messages about services are taken into account?
Monitoring and reviewing performance	Has the Commissioner/Chief Constable put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary and reporting to the Commissioner/Chief Constable?
Compliance with established policies	Has the Commissioner/Chief Constable put in place arrangements to maintain a sound system of internal control, including those for ensuring compliance with laws and regulations, and internal policies and procedures?
Operational and financial risks	Has the Commissioner/Chief Constable put in place arrangements to manage his significant business risks?
Managing financial and other resources	<p>Has the Commissioner/Chief Constable put in place arrangements to evaluate and improve the value for money he achieves in his use of resources?</p> <p>Has the Commissioner/Chief Constable put in place arrangements to ensure that his spending matches his available resources?</p> <p>Has the Commissioner/Chief Constable put in place arrangements for managing and monitoring performance against budgets, taking corrective action where appropriate, and reporting the results to senior management and the Commissioner/Chief Constable?</p>
Proper standards of conduct etc	<p>Has the Commissioner/Chief Constable put in place arrangements for monitoring and scrutinising performance, to identify potential variances against strategic objectives, standards and targets for taking action?</p> <p>Has the Commissioner/Chief Constable put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of his business?</p>



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Summary of the Police Revenue Funding Announcement for 2016-2020

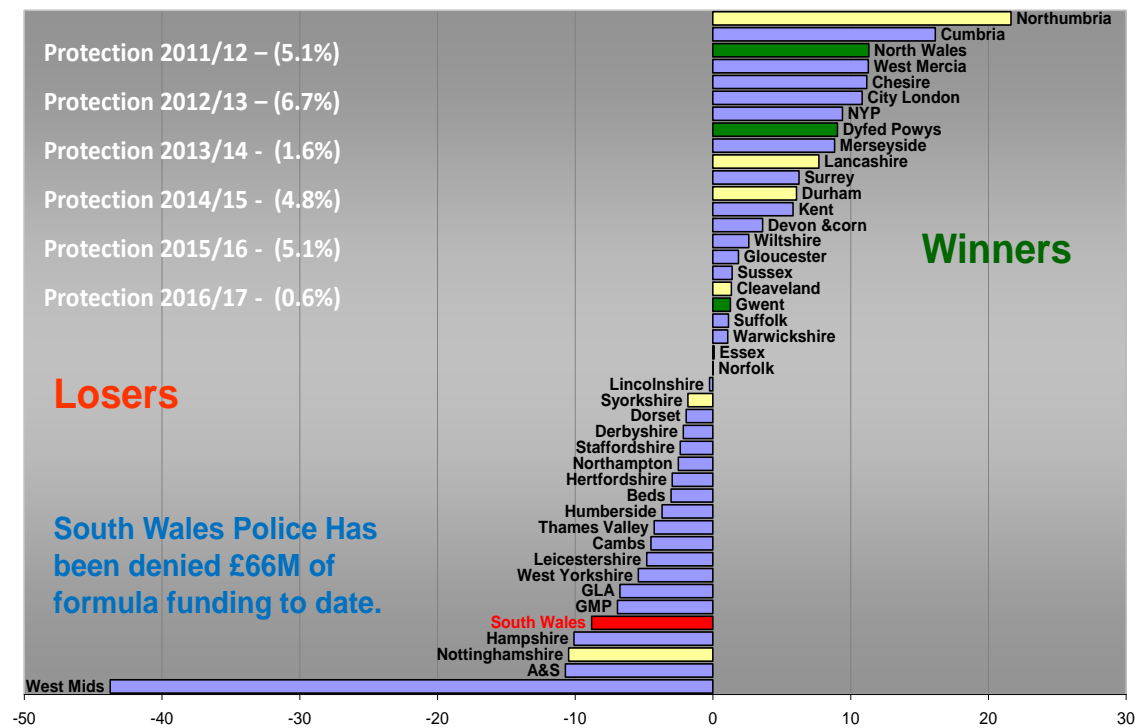
	2014/15 £M	2015/16 £M	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M
Total Formula Funding:						
Police Core Settlement	4,585	4312	4290	4290	4290	4290
of which Home Office Police Main Grant	4,407	4136	4112	4112	4112	4112
National, International and Capital City Grant (MPA/MoPC only)	176	174	174	174	174	174
City of London Capital City Grant	2	3	5	5	5	5
DCLG General Grant	2,926	2820	2802	2802	2802	2802
of which formula funding	2,924	2818	2800	2800	2800	2800
of which Ordnance Survey	2	2	2	2	2	2
WAG General Grant	140	135	137	139	141	143
National Police Co-ordination Centre	2	0				
National IT Cost Recovery	0					
CORE SETTLEMENT	7,653	7,267	7,229	7,231	7,233	7,235
Total Home Office Specific Grants:	730	910	1,041	1,054	1,051	1,049
Comprising....						
Welsh Top-up	13	13	9.9	6.9	3.9	0.9
Counter Terrorism Specific Grant	564	564	640	656	656	657
Police Innovation Fund	50	70	55	55	55	55
Independent Police Complaints Commission	18	30	32	32	32	32
College of Policing (for direct entry schemes)	3	5	5	5	5	5
HMIC for regular force inspections	9					
Police Special Grant		15	25	25	25	25
Major Programmes		40	22	22	22	22
Transformation Fund			76	76	76	76
PFI Grant	73	73	73	73	73	73
Legacy Council Tax Freeze Grants						
of which legacy Council Tax - England	23	31	31	31	31	31
of which legacy Council Tax (11/12) Freeze Grant	59	59	59	59	59	59
of which legacy Council Tax (13/14) Freeze Grant	7	7	7	7	7	7
of which legacy Council Tax (14/15) Freeze Grant		3	3	3	3	3
of which legacy Council Tax (15/16) Freeze Grant			4	4	4	4
Total Government Funding	8,479	8,177	8,270	8,286	8,285	8,285
% cash change in Total Government Funding	-3.3%	-3.6%	1.1%	0.2%	0.0%	0.0%
Adjustments						
Legacy Council Tax Grants DCLG		404	404	404	404	404
DCLG freeze grants MOPAC and City Of London Police		37	37	37	37	37
Airwave		204	204	204	204	204
ESN			80	80	80	80
Increase in ESN - migration estimates				128	263	418
Central Government Funding including CT	8,479	8,822	8,995	9,139	9,273	9,428
NCA Baseline adjustment		14	14	14	14	14
CT		(564)	(640)	(656)	(656)	(657)
Total Government funding Excl CT		8,272	8,369	8,497	8,631	8,785
FIGURES FROM HANSARD (EXCL CT)		8,271	8,378	8,497	8,631	8,785

Funding Inequities Impacting on South Wales Police

1. Formula Allocation, Floor Funding Mechanism

Despite the inequities within the funding formula South Wales Police has been denied the full formula allocation for over a decade. The amount of formula funding denied now totals **£66M**.

We remain extremely concerned that there is no progress on an alternative mechanism to address the floor funding deductions. South Wales Police is currently contributing around £8.8M annually towards the Floor Funding mechanism and is the 5th highest floor funding contributor. The analysis shows that there are clear disparities where a potential reallocation of grant funding from deprived areas to less deprived areas is taking place as a result of floor funding.



The allocations would be different if a more sophisticated approach was taken. However, it would be far more preferable that additional funding is found to protect those forces below the floor until such time as the funding formula is properly reviewed. The denial of funding to date of £66m is a key factor in the infrastructure funding gap being experienced. The continued application of damping in this way makes a mockery of any funding mechanism.

2 Funding Formula

The 43 police forces across England and Wales are funded through a combination of Central Government Grants and Police Precept (which is decided locally). The Government determines a total sum of money for Central Grants and this is then distributed through the application of a needs based formula.

The current formula used for distributing the Home Office Police Main Grant divides funds between the different activities that the police undertake. These activities, or workloads, can be broken down into five key areas: Crime, Incidents (e.g. public disorder), Traffic (e.g. assistance at road traffic accidents), Fear of Crime (e.g. public reassurance), and Special Events (e.g. football matches). A portion of total funding is also distributed according to population sparsity, to address the specific needs of rural forces.

South Wales Police is adversely affected by some specific issues within the current funding formula due to the following:

- Area Cost Adjustment
- Capital Expenditure Funding
- Lack of recognition of Cardiff as the Capital City of Wales for funding purposes.

3 Area Cost Adjustment (ACA)

The Area Cost Adjustment seeks to recognise the cost of delivering public services in different geographical parts of the country. However its application to policing raises concerns on a number of grounds:

- The police officer pay is nationally determined and except for specific issues around London this is consistent across the country.
- Similarly the police staff pay increases are determined nationally and are broadly similar except in cases of market forces and this could be argued more for London.
- The remainder of non-pay expenditure (20%) is subject to a variety of procurement routes including national frameworks.
- Therefore, only a limited argument could be made for local variation. Yet the Area Cost Adjustment is applied to the whole of the Formula Allocation as the final reallocation adjustment.



The randomness of the blue areas that benefit from an area cost adjustment defines understanding

- The expansion of Area Cost Adjustment across the country is now significantly distorting the formula grant allocation and has expanded over a wider area over the last decade as shown above and the blue shading reflects the expansion from London to the South east and beyond.

Whilst it is understandable to apply the ACA to a restricted area in the South East region this should be constrained to those elements of policing costs that are directly affected by geographic price variations. It is clear from the above that the ACA goes much wider than the South East of England. In addition, the Area Cost Adjustment ignores Wales as a country completely and yet the areas of South and North Wales are not dissimilar in economic terms to some of the areas where the ACA currently applies.

It is important that with the planned review of the Funding Formula by the Home Office that every effort is made to seek long term redress of the issues detailed below.

South Wales Police has therefore established a concordat with the other three Welsh forces to examine alternative formula factors to improve the grant allocation system. This will be supported by academic research and is led by the Treasurer to the Police and Crime Commissioner South Wales Police.

4 Capital Funding

The continued reduction in capital funding reduces the capacity to address legacy issues of an obsolete estate and increases the risks on health and safety considerations. The current funding requirement to address property condition surveys exceeds available funding by a factor of 10. An alternative mechanism to address capital estate funding is long overdue particularly as PFI funding has never been accessible to South Wales Police; the other three forces in Wales have approved PFI schemes and receive annual funding in support. The Home Office has confirmed that Barnett consequential for financing Police PFI have been made and our assessment shows a year on year under-allocation of this to policing in Wales.

Whilst not seeking a PFI as a solution the supported borrowing will allow us to address some acute critical infrastructure issues.

5 Capital City

It is a fact that whilst the present funding formula does make some provision for major events, this is only a nominal universal sum multiplied by a population factor. In essence the formula gives the same relative recognition per head of population to Norfolk as to South Wales Police, where as the actual range and number of major events is significantly more diverse.

APPENDIX 5

It is important to recognise that the impact of policing Cardiff extends to the whole of the Force area given the flow of resources to address the number of Capital City related events. In a typical year South Wales Police manages around 500 events annually which is complete contrast to the likes of Norfolk or Wiltshire.

Cardiff is unique because it is the largest urban conurbation in Wales with an infrastructure that is both conducive and attractive to both event attendees and organisers. However, this desirable circumstance requires a commensurate effective affordable policing strategy and whilst we are addressing this, it comes at the expense of the wider policing requirements across South Wales.

- Cardiff has the highest number of licensed premises per square mile than any other city within the UK and it continues to grow. Approximately 50,000-70,000 people visit during the weekends and this night time economy inevitably has heavy policing demands.
- Cardiff attracts 12 million visitors a year and is now in the top ten tourist destinations in the UK. Recent regeneration includes the £1.8 billion Bay development of Cardiff and the £102M development of the new Wales Millennium Centre, Wales' most visited attraction.
- In an average year the force will plan for between 400 and 500 events of varying scale in Cardiff alone. These range from the local to international with iconic events in iconic locations bringing added counter terrorism threats.
- Cardiff as the seat of Welsh Government attracts increasing number of demonstrations against regional and national policy.
- There is evidence that Cardiff is being used as a base for non-indigenous organised criminal groups with connections with groups in London, Bristol and Manchester. Cardiff is recognised as a main distribution centre for drugs gangs in South East Wales.
- The Welsh Government's vision for economic prosperity across some of Wales' and the UK's most deprived communities is dependent on a strong and sustainable Capital. The Wales Index of Multiple Deprivation 2005 placed a number of areas within Cardiff amongst Wales' highest 10% most deprived category, notably parts of Butetown and Riverside.

APPENDIX 5

It is arguable that these circumstances are arising across the country but we argue that the combination is unique and relates to the status of the city, which no generic funding formula is capable of addressing and just like Edinburgh and London requires a specific solution outside a formula.

South Wales Police has responsibility for 42% of the Welsh population and 48% of the total crime in Wales. Cardiff has 30% of the population of the force area and our conservative estimate of the policing demands associated with the Capital City status only is £2.6 Million.

It is important to note that the Policing Minister has recognised such issues in respect of City of London Police by providing extra top sliced funding and therefore it is time that Cardiff should now also be recognised as having a similar special status.

SOUTH WALES POLICE DRAFT REVENUE BUDGET 2016/17 - 2019/20						APPENDIX 6
	Actual Budget 2015/16 £000	Forecast Budget 2016/17 £000	Forecast Budget 2017/18 £000	Forecast Budget 2018/19 £000	Forecast Budget 2019/20 £000	
Employees						
Police Officers	129,098	132,189	136,672	140,892	146,229	
Police Staff	61,947	63,479	63,480	64,623	66,238	
Police Community Support Officers	12,871	13,447	13,448	13,690	14,032	
Police Pensions (net)	30,017	30,052	31,298	32,264	33,486	
Total Employee Costs	233,933	239,167	244,897	251,469	259,986	
Running Exps						
Non Pay to be split below			Nominal Split			
Indirect Staff	1,888	1,923	1,971	2,020	2,071	
Premises Costs	9,392	9,565	9,805	10,050	10,301	
Transport Costs	4,540	4,624	4,739	4,858	4,979	
Supplies and Services	19,485	19,845	20,341	20,849	21,371	
Agency and Contracted Services	9,983	10,167	10,421	10,682	10,949	
Total Running Expenses	45,288	46,124	47,277	48,459	49,671	
Capital Financing Costs	3,349	5,822	5,822	5,822	5,822	
Total Expenditure	282,570	291,113	297,997	305,750	315,478	
Income						
Specific Grants	(14,093)	(13,224)	(13,224)	(13,224)	(13,224)	
Specific Grants- WG PCSOs	(6,600)	(6,910)	(6,910)	(6,910)	(6,910)	
Other Income	(6,796)	(6,691)	(6,691)	(6,691)	(6,691)	
Total Income	(27,489)	(26,825)	(26,825)	(26,825)	(26,825)	
TOTAL NET REVENUE EXPENDITURE	255,081	264,288	271,172	278,925	288,653	
Grants and Precepts - Based on						
Police Grant	(98,152)	(97,592)	(97,592)	(96,573)	(95,561)	
NNDR/RSG	(71,218)	(72,176)	(72,176)	(72,176)	(72,176)	
Rule 1	8,814	10,129	10,129	10,129	10,129	
Anticipated Reduction in Funding (assumed 0.6% from 17/18)			1,019	1,012	1,006	
Total External Support	(160,556)	(159,639)	(158,620)	(157,608)	(156,601)	
Precepts on Billing Authorities	(94,525)	(99,279)	(103,766)	(108,456)	(113,358)	
TOTAL RESOURCES	(255,081)	(258,918)	(262,386)	(266,064)	(269,960)	
Cumulative Unfunded Expenditure	0	5,370	8,785	12,861	18,694	
Value For Money Plan Savings	0	(5,370)	(6,834)	(8,268)	(8,468)	
Residual Budget Gap	0	0	1,951	4,593	10,226	
TAXBASE Est 0.5% increase p.a from 17/18 onwards	472,965.07	477,641.67	480,029.88	482,430.03	484,842.18	
BAND D PRECEPT AT 4%	£199.86	£207.85	£216.17	£224.81	£233.80	

REVENUE BUDGET 2016/17
RECONCILIATION OF CHANGES 2015/16 to 2016/17

Increases in Budget above 2015/16**Unavoidable Costs**

	Expenditure		Band D Equivalent Tax Net of External Funding as per settlement	
	£000	%	£	%
Pay Inflation and Incremental Drift (inc Winsor)	5,233	2.02%	10.96	5.5%
Other Inflation	545	0.21%	1.14	0.6%
Base Budget Adjustments and Re-allocations	3,023	1.17%	6.33	3.2%
Specific Grant Allocations	406	0.16%	0.85	0.4%
Revised Police Grant/RSG/NNDR including CSF	916	0.35%	1.92	1.0%
Change in Budget Requirement	10,123	3.9%	21.19	10.6%

Budget Balance Actions

Additional Value For Money Plan Savings	(5,370)	(2.08)%	(11.24)	(5.6)%
Tax Base Increase	(935)	(0.36)%	(1.96)	(1.0)%
Balance of Funding from Police Precept Increase	(3,818)	(1.48)%	(7.99)	(4.0)%
Residual Balance	-			

**SOUTH WALES POLICE
ANALYSIS OF REVENUE BUDGET CHANGES- 2015/16 to 2016/17**

APPENDIX 8

	£'000	£'000
<u>Pay & Pensions Inflation and Incremental Drift</u>		TOTAL
<u>Police Officers</u>		
Pay Award	659	
National Insurance	3,223	
Re-based establishment including Incremental drift/ removal of spinal column points/ changes in rank structure	(427)	
Vacancy Factor	(955)	
Housing, Rent, CRTP & Allowances	(60)	
Injury Award	98	
Bear Scotland/ Overtime	587	
	<hr/>	3,125
<u>Police Staff</u>		
Re-based establishment including Pay Award / Pension / Increments	741	
National Insurance	1,458	
Bear Scotland/ Overtime	107	
Changes in Externally Funded Posts (incl WG funded PCSOs)	(198)	
	<hr/>	2,108
Sub - Total Pay & Pensions Inflation and Incremental Drift		5,233
<u>Other Inflation</u>		
Inflation, Contracts & Utilities	579	
Inflationary Increases/ Changes on Income	(34)	
Sub - Total Other Inflation		545
<u>Base Budget Adjustments and Re-allocations</u>		
Net Base Budget Adjustments	35	
Direct Revenue Financing	2,500	
Investment income	100	
Capital Financing	(29)	
Changes in External Funding	417	
Sub - Total Base Budget Adjustments and Re-allocations		3,023
<u>Specific & General Grant</u>		
Misc Changes in Specific External Funding	406	
Decrease in Police Grant/RSG/NNDR - CSR 2015	916	
Sub - Total Specific & General Grant		1,322
Change in Budget Requirement		10,123
Income on 4% Police Precept		(4,753)
Total Unfunded Expenditure		5,370

POLICE & CRIME COMMISSIONER BUDGET CHANGES

2016/17 BUDGET	2015/16	2016/17
	Budget	Budget
Commissioners Budget	£'000	£'000
Staff Salary Costs	803	845
Officer Salary Costs*	51	58
Indirect Employee Costs	26	23
Premises Costs	2	4
Transport Costs	36	26
Supplies & Services	82	98
Total	1,000	1,054
Community Safety Fund		
Drug Intervention Programme/ Offender Interventions	2,374	2,374
Drug Testing Programme	110	110
Community Safety Partnerships	625	625
Youth Offending Teams	332	332
Contingency for In-Year Decisions	35	35
Total	3,476	3,476

* Adjusted 2015/16

Description	Budget Profile					
	2015/16	2016/17	2017/18	2018/19	2019/20	4 year
	Projected Outturn £'000	£'000	£'000	£'000	£'000	Future Total £'000
Infrastructure Maintenance						
Estates Essential and legislative works only *	551	1,249	1,204	1,555	1,416	5,424
Fleet	2,518	2,035	1,927	2,005	1,936	7,902
Information Services	1,979	1,295	1,597	1,617	1,617	6,125
Other	179	10	10	10	10	40
Total Infrastructure Maintenance	5,228	4,589	4,737	5,188	4,978	19,492
One - Off Projects to be Internally Funded						
Estates	2,971	689	0	0	0	689
Information Services	2,306	1,496	250	5,250	2,500	9,496
Total One - Off Projects to be Internally Funded	5,278	2,186	250	5,250	2,500	10,186
Projects Supported by External Funding						
Estates	15,309	6,462	0	0	0	6,462
Information Services	2,948	3,254	7,386	0	0	10,640
Total Projects Supported by External Funding	18,257	9,716	7,386	0	0	17,102
TOTAL Capital Programme	28,762	16,491	12,373	10,438	7,478	46,780
Summary of Funding						
Baseline Capital Grants	2,250	1,325	1,325	1,325	1,325	5,300
In year grant cut	(350)					
Revenue Contribution	288	560	560	560	560	2,241
Additional Revenue Contribution to Core Funding	488	2,500	2,500	2,500	2,500	10,000
Unsupported Borrowing	1,671	1,671	1,671	1,671	1,671	6,684
Core Funding	4,347	6,056	6,056	6,056	6,056	24,225
Additional Grants - Home Office	7,796					0
Additional Grants - Mobile Data	1,097					0
Additional Grants - Tri Service Centre	2,859	590				590
Additional Grants - SBRI Predictive Policing (Fusion)	61					0
Additional Grants / Existing Resource - Fusion		2,441	2,841			5,282
Externally Funded Contributions - Fleet	300					0
Additional Revenue Contribution - Tri Service Centre		3,000				3,000
Additional Contribution - Tri Service Centre (Fire Service)		1,600				1,600
Additional Contribution - Disaster Recovery (Gwent)	480					0
Additional Contribution - (NCA)	1,028					0
Additional Contribution - Fusion (Gwent)	775	293	298			591
Additional Contribution - Fusion (PCSO)	32	32	32			64
Additional Contribution - JSIU (Gwent)		18				18
Specific Earmarked Reserves	11,764	685	0			685
Balance of Capital Reserves		1,776				1,776
External/Other Funding	26,191	8,659	3,172	0	0	11,830
Earmarked Capital Reserve	0		0	(3,145)	(7,527)	
Total Funding Available	30,538	14,715	9,228	2,911	(1,471)	37,831
Capital Reserve Balance C/fwd	1,776		(3,145)	(7,527)	(8,949)	(8,949)
Additional Estates works from Property Condition Surveys (deferred)			(6,195)	(6,525)	(8,284)	(8,284)
Total Capital Funding Shortfall			(9,341)	(14,052)	(17,233)	(17,233)

Value for Money Plan 2016/17 to 2019/20

APPENDIX 11

EVENTS	General Election	CSR 2010				General Election	CSR2016				Total	
		Local Elections			One Year Settlement	Local Elections						
Efficiency Project Name	2010/11 Target	2011/12 Target	2012/13 Target	2013/14 Target	2014/15 Target	2015/16 Target	Total to Date	2016/17 Target	2017/18 Target	2018/19 Target	2019/20 Target	Total
	Cumulative											
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Value For Money Targets	2,600	16,439	5,239	2,300	5,331	7,477	39,386	5,370	8,785	12,861	18,694	58,080
Police Officer Numbers		7,622	2,750	1,500	570		12,442	-				12,442
Police Staff Numbers	2,600	6,084	1,000	-	1,443	1,108	12,235	3,539	4,539	4,539	4,539	16,774
PCSO Numbers	-	679		-	1,000	2,000	3,679					3,679
Terms and Conditions + Transformation+ oncosts	-		-	700	959	420	2,079	489	489	489	489	2,568
Collaboration	-		-	-	-	359	359			1,000	1,000	1,359
Goods and Services	-	859	784	100	1,209	1,640	4,592	1,342	1,554	1,588	1,588	6,180
Transport	-	500	500	-	-	250	1,250		52	52	52	1,302
Estate	-	695	105	-	-	200	1,000		200	600	800	1,800
Capital Programme	-	-	-	-	-	1,000	1,000					1,000
Income	-	-	100	-	150	500	750					750
Value For Money Delivery	2,600	16,439	5,239	2,300	5,331	7,477	39,386	5,370	6,834	8,268	8,468	47,854
Revenue Account Shortfall	-	-	-	-	-	-	-	0	1,951	4,592	10,225	10,225
Capital Programme Shortfall									9,341	14,052	17,233	17,233
Overall Funding Shortfall									11,291	18,644	27,458	27,458

SOUTH WALES POLICE
2016/17 BUDGET
ESTABLISHMENT MOVEMENTS FTE

APPENDIX 12

	VFM Plan Cuts	SWP Funded Projected	External Funded	Total Funded Establishment
Police Officer Establishment	FTE	FTE	FTE	FTE
2008/09		3,244	90	3,334
2009/10	(185)	3,059	102	3,161
2010/11	(38)	3,021	123	3,144
Post Comprehensive Spending Review				
2011/12	(114)	2,907	137	3,044
2012/13	(62)	2,845	102	2,947
2013/14	(30)	2,815	97	2,912
2014/15	(15)	2,800	109	2,909
2015/16	-	2,800	118	2,918
2016/17	(444)	2,800	137	2,937
Total Police Officers Funded Establishment in 2016/17		2,800	137	2,937

	VFM Plan Cuts	SWP Funded Projected	Welsh Gov Funded	Total Funded Establishment
Police Community Support Officers				
2008/09		325	0	325
2009/10		325	0	325
2010/11		325	0	325
Post Comprehensive Spending Review				0
2011/12	(25)	300	0	300
2012/13 phased Welsh Gov PCSO	-	300	206	506
2013/14	-	300	206	506
2014/15	(100)	200	206	406
2015/16	-	200	206	406
2016/17	(125)	200	206	406
Total PCSO Establishment 2016/17		200	206	406

	VFM Plan Cuts	WFT/ CDO/ Other Adj	SWP Funded Projected	External Funded	Total Funded Establishment
Police Staff Establishment					
2008/09			1,789		1,789
2009/10		270	2,059		2,059
2010/11	(131)	69	1,997		1,997
Post Comprehensive Spending Review					
2011/12	(167)		1,830		1,830
2012/13	(125)	2	1,707		1,705
2013/14	(60)	15	1,660		1,660
2014/15*	41	(130)	1,571	154	1,725
2015/16	(100)	112	1,583	186	1,769
2016/17	(21)	4	1,566	180	1,746
Police Staff Establishment 2016/17			1,566	180	1,746

* External funded disaggregated

TOTAL VFM PLAN CUTS	(1,132)			
TOTAL FUNDED ESTABLISHMENT 2016/17		4,566	523	5,089

A		BUDGET AND COUNCIL TAX REQUIREMENT		£
				4%
TOTAL BUDGET				279,051,407
LESS: Specific Grants				20,133,616
BUDGET REQUIREMENT				258,917,791
LESS: Revenue Support Grant				72,176,600
NDR				
Police Specific Grant				87,462,606
SOUTH WALES POLICE AUTHORITY PRECEPT				99,278,585
B	SWPA ELEMENT OF COUNCIL TAX BY PROPERTY	Proportion of Band D	Council Tax £	
	Band A	6/9	138.57	
	Band B	7/9	161.66	
	Band C	8/9	184.76	
	Band D	9/9	207.85	
	Band E	11/9	254.04	
	Band F	13/9	300.23	
	Band G	15/9	346.42	
	Band H	18/9	415.70	
	Band I	21/9	484.99	
C	PRECEPTS ON UNITARY AUTHORITIES	No. of Band D Equivalent Properties		SWPA Precept £
	Cardiff County Council	141,288.00		29,366,937
	City & County of Swansea	89,151.00		18,530,178
	Bridgend County Borough	51,916.19		10,790,863
	Merthyr Tydfil County Borough	17,896.23		3,719,760
	Neath Port Talbot County Borough	46,538.38		9,673,077
	Rhondda Cynon Taff County Borough	74,301.87		15,443,763
	The Vale of Glamorgan Council	56,550.00		11,754,008
		477,641.67		99,278,585

PART B

SUBJECT	TREASURY MANAGEMENT STRATEGY & PRUDENTIAL INDICATORS 2016/17
REPORT BY	GEOFF PETTY, TREASURER UMAR HUSSAIN, CHIEF FINANCIAL OFFICER TELEPHONE: (01656 869204)
CONTACT OFFICER	GWYN WILLIAMS, ASSISTANT DIRECTOR OF FINANCE - TELEPHONE: (01656 869299)
SUMMARY AND PURPOSE OF REPORT To note the Treasury Management Strategy & Prudential Indicators for 2016/17 as approved by the Commissioner as part of this overall Medium Term Financial Strategy and includes:	
RECOMMENDATIONS:	<ol style="list-style-type: none">1. Adopt the Treasury Management Strategy for 2016/172. Adopt the Investment Strategy and counterparty criteria contained in the Treasury Management Strategy for 2016/173. Adopt the Prudential Indicators and Limits for 2016/17 to 2019/204. Adopt the Minimum Revenue Provision (MRP) Statement. <p>A recent independent internal audit review provided substantial assurance on the Treasury Management Process within South Wales Police.</p>

INTRODUCTION

- 1.1 This report provides the statutory update to the annual investment strategy. This Strategy sets out the South Wales Police's approach to treasury management, in terms of its cash flows, its banking, investment and borrowing transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.
- 1.2 The Prudential Code, under provisions of the Local Government Act 2003, requires certain local bodies, including **the Police and Crime Commissioner for South Wales in consultation with the Chief Constable** to set, on an annual basis, a number of Prudential Indicators. These are set in consideration of the Treasury Management Strategy and the impact of capital borrowings considered as part of the capital programme, revenue budget and police precept. The report incorporates the indicators determined for the next four financial years. Appendix A provides background information on the Prudential Code.
- 1.3 On behalf of **the Police and Crime Commissioner for South Wales in consultation with the Chief Constable**, South Wales Police Corporate Finance Department undertakes the treasury management function continuing the arrangement on behalf of the former Police Authority. Responsibilities are defined in the Manual of Corporate Governance, with references to Chief Financial Officer (to the Police and Crime Commissioner) and Chief Financial Officer (to the Chief Constable).
- 1.4 The current year's investment performance to December 2015 is included at **Appendix B**.
- 1.5 Banking services for the Police and Crime Commissioner for South Wales are currently provided by Lloyds Bank.

2 TREASURY MANAGEMENT CONSULTANCY AND INVESTMENT BROKERS

- 2.1 A contract is agreed on an annual fee basis with Capita Treasury Solutions Limited, formerly named Sector Treasury Services Limited, to provide advice and information services. It is considered prudent to retain these services. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with **the Police and Crime Commissioner for South Wales**.
- 2.2 Investment and deposit dealings are undertaken via brokers, who are intermediaries with wholesale financial markets facilitating the trading activities of its clients, in particular commercial and investment banks. They are reimbursed on a commission basis. Investments and deposits are also made directly with counterparties on a more retail/ business banking basis.

Current Brokers:

Garban Intercapital Europe Limited
Tullet Prebon (Europe) Limited

King & Shaxson (including a dealing and custodian service for Deposit Certificates (CDs), treasury bills, gilts, Corporate Bonds, Floating Rate Notes, Supranational bonds and other securities - further details are outlined at Appendix C. No use has been made of this service/ brokerage to date. An annual fee is charged by the broker if their services are utilised.

3 CURRENT ECONOMIC OUTLOOK

3.1 On behalf of **the Police and Crime Commissioner for South Wales and the Chief Constable**, South Wales Police Corporate Finance Department receives regular advice and information on the economic outlook from its Treasury Management consultants and other sources.

3.2 The following is an extract from November 2015 commentary by Capita Asset Services, incorporating a first bank rate increase in **2016**:

Commenting on the Bank of England Inflation Report November 2015 - There has been little change in our forecasts since our previous forecasts in May and August. We have left unchanged the start of the increases **in Bank Rate** at quarter 2 of 2016.

The overall view of the Interest Rate Strategy Group is that given the current trend of economic statistics, there is little justification for changing to a view that there will not be an increase **in Bank Rate** for eighteen months until Q2 2017. Such a view would only be warranted by a major downturn in world or UK growth and / or if there is a significant decline in inflationary pressures e.g. from such factors as a sharp increase in the pace of replacement of workers by computers and robots automating work. At the current time, these would be major assumptions. Accordingly, we have opted to leave our central forecast for a first increase in Bank Rate unchanged at Q2 2016 but there are downside risks to our current forecast for the timing of the first increase.

The overall longer run trend is for gilt yields and **PWLB rates** to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

	NOW	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
BANK RATE	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.50	1.50	1.75	1.75	2.00	2.00	2.00
3 month LIBID	0.52	0.60	0.70	0.80	0.90	1.10	1.30	1.40	1.50	1.80	1.90	1.90	2.00	2.00	2.10
6 month LIBID	0.66	0.80	0.90	1.00	1.10	1.30	1.50	1.60	1.70	2.00	2.10	2.10	2.20	2.20	2.30
12 month LIBID	0.98	1.10	1.20	1.30	1.40	1.60	1.80	1.90	2.00	2.30	2.40	2.40	2.50	2.50	2.70
5 yr PWLB	2.23	2.30	2.40	2.60	2.70	2.80	2.80	2.90	3.00	3.20	3.30	3.40	3.50	3.50	3.60
10 yr PWLB	2.88	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.10	4.10
25 yr PWLB	3.57	3.60	3.70	3.80	3.90	4.00	4.10	4.10	4.20	4.30	4.30	4.40	4.40	4.40	4.50
50 yr PWLB	3.43	3.50	3.60	3.70	3.80	3.90	4.00	4.00	4.10	4.20	4.20	4.30	4.30	4.30	4.40

3.3 Further commentary and forecasts for interest rates are included in Appendix D.

4 TREASURY MANAGEMENT OVERVIEW

4.1 Treasury Management is defined, as: “the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of the optimum performance consistent with those risks”. This definition is intended to apply to all public sector organisations in their use of capital and project financings, borrowings and investments.

4.2 The Code applies to all organisations that have adopted it as part of their standing orders, financial regulations or other formal policy documents appropriate to their circumstances.

- 4.3 The portfolio of investment deposits as at the 31st March 2015 totaled **£27.491M**, which included **£19.244M** of liquid bank and cash equivalent deposits. Investment deposits held are due to the temporary positive cash flow position and are of a short-term nature and currently include positive capital and revenue reserves.

The portfolio of fixed rate PWLB loan, for capital purposes, as at 31st March 2015 totaled **£19.343M** with an average capital interest rate of **3.88% (£0.759M)**.

4.4 Policy Statement

- 4.4.1 **The Police and Crime Commissioner for South Wales in consultation with the Chief Constable** regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of the treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

- 4.4.2 This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

- 4.4.3 The approved activities of the Treasury Management operation are as follows:

- (a) Cash Flow (short and longer term forecasting)
- (b) Investing surplus funds in Approved Investments (including short and long term investments)
- (c) Borrowing to finance cash deficits, if applicable
- (d) Funding of capital payments through grants, contributions, capital receipts, and borrowing
- (e) Management of debt (including rescheduling and/ or monitoring for an even maturity profile)
- (f) Interest rate exposure management
- (g) Dealing procedures with brokers, banks, treasury advisors, UK Government Departments and Agencies including Debt Management Office and Public Works Loans Board
- (h) Use of external management for temporary investment of funds.

5 TREASURY MANAGEMENT STRATEGY

5.1 Objectives for Borrowing and Investments

The major objectives to be followed in 2016/17 are:

5.1.1 Borrowing

- To minimise the revenue costs of debt
- To manage the debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in repayment or re-borrowing.
- To effect borrowing in any one year at the cheapest cost commensurate with future risk.
- To forecast average future interest rates and borrow accordingly
- To monitor and review the level of fixed and variable interest rate loans in order to take advantage of interest rate movements.
- To reschedule debt in order to take advantage of potential savings as interest rates change.

5.1.2 Investment

- To maintain capital security, then liquidity then yield
- To maintain policy flexibility.
- To achieve a level of return greater than would be secured by defaulting internal investment.

5.2 Treasury Management Strategy

5.2.1 Capital Finance

To achieve the optimum funding structure for the Capital Programme, maximising the use of capital grants, prudently using capital receipts and utilising borrowing and other financing options.

5.2.2 Borrowing

To maintain a flexible approach, based on advice.

5.2.3 Temporary Investments

To effectively manage the use of temporary investments to maintain flexibility, and where borrowing is made in advance of requirements.

5.2.4 Debt Rescheduling

To review the possibility of debt rescheduling as and when the opportunity arises, but not to proceed unless the appropriate discounted cash flow calculations are favourable.

5.3 Annual Investment Strategy

5.3.1 This organisation has regard to the Welsh Government's Guidance on Local Government Investments and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

5.3.2 The key requirements of both the Code and the investment guidance are to identify and approve the following:

- The strategy guidelines for decision making on investments
- The principles to be used to determine the maximum periods for which funds can be committed
- Specified investments that the organisation will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year. These would include investments which would not be defined as capital expenditure with:
 - The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
 - Supranational bonds of less than one year's duration.
 - Corporate Bonds
 - Other securities
 - A local authority, parish council or community council.
 - Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investments that may be used and a limit to the overall amount of various categories that can be held at any one time.

5.3.3 Investment priorities are:

- (a) the security of capital
- (b) liquidity of its investments
- (c) the yield of the funds.

- 5.3.4 The investment strategy's primary objectives are firstly to safeguard the re-payment of the principal and interest of its investments on time, secondly to ensure adequate liquidity with the investment yield being a third objective.
- 5.3.5 Following the economic background above, the current investment climate has one overriding risk consideration that of counterparty security risk. Aim is to achieve the optimum yield on investments commensurate with the proper levels of security and liquidity.
- 5.3.6 The general policy objective is the prudent investment of its treasury balances. Balances include monies borrowed for the purpose of expenditure in the reasonably near future (i.e. borrowed 12-18 months in advance of need).
- 5.3.7 The Welsh Government maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and this organisation will not engage in such activity.
- 5.3.8 The revised code requires consideration of the benchmarking and monitoring of Security, Liquidity and Yield in the Investment Service. Yield is currently benchmarked and further consideration should be given to the development of benchmarking in respect of security and liquidity.
- 5.3.9 Yield is currently benchmarked to assess investment performance against the following measures:
- Investments – Internal returns above the 7 day LIBID rate
 - Investments – External fund managers - returns 10% above 7 day compounded LIBID.
- 5.3.10 Security and liquidity benchmarks are intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. However, they have not previously been separately and explicitly set out. In the other investment categories appropriate benchmarks may be used where available. Whilst it is possible to develop numerical analysis, the interpretation of the results are very subjective and further review may be required. Benchmarks are guides and so may be breached from time to time.

5.4 Investment Counterparty Strategy - Criteria and proposed amendments

- 5.4.1 The primary principle governing the organisation's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the organisation will ensure:
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
 - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to prudential indicators covering the maximum principal sums invested.
- 5.4.2 The organisation will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it provides an overall pool of counterparties considered 'high quality' that maybe used rather than defining what its investments are.
- 5.4.3 The rating criteria use the lowest common denominator (LCD) method of selecting counterparties and applying limits. This means that the application of minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by

two agencies, one meets the criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

- 5.4.4 Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to a counterparty at the minimum criteria will be suspended from use, with all others being reviewed in light of market conditions. Similarly if a counterparty is upgraded following suitable consultation, so that it fulfils the criteria, it will be included in the Counterparty List.
- 5.4.5 This organisation relies on credit ratings published by Fitch Ratings, Moody's Investors Service or Standard & Poor's to establish the credit quality of counterparties (issuers and issues) and investment schemes. The organisation has also determined the minimum long-term and short-term and other credit ratings it deems to be "high" for each category of investment.
- 5.4.6 Additional requirements under the Code of Practice now require the organisation to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps), negative rating watches/ outlooks) will be applied to compare the relative security of differing investment counterparties. Credit Default Swaps (CDS) are currently considered more responsive of market factors than rating changes, with the lower the measure the lower the perceived risk.

5.4.7 The criteria for providing a pool of high credit quality investment counterparties (both Specified and Non-specified investments) are considered further. This table sets out the authorised deposit takers and details the proposed organisational limit for each category:

	Deposits and other investments	Specified or Non specified Indicator	Current Limit £m	Proposed Limit £m	change*
A	UK clearing banks and their wholly-owned subsidiaries	Specified Non specified if non rated subsidiary or > 1 year	10	10	
B	Other banks i.e. major non-clearing banks	Specified	10	10	
B	Other banks i.e. smaller banks	Specified	10	10	
C	Merchant banks		3	3	
D	Oversees banks (note- currently restricted due to current market conditions)		3	3	
E	Building Societies - within top 30 of Asset Size Rankings <ul style="list-style-type: none"> • Top 10 Rated Building Societies • Top 10 Unrated - (term 6 months- currently restricted) • 11-25 Unrated (term 6 months) • 26-30 Unrated (term 3 months) 	Specified Non specified Non specified Non specified	10 5 0 0	10 5 0 0	
F	Local Authorities	Specified Non specified if > 1 year	10 10	10 10	
G	Nationalised industries and public corporations		3	3	
H	UK Debt Management Office – Executive Agency of HM Treasury (incl. deposit, Treasury bills, gilts and other securities)	Specified Non specified if > 1 year	No Limit	No Limit	
I	Call account with Authority's bankers (in addition to current account and fixed term deposits)	Non specified	10	10	
J	Callable Accounts (other banks) (In addition to above fixed term deposit limits)	Non specified	10	10	
K	External Fund Managers/ Money Market Funds (Cash and Government)	Specified	25	25	

5.4.9 In further consideration of the above limits and continued advice from Treasury Management Consultants, the organisation will use, as a minimum banks which have at least the following Fitch, Moody's and Standard and Poor's ratings (where rated):

	Core credit criteria	Current	Proposed
	Short Term	F1	F1
	Long Term	A	A

5.4.10 Advice is generally accepted, although this policy further restricts the above by limiting the bodies approved to those with a 'high credit quality'. High is defined as:

- Short term quality, for investments of up to say 6 months of Fitch **F1** (Highest credit quality) or its equivalent from other rating agencies, including Moody's and Standard and Poor's i.e. **P-1/ A-1**, for Banks and Building Societies. Allow the use of the organisation's own banker if it falls below the above criteria.
- Longer term quality, which would be applicable for the 'mid term', say 6-12 months of **A** (High Credit quality). The organisation will only use banks/ building societies which are:
 - UK Banks; and/ or
 - Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AA+.
- Longer term quality, applicable beyond 364 days of **AA-** (Very high credit quality).
- Deposits may include current account and notice period direct dealing opportunities.
- Deposits with Building Societies.
- Local Authority investments, having the backing of funding from UK government.
- Deposits with the UK Debt Management Office, an agency of the UK Government/ Bank of England and UK Government gilts.
- Deposits with Nationalised Banks or Banks/ Building Societies covered by UK Government guarantees
- **AAA** (Highest credit quality) rating for Money Market Funds.
- Counterparty limits maybe exceeded by 10% as an option following approval by the Chief Financial Officer.
- non-UK and domiciled in a country which has a minimum Sovereign long term rating of **AA+**.
- Due care will be taken to consider the country, group and sector exposure of investments. In part the country selection will be chosen by the credit rating of the Sovereign state. In addition:
 - no more than say 20%, will be placed with any non-UK country at any time;
 - limits in place above will apply to Group companies;
 - limits will be monitored regularly for appropriateness.

5.4.11 Investments within the above rated criteria are defined "specified investments". These investments include those in sterling, or of not more than one-year maturity or which could be for longer but where the organisation has the right to be repaid within 12 months if it wishes. These are considered low risk assets.

5.4.12 **Banks and Building Societies (BS)**

Deposits with **unrated** Banks and Building Societies are classed as non-specified investments and are permitted. Not all Building Societies require or have chosen to be rated. In every other respect the security of the society would match similarly sized societies with ratings. The policy narrows the scope of investments to include **only the top 10 rated and unrated Building Societies (latter currently restricted)**, with appropriate proposed limits and maximum investment periods.

5.4.13 Other Investments may include the following, which is an extract from definitions used by the UK Governments Department for Communities and Local Government. Assuming further contact with Investment brokers it is proposed to consider the following investment types:

Securities

- HM Treasury Bills
- CDs issued by Banks in UK
- CDs issued by Building Societies in UK
- British Government Securities
- Other Securities

Loans

- Other financial intermediaries
- Public Corporations
- Local Government
- Other

5.4.14 Giving due consideration to the organisation’s level of balances over the next 3 years, the need for liquidity, its spending commitments and provisioning for contingencies, it is currently determined that no more than **£10m** of overall fund balances can be prudently committed to longer term investments (i.e. those with a maturity exceeding one year). Currently, this amount is **nil** and given the scope of financing over the medium term, this is likely to continue to be the case.

5.4.15 All other investments that have lower or no credit ratings or longer than 364 days are defined as Non-Specified Investments and may be entered into following advice from the Treasury Management Consultants. Earlier reference is made to the upper limit for investments longer than 364 days as being a total of **£10m**. With regard to Non-specified investments for lower or no credit ratings, which would include unrated building societies, considered above, a limit of **£50m** is proposed. (This is equal to the current limit.) The total limit for non specified investments would therefore be **£60m**.

5.4.16 Based on its current cash flow, the organisation anticipates its fund balances in 2016/17 to range between **£10m** and **£80m**. The latter takes into account a significant grant advance, normally each July. The minimum amount of its overall balance in short-term investments is **nil**.

5.5 Approved Methods and Sources of Raising Capital Finance

5.5.1 The following list specifies which borrowing instruments can be adopted and other sources of finance available:

<i>Borrowing Instruments</i>	<u>Fixed Borrowing</u>	<u>Variable Borrowing</u>
PWLB	✓	✓
Market Long Term	✓	✓
Market Temporary	✓	✓
European Investment Bank	✓	✓
Local Bonds	✓	
Overdraft		✓
Negotiable Bonds	✓	✓
Stock issues	✓	✓
Commercial Paper	✓	
Medium Term Notes	✓	
Bills	✓	
Municipal Bond Agency (a new source) –	✓	

(note revised regulation needed for Welsh LAs and Police bodies)

Other Sources of Finance

Revenue budget contributions
 Capital Receipts
 Leasing – Operating and Finance Leases
 Deferred Purchases
 Grants
 Lottery Monies
 Joint Arrangements
 PFI

5.5.2 **The Police and Crime Commissioner for South Wales** has no policy to restrict the type of borrowing instruments required and all the above are available to the Chief Financial Officer when considered appropriate. It is, however anticipated that in practice borrowing will be confined to-

- (a) PWLB
- (b) Market temporary
- (c) Market Long Term
- (d) Overdraft
- (e) Leasing

5.5.3. The principles of the Prudential Code will be applied to all borrowing.

BORROWING	2015/16	2016/17	2017/18	2018/19	2019/20
	Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
New borrowing- annual sum	1.671	1.671	1.671	1.671	1.671
Replacement borrowing (option to be kept under review)	-	-	-	-	-
TOTAL	1.671	1.671	1.671	1.671	1.671

5.6 **The Sensitivity to Interest Rate Movements**

5.6.1 Future reports will be required to disclose the impact of risks on the treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/ decrease in all interest rates to treasury management costs/ income for next year. That element of the debt and investment portfolios, which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

Revenue budgets:	2016/17 Estimated	2016/17 Estimated 1%	2016/17 Estimated -1%
Interest on Borrowing	£0.8M	Long term fixed	Long term fixed
Investment income	£0.2M	+£0.2M	-£0.2M

6. PRUDENTIAL INDICATORS

- 6.1 The following Prudential Indicators are required to be set and approved by **The Police and Crime Commissioner for South Wales in consultation with the Chief Constable** in accordance with the Prudential Code.
- 6.2 These are based on the suggested Capital Programme of December 2015, which outlines estimates of capital expenditure to be incurred.

No.	PRUDENTIAL INDICATORS FOR PRUDENCE	2015/16	2016/17	2017/18	2018/19	2019/20
		Estimated	Estimated	Estimated	Estimated	Estimated
		£M	£M	£M	£M	£M
1	Estimates of Capital Expenditure	28.762	16.491	12.373	10.438	7.478
2	Capital Financing Requirement (CFR) (as at 31 March)	23.552	24.135	24.734	25.352	25.989
3	External Borrowing	19.033	18.745	18.401	17.953	17.468

6.3 Capital Financing Requirement

- 6.3.1 The Capital Financing Requirement measures the underlying need to borrow for capital purposes and is linked to Asset Values and proposed capital expenditure. In accordance with best practice there is no association between individual loans and particular types of expenditure. External Borrowing arises as a result of both capital and indirectly revenue expenditure and funding. Therefore, the Capital Financing Requirement and actual external borrowing can be very different.
- 6.3.2 The revenue budget requirement proposed for 2016/17, includes appropriate provision to meet additional repayments with regard to all estimated borrowings.
- 6.3.3 One of the Prudential Indicators for Prudence called the Net Borrowing and Capital Financing Requirement requires that:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.” This indicator is anticipated to be met.

6.4 Minimum Revenue Provision (MRP)

- 6.4.1 The organisation is required to pay off an element of its Capital Finance Requirement each year through a revenue charge or Minimum Revenue Provision (MRP). That element is set by regulation and is currently 4% of an adjusted CFR. The organisation is also allowed to charge additional voluntary payments (VRP). In order that repayments are funded by Police Grant and Precept, it is necessary that MRP and VRP charges to the Revenue Account equals the actual and estimated values for debt repayments.
- 6.4.2 Regulations require **the Police and Crime Commissioner for South Wales** to approve an **MRP Statement** in advance of each year. Revised regulations came into force on 31 March 2008, replacing the former legislative basis. Whilst the regulations revoke former MRP requirements, authorities are allowed to continue historical accounting practice. A variety of

options are provided to authorities to replace the existing Regulations, so long as there is a prudent provision.

6.4.3 It is recommended to approve the following MRP Statement, which remains unchanged.

6.4.4 For capital expenditure incurred before 1 April 2008, or which in the future will be funded by Supported Borrowing, the MRP policy will be:

Existing practice - MRP will follow the existing practice outlined in former Regulations, including an approximate 4% reduction in the borrowing need (CFR) each year.

For all prudential borrowing after April 2008, the MRP policy will be:

Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).

6.4.5 The proposal to draw down further prudential borrowing to finance capital expenditure requires consideration of the increased amount of MRP and VRP. It is proposed that such financing is earmarked according to estimated asset lives linked to property or other schemes as appropriate. Given that MRP and VRP equal the total and thereby funded by grants and precept in totality, there is no unfunded implication.

6.5 Prudential Indicators for Affordability

No.	PRUDENTIAL INDICATORS FOR AFFORDABILITY	2015/16	2016/17	2017/18	2018/19	2019/2020
		Estimated	Estimated	Estimated	Estimated	Estimated
4	Ratio of Financing Costs to Net Revenue Stream	4.28%	4.28%	4.31%	4.35%	4.37%

Impact of Capital Investment Decisions on Council Tax

5	Increase in Band D Council Tax as per Capital Programme (incl. prudential Borrowing)	£4.61	£4.57	£4.57	£4.57	£4.57
6	Increase in Band D Council Tax – Desirable Schemes	-	-	-	-	-

6.5.1 The estimates of Financing Costs include current commitments as outlined in the current capital programme. Financing Costs include external interest, the Minimum Revenue Provision and Voluntary Revenue Provision of debt repayments charged to the Consolidated Revenue Account. This is necessary to finance the total of revenue repayments from police grant and precept. The Net Revenue Stream is the Budget Requirement of the organisation.

6.5.2 The estimate of the incremental impact of capital investment decisions on Council Tax (No. 5) is the future effect of the suggested Capital Programme on levels of Council Tax (Band D charge). This includes estimates for borrowing repayments, interest financing costs and the budgeted revenue contribution.

6.6 Prudential Indicators for Treasury Management

No.	PRUDENTIAL INDICATORS FOR TREASURY MANAGEMENT	2015/16	2016/17	2017/18	2018/19	2019/20
		Estimated	Estimated	Estimated	Estimated	Estimated
		£M	£M	£M	£M	£M
7	Authorised limit for external debt -					
	Borrowing	22.0	21.7	21.4	21.0	20.5
	Other long term liabilities	-	-	-	-	-
	TOTAL	22.0	21.7	21.4	21.0	20.5
8	Operational boundary -					
	Borrowing	20.0	19.7	19.4	19.0	18.5
	Other long term liabilities	-	-	-	-	-
	TOTAL	20.0	19.7	19.4	19.0	18.5
9	Upper limit for fixed interest rate exposure					
	Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	100%
10	Upper limit for variable rate exposure					
	Net principal re variable rate borrowing / investments	25%	25%	25%	25%	25%
11	Upper limit for total principal sums invested for over 364 days(per maturity date)	10.0	10.0	10.0	10.0	10.0

6.6.1 The Authorised Limit for External Debt and Operational Boundary separately identifies borrowing from other Long Term Liabilities such as finance leases. The limits are consistent with the organisation's current commitments, existing plans, approved revenue and capital budgets, and approved Treasury Management Policy. They also have regard to risk management strategies, estimates of capital expenditure, capital financing requirements and cash flow projections.

6.6.2 The Operational Boundary is based on the estimate of most likely, prudent but not worst case scenario and represents a key management tool for in year monitoring. The Authorised Limit includes additional headroom to allow for unusual cash movements.

6.6.3 **The Police and Crime Commissioner for South Wales** is asked to approve these limits and to delegate authority to the Chief Financial Officer to effect movement between the separate agreed annual limits for borrowing and other long term liabilities in accordance with option appraisal and value for money.

- The Authorised Limit for each year will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.
- Upper limits for fixed interest rate exposures have been set for each year as 100% of outstanding principal sums.
- Upper limits for variable interest rate exposures have been set for each year as 25% of outstanding principal sums.
- This means that the Chief Financial Officer will manage fixed interest rate exposures between 100% and 75% and variable rate exposures between 25% and 0% for each year.

- The amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing is:

13	Maturity structure of new fixed rate borrowing	upper limit	lower limit
	under 12 months	20%	0%
	12 months and within 24 months	20%	0%
	24 months and within 5 years	40%	0%
	5 years and within 10 years	50%	0%
	10 years and above	40%	0%

7 DELEGATED POWERS

The following are extracts from the Manual of Guidance, referring to 'Treasury Management':

7.1 The Police and Crime Commissioner for South Wales is responsible for approving the policy framework and budget, monitoring financial outcomes and the approval of medium term financial plans in consultation with the Chief Constable. He is responsible for approving the overall framework of accountability and control, and monitoring compliance. This includes:

- Medium term financial strategy
- Treasury management strategy, including the annual investment strategy

DELEGATIONS TO THE CHIEF FINANCE OFFICER (Police and Crime Commissioner)

7.2 To be responsible for the investment of the Police and Crime Commissioner's money and borrowing of money as necessary in accordance with the Treasury Management Strategy approved by the Police and Crime Commissioner.

DELEGATIONS TO THE CHIEF FINANCE OFFICER (Chief Constable)

8.1 To ensure the day to day financial management of the Force within the framework of any agreed budget allocation, the levels of authorisation and any objectives/ conditions specified by the Police and Crime Commissioner in respect of the same.

8.2 To take all appropriate steps to ensure that the capital programme is implemented (in accordance with any conditions specified by the Police and Crime Commissioner).

In practice members of the Corporate Finance Department carry out most of the day to day work, a summary of the roles of the staff concerned is contained in Appendix E.

9. RECOMMENDATIONS

Adopt the Treasury Management Strategy for 2016/17

Adopt the Investment Strategy and counterparty criteria contained in the Treasury Management Strategy for 2016/17

Approve the Prudential Indicators and Limits for 2015/16 to 2019/20

Approve the Minimum Revenue Provision (MRP) Statement

10. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

The report forms part of the monitoring and control of the Police Fund as the local policing body is responsible under Section 14 (Police Act 1996), as amended by the PRS Act 2011.

13 PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES

There are no personnel, equal opportunities or diversity issues arising from this report.

14 LIST OF BACKGROUND PAPERS

Treasury Management Policy Statement Report February 2015.

PRUDENTIAL CODE**1. Background**

- 1.1 The complex system of capital controls, introduced by the Local Government and Housing Act 1989, was replaced in April 2004 by a system of self-regulation. Local Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. The basic principle of which is that local authorities will be free to invest so long as their capital spending plans are affordable, prudent and sustainable. The compliance framework being *The Prudential Code for Capital Finance in Local Authorities* developed by CIPFA. A fully revised second edition (**the Prudential Code**) has been updated following consultation on its original implementation and following the fall-out of the Icelandic Banks crisis.

2. The Prudential Code

- 2.1 The objectives of the Code are to:
- ensure that local authority capital programmes are affordable
 - keep local authority borrowing and credit within prudent and sustainable levels
 - take treasury management decisions in accordance with professional good practice.
- 2.2 In taking decisions about these three key objectives local authorities must make sure that they are accountable by providing a clear and transparent framework. That framework must be consistent with and support:
- local strategic planning
 - local asset management planning
 - proper option appraisal
- 2.3 The Code aims to do this by requiring local authorities to prepare reports setting out a series of "prudential indicators" for submission to their budget-making body, at budget setting meetings.

Main Requirements of Codes**1st Code (2002)**

- affordability - for example implications for the council tax
- prudence and sustainability - for example implications for borrowing
- financing costs
- value for money
- the need to provide for the cost of looking after its assets
- its objectives
- practicality

2nd Revised Code (2009)

- increased emphasis on capital/ strategic planning...
- service objectives e.g. strategic planning
- stewardship of assets e.g. asset management planning
- value for money e.g. option appraisal
- prudence and sustainability e.g. implications for external borrowing and whole life costing
- affordability e.g. implications for council tax
- practicality e.g. achievability of the forward plan

subject to subsequent annual amendments/ addendum's of a technical nature.

APPENDIX B

6. Review of Treasury Management Performance

- 6.1 In line with the approved Treasury Management Policy, surplus monies were invested with authorised deposit takers during the 9 month period April to December 2015 resulting in interest income totaling £84K. However, total investment interest of £154K is receivable, where interest received from investments made in previous years and interest received from call accounts is included.
- 6.2 In terms of current and on-going investments, the UK Government/ Bank of England bank base rates continue to be held at 0.5% together with on-going quantitative easing and other measures, which will continue to restrict future investment returns until there are changes in the economic climate.
- 6.3 For illustrative purposes an analysis of investments made up to December 2015 is shown in the following table, which gives a broad indication of the level and spread of investment activity undertaken to date. In total 25 investments (£106M) have been made with 8 institutions (average investment of £4.2M).

Analysis of 2015/16 Treasury Management Deposits (Fixed Term)						
Deposits made from 1st April 2015 up to and including :		31/12/2015				
(excludes deposits made in 2014/15 maturing in 2015/16 and Callable Accounts)						
BORROWER	Total Invested £m	No. of Investments	Average Investment £m	Average Days Invested	Average Interest Rate	Total Interest £
Bank of Scotland	34.5	6	5.8	30	0.55	19,960
Nationwide Building Society	8.0	2	4.0	91	0.50	9,677
Coventry Building Society	5.0	1	5.0	49	0.42	2,819
Principality Building Society	15.0	3	5.0	78	0.51	16,368
Nottingham Building Society	17.0	6	2.8	55	0.45	12,347
Skipton Building Society	10.0	2	5.0	53	0.42	6,099
West Bromwich Building Society	11.0	4	2.8	55	0.46	7,403
Newcastle Building Society	5.0	1	5.0	122	0.57	9,526
Grand Total	105.5	25	4.2	57	0.49	84,199

- 6.4 This interest achieved up to November 2015 is equivalent to an average return of 0.49% (excluding investments made in 2014/15 maturing in 2015/16), which is 0.01% below the average bank base rate of 0.5%. This is better than the rates offered through the Governments Debt Management Office. Whilst the existing Treasury Management Policy limits the investment opportunities to a small number of counterparties this is considered to be an acceptable balance between risk and return.
- 6.5 During the period April to December 2015, the following use of investment brokers has been made :

	No. of Transactions
Garban Intercapital Europe Limited	2
Tullet Prebon (Europe) Limited	17
Direct with Investor	6
Direct with UK Debt Management Office	0
Total	25
Direct with Callable Accounts	69

7. Icelandic Update

- 7.1 Following the successful outcome of the investment recovery process reported in 2013/14 the last remaining impairment currently recognised is in relation to Heritable Bank of £82k. The last repayment dividend of £159k (3.98p in the £) was received in September 2015, leaving a reduced balance of £81,600 principal (2.04p). This will allow the release of £159,200 from our current earmarked reserve of £241k. Recent updates suggest that further dividends and or a final settlement are possible. Further information is awaited in terms of this potential and the timescales involved.

8 Borrowing

- 8.1 The Prudential Code restricts borrowing requirements to affordable and sustainable quantities. Borrowing of £1.7M is required to partly finance Capital Expenditure over long-term repayment terms, in line with the Capital Programme and repayments are reflected in the approved Revenue Budget.

BROKER – KING & SHAXSON

This broker is a registered financial institution that is regulated by the Financial Services Authority and offers the following services: including dealing and custodian facilities, required for certain investments other than fixed term deposits

Cash Fixed term deposits

Certificates of Deposits (CDs)

These are similar to deposits, receiving a fixed rate of interest for a fixed period, in exchange for a certificate. These certificates are tradable as investments and may be sold before maturity to gain access to the funds. An important critical difference is that the broker is offering to advise with regard to the Daily monitoring of securities to pinpoint possible switching opportunities to maximize yield.

Treasury Bills

These are short term securities issued by HM Treasury on a discount basis. They are very liquid, very secure and an alternative to bank counterparties and gilts.

Government Gilts

Simplest form of government Bond, which guarantees to repay a fixed flow of interest every 6 months and a fixed capital repayment on maturity.

Corporate Bonds

From April 2012, local authorities will be able to buy corporate bonds without them being considered capital expenditure, under powers granted under the Localism Act 2011. There may be some advantage of some UK and or foreign government agencies, most of which are AA or AAA rated and are therefore worth serious consideration. Maturities are currently offered for 1 to 3 years.

Floating Rate Notes

These are a money market instruments normally issued in the form of a Eurobond but with floating/ variable rate of interest. The maturity is normally between 1 and 5 years, some are issued for 10 years. The value of an FRN is judged by its 'discount margin' which represents the spread over LIBOR.

Supranationals

These are organisations of which the share capital is owned and guaranteed by the leading developed nations, offering more guarantee than a single country e.g. EEC, European Investment Bank (EIB), the World Bank. They issue fixed rate bonds similar to gilts, normally offered at a small premium to gilts, but less liquidity.

Prospects for Interest Rates

CAPITA ASSET SERVICES' FORWARD VIEW - extract 10.11.2015

Economic forecasting remains difficult with so many external influences weighing on the UK. Our **Bank Rate** forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds. The overall longer run trend is for gilt yields and **PWLB** rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

We have pointed out consistently that the Fed. rate is likely to go up sooner and more strongly than **Bank Rate** in the UK. These increases will have corresponding effects in pushing up US Treasury and UK gilt yields. While there is normally a high degree of correlation between the two yields, we would expect to see a decoupling of yields between the two i.e. we would expect US yields to go up faster than UK yields. We will need to monitor this area closely and the resulting effect on **PWLB** rates.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas. We would, however, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable **PWLB** rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to geo-political and sovereign debt crisis developments. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Downside risks to current forecasts for UK gilt yields and **PWLB** rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth is weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and **PWLB** rates, especially for longer term **PWLB** rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate in the near future, causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

APPENDIX E

ROLES OF CORPORATE FINANCE DEPARTMENT STAFF RELATING TO TREASURY MANAGEMENT

CHIEF FINANCIAL OFFICER(S) (Police and Crime Commissioner) and (Chief Constable)

1. Ensure policy documents are adhered to, and that they are regularly reviewed.
2. Ensure that a review of the Treasury Management function and its performance is undertaken once a year.
3. Report to **the Police and Crime Commissioner for South Wales** on performance and activities of Treasury Management in accordance with the Treasury Management Policy Statement.
4. Ensure that there is a clear written statement of the responsibilities delegated to each post and arrangements for absence cover.

ASSISTANT DIRECTOR OF FINANCE

1. Deputise for the Chief Financial Officer in the performance of Treasury Management as required.
2. Review the Treasury Policy Statement, assure it is complied with, and that this statement complies with the law.

Principal Financial Accountant

1. Review the Treasury Policy Statement and ensure that it is complied with.
2. Ensure that Treasury Management Practices exist and are complied with.
3. Review performance of the Treasury Management function at least once a year and prepare monitoring reports and annual reports as required.
4. Ensure all persons engaged in Treasury Management activities receive appropriate training.
5. Ensure the organisation of the Treasury Management function is adequate to meet current requirements.
6. Ensure that there is adequate internal checking and division of duties.

Financial Accountant

1. Manage the overall Treasury function.
2. Prepare the Treasury Management Policy Statement.
3. Prepare and implement the Treasury Management Practices.
4. Ensure that the systems and procedures laid down in the Treasury Management Practices are complied with, and that prescribed limits are not breached.
5. Ensure appropriate division of duties in this section.
6. Ensure credit worthiness of investment counter-parties.
7. Assess and appoint brokers, and monitor the performance of brokers employed.
8. Review all loan transactions, cash flow actuals and projections and level of debt/investment on a routine basis.
9. Assist in the preparation of the Treasury Policy Statement.

Financial Accountancy Assistant

1. Implement the Treasury Policy Statement
2. Prepare Cash Flow projections
3. Make daily decisions on funding, lending, acceptability of treasury instruments, and consider legality of proposed action.
4. Dealing and initial record of deal
1. Transmission procedures
2. Provide the Head of Financial Accountancy with routine reports on: transactions made, cash flow actuals and projections and level of debt/ investment.

