



MEDIUM TERM FINANCIAL STRATEGY

2017 - 2021

Incorporating

PART A

- PRECEPT PROPOSAL 2017 -2018
- REVENUE BUDGET 2017 -2018
- REVENUE FORECASTS 2018 - 2021
- CAPITAL STRATEGY 2017 – 2021
- VALUE FOR MONEY PLAN 2017 – 2021

PART B

- TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2017 -2018

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Executive Summary

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

- A Police and Crime Plan that reflects the Commissioner's priorities and is developed after public consultation and after consideration of the resources available to him as well as having regard to the requirements of the Strategic Policing Requirement which is set by the Home Secretary.
- 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

In preparing the Annual Budget specific consideration has been given to the resources needed to meet the priorities set out in the Police and Crime Plan, including:

- Working with partners to reduce crime, disorder and antisocial behaviour while coping with a wide variety of demands that go beyond what is normally thought of as "policing".
- Maintaining the current level of neighbourhood policing and engagement with the communities of South Wales
- Protecting vulnerable people and reducing the likelihood of repeat offending in respect of such offences as hate crime, violence against women and girls, child sexual exploitation, domestic abuse and online crime.
- Working with partners to improve the local Criminal Justice System, particularly in respect of managing offenders and reducing reoffending by young people (under the age of 18) and those in the 18 to 25 age group.
- Making a contribution to the Strategic Policing Requirement and protecting the public in South Wales, responding realistically to the identified threats from organised crime and terrorism and policing an ever-increasing number of events, including the Union of European Football Associations Champions League Cup Final during 2017.
- Meeting the challenge of changing standards for the training of police officers, proposed by the College of Policing while also seeking to develop our staff at every level to meet the challenges they face and recruiting people so that the workforce as a whole reflects the communities that we police.

This Financial Strategy – covers the period April 2017 to March 2021 and sets out the assumptions and considerations by the Commissioner in arriving at the recommended budget for 2017/18 and the necessary police precept to achieve the net budget requirement.

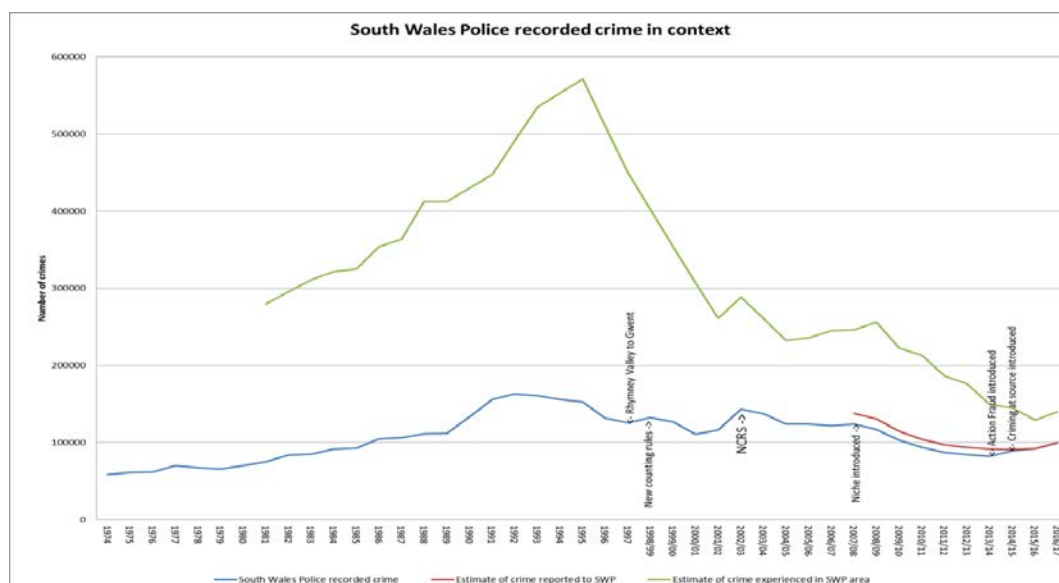
Working in Partnership

Partnership working is the cornerstone of the Police and Crime Reduction Plan – “Co-operation is the overarching principle that inspires us. Together we can achieve more than we can achieve alone.” This principle has been reflected in the Commissioner’s budget. Funding for community safety partnerships and youth offending teams has been maintained in cash terms. The Offender Interventions service is a partnership of the Commissioner, the National Offender Management Service (Wales). The Early Interventions project, funded through the Police Innovation Fund is a close partnership with Public Health Wales. However, partnership working is a continual challenge against a background of cuts throughout the public sector. Ensuring each partner pays a fair contribution to sustain initiatives that bring demonstrable benefits is hard work and we have to constantly remind partners that it is better to shrink together than shrink apart. The Commissioner has raised this difficulty with the Welsh Government and they will work together to find better ways of sustaining initiatives that cut across a number of public sector bodies.

Operational Context

South Wales Police is the 7th busiest force in England and Wales and contains 64 of the 100 most deprived communities in Wales (and indeed Europe) with resource pressures as follows:

- Providing a policing service to 1.3 million people - 42% of the Welsh population.
- Managing around 49% of the total crime in Wales and
- In the 12 months to March 2016 the Force dealt with:
 - 33,917 Arrests,
 - 342,619 Incidents,
 - 181,278 Emergency (999) calls and
 - 450,188 Public Services Centre non-emergency (101 calls).
 - 1,053,095 Calls for service during 2016/17.
- Increased accuracy on recorded crime, where by the difference between reported, recorded and estimate of crime experienced has been narrowed year on year. The following graph shows how the profile of crime has changed over the past 40 years.



The scale and complexity of incidents routinely dealt with by South Wales Police make it unique within Wales. The policing area is diverse with urban and rural policing challenges including two of the largest cities in Wales, Cardiff and Swansea. The Capital City of Wales presents some additional policing challenges which receive no special recognition within the funding formula (our assessment of this is an unfunded cost of at least £2.6M per annum).

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, a Regional Intelligence Unit, a Regional Asset Recovery Team and has established through collaborative funding a Regional Task Force to tackle cross border issues with other police forces in Wales and England.

In this context of local and regional policing requirements, the impact of the largest reduction in police funding in a generation presents a significant and growing challenge to maintain an effective police service and improve performance.

Protecting the Most Vulnerable

Protecting, engaging with and helping vulnerable people is high on the agenda of both the Commissioner and the Chief Constable. The 2016 strategic assessment of the force identified the effective protection of vulnerable people presents by far the greatest risk for the force. The Force is performing well but the highest scoring risks for the force are predominantly those that involve the effective safeguarding of the most vulnerable and defenseless members of our communities, representing eight of the top ten risks highlighted as a result of the Management of Risk in Law Enforcement (MoRiLE) Thematic Risk Assessment process.

In April 2016 a detailed proposal to increase the number of police officers supporting work on Specialist Crime was developed following a review of the structures concerning public protection. The proposal included additional officers to tackle Domestic Abuse, Child Protection/CSE, Rape and Serious Sexual Offences, Internet Enabled Crime, Serious & Violent Offenders, Vulnerable Adults and Missing Persons.

The rationale for the additional investment is supported by the following:

- 55% rise in violence with injury from 7,728 offences in 2011/12 to a projected 11,965 offences in 2016/17
- 173% rise in Rape and serious sexual offences from 727 offences in 2011/12 to a projected 1,988 offences in 2016/17
- Independent Inquiry Child Sexual Abuse referrals have increased 71% on the previous year, from 7 to 12
- Operation Hydrant has seen a 56% increase on the previous year, from 16 to 25
- 40% increase in the number of intelligence log submissions in a comparison of the periods April-December 2015 and 2016 and is continuing to increase.
- 107% rise in Missing Person reports from 4,079 in 2012 to 8,435 in 2016, so the current average daily rate is 23 compared to 11 four years ago
- In terms of fraud, the most current figures show that over the twelve month period from Oct 2015 – Sept 2016 the total reported loss was £18.7 million and Action Fraud reports this financial year show a 15% increase over the previous year
- Suspicious Activity Reports show a 14% increase

- Consistent growth in the number of Registered Sex Offender cases over the last five years at 9% per annum. This represents an additional 128 Registered Sex Offender cases in the next 12 months and an additional 417 in the next three years. Equivalent to the caseload of an additional 8 officers in the Management of Sex Offenders and Violent Offenders (MOSOVO)

A total of 147 additional roles were identified as necessary to undertake this work, with 23% of these being police staff as shown below.

Operational Focus	Officers WTE	Staff WTE	Total WTE	Total £'000
Domestic Abuse	15		15	743
Child Sexual Exploitation	24	10	34	1,574
Serious Sexual Offences	44	9	53	2,486
Internet enabled Crime	14	6	20	932
Management of Sex Offenders Violence Offenders		8	8	283
Vulnerable Adults	8	1	9	432
Missing Persons	8		8	396
Child Advocates				500
Total	113	34	147	7,346

The Financial Strategy takes account of the additional resource assessment as it is vital to have the capacity to meet the challenge while also needing significant savings and cuts elsewhere to balance the budget year on year. **It is important to recognise that 2017/18 only includes £2.5M of the £7M required investment as the programme is being developed over a three-year period.**

South Wales Police has made significant and rapid progress through investment in technology to modernise the force and is now highly regarded nationally particularly in respect of programme Fusion which secured start up funding from both Innovation and Transformation funding streams. The service improvements are considerable particularly on police visibility and accessibility, however as the technology is being embedded within operational policing, the financial sustainability of this is a further challenge as the overall asset replacement programme is unfunded by £20M to 2021.

Also there are changes regarding professionalising the policing agenda. The new police educational framework introduces a range of accredited qualifications at a much higher level than historically has been the case. Starting with degree standard for new police constables through to masters standard for Superintendents. This demands a greater input from the organisation both in education and assessment terms and inevitably has financial consequences estimated £27,000 per new officer giving an annual cost implication when fully implemented of £3.2M, there is no compensatory funding stream for Wales Police Forces to pay for this. In England the scheme is eligible for apprenticeship scheme funding through the Skills Funding Agency in the Department for Education.

National Economic Context

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.

The latest position as announced by the Chancellor on the 23rd of November 2016 was that the national annual budget deficit after 7 consecutive years of austerity will still be over £68 billion, the current indications from the independent Office of Budget Responsibility are that the national structural budget deficit is unlikely to be met in this parliament.

Looking ahead the fragility of the national budget remains a key risk. The prospect of continued contraction in public spending through to the next parliament is a very realistic prospect. **Year on year real term cuts still have to be anticipated.** 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.

Given the record of economic projections to date it is highly likely that austerity measures will continue beyond 2021. Whilst this extends beyond the period of this Financial Strategy, the planning assumptions need to reflect the predicted longer term contraction in central government funding for policing.

Local Economic Context

The funding for South Wales Police is a combination of central grants and local police precept. The proportion of funding from police precept varies across England and Wales from less than 14% to over 54% of the total police budget. South Wales Police has one of the lowest police precepts in Wales and its proportion of local funding as a percentage of total funding is 38%.

South Wales Police does not get the level of funding that it would receive if the funding formula was applied as intended. The amount of funding that South Wales Police has lost through non-application of the formula is now around £74M (£8.8M per annum equivalent to 176 Police Officer or more than 300 Police Community Support Officer posts).

The latest police funding announcements signal cuts in real terms funding through to the next Parliament i.e. beyond 2021. The 2017/18 settlement reduces further the spending ability of forces due to the reality of a combination of grant cuts, top-slicing, National Insurance Costs, Apprenticeship Levy and non pay and price inflation resulting in a near 15% cut over the CSR to 2021 without considering the consequences of a new formula allocation methodology planned for 2018/19.

Using the assessment of the independent Office of Budget Responsibility the Medium Term Financial Strategy assumes that a further grant reduction of more than 2% per annum is highly likely in 2018 to 2021 **giving a total cash reduction in funding of £55M over 10 years.**

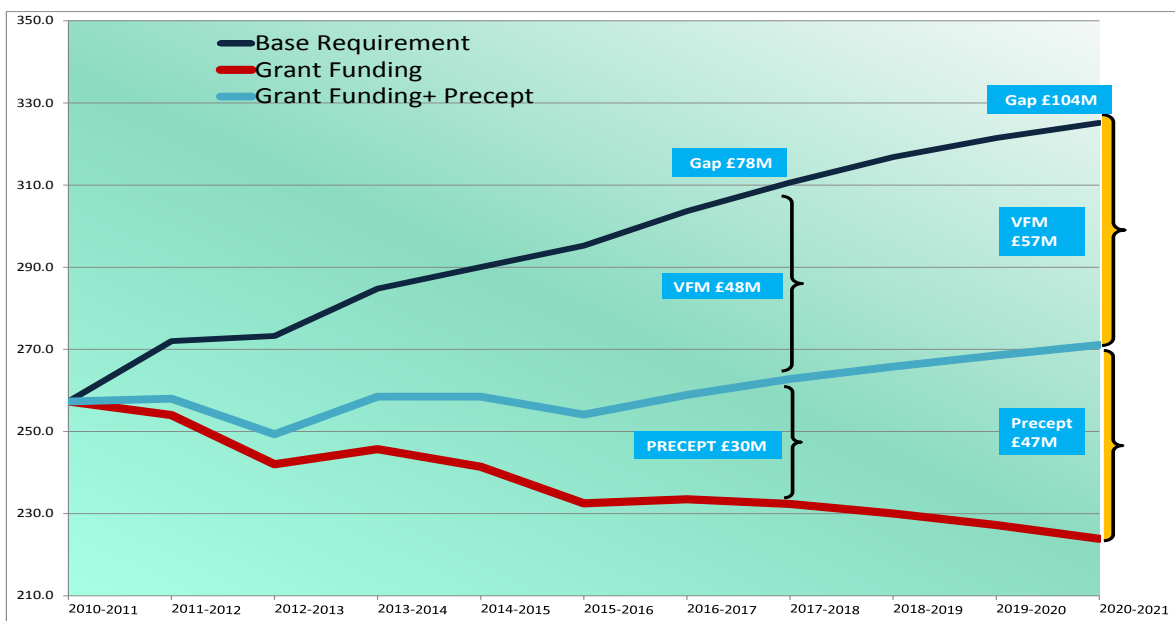
Financial Year	Actual Percentage Reduction	Forecasted Percentage Reduction	Actual Cash Cuts £M	Forecasted Cash Cuts £M
2011/12	-3.8%		-9.4	
2012/13	-5.5%		-12.2	
2013/14	-1.9%		-2.8	
2014/15	-4.8%		-8.5	
2015/16	-5.1%		-8.6	
2016/17	-0.6%		-0.92	
2017/18	-1.4%		-2.2	
2018/19		-1.8%		-2.8
2019/20		-2.2%		-3.4
2020/21		-2.6%		-4.0
Total	-23.1%	-6.6%	-44.62	-10.2
Overall Total				-54.82

It follows that it is vital for local decisions on funding to be based on the money needed to ensure that an effective and sustainable police service can be maintained over the medium term.

The only effective funding mechanism locally is the Police Precept. It is important to note that as funding has been reduced (a further £2.2M in 2017/18), inflation has increased, which adds to the upward pressure on next years expenditure requirements as follows:

- General price inflation and pay awards £2.2M
- Increase in the employer contribution to the Local Government Pension Scheme £2M
- New apprenticeship levy £1M and
- Phase 1 of the Vulnerability Gap investment £2.5M

The combination of inflation, additional unavoidable cost pressures and essential Vulnerability Gap investment increases the funding gap by £10M to give a cumulative funding gap before savings and precept of £78M up to 2017/18, which is forecasted to increase to £104M by 2021 and this is illustrated below.



Value for Money (“cuts”) and Financial Management

South Wales Police has already delivered cash savings of £45M and whilst further savings are incrementally harder the 2017/18 Value For Money Plan has identified a further £3.1M to be delivered in the financial year taking total cash savings achieved and required to £48M.

The Commissioner and the Chief Constable have agreed the Mission (Keeping South Wales Safe) and the Vision (being the best at understanding and responding to the needs of our communities) and the Commissioner has established an effective governance process to secure continuous improvements in service delivery and sound financial management.

The Commissioner and the Chief Constable are independently assessed on the delivery of value for money by both Her Majesty’s Inspectorate of Constabulary and the Wales Audit Office. Both bodies have provided positive assurances on financial management and value for money including the improvements in operational delivery.

The change programme implemented by the Chief Constable has been fundamental in delivering the £44M cash releasing savings delivered to 2017 whilst at the same time improving operational performance with notable achievements being as follows:

- Victim satisfaction has moved consistently from the worst performing force in England and Wales in 2007 to a top five best performing position in England and Wales.
- Has invested in mobile technology, transforming the way we work **and was 1st in the country for visibility of policing (report by the Home Office)**
- **1st in the country for positive outcome rate for Violence with Injury.**
- **1st in the country for positive outcome rate for Domestic burglary.**
- **4th best in the country for positive outcome rate for Sexual Offences.**
- **3rd best in the country for positive outcome rate for Robbery**
- **4th best in the country for positive outcome rate** for racially and religiously aggravated crimes
- Anti Social Behaviour reduced by over 60,000 incidents p.a.
- Detections at an all time high particularly burglary and violence against the person
- Public confidence improved by 50%
- Excellent improvements in closing the Black and Minority Ethnic (BME) gap in victim satisfaction
- A modern vehicle fleet and a new workshop that is fit for purpose
- Modernised and legislatively-compliant custody facilities
- A consistent and protected model of neighborhood policing. (HMIC is concerned that many forces have eaten into neighbourhood policing).
- A beacon Public Service Centre shared with two fire Authorities and a Clinical Wales Ambulance Service Desk.
- Maintained Assets in support of the National UK wide Strategic Policing Requirement.

Risk Management and Infrastructure

The main risks that require to be addressed immediately are closing the “vulnerability gap” and building a sustainable infrastructure (both technology and estate). While these requirements are reflected within the strategy the current funding levels would prevent realization of these requirements with an unfunded gap on the Revenue account of £7M and the capital programme of £20M. Previous risk strategies have sought to tolerate these risks out of funding necessity however, given the level of identified Threat and Harm, a different outcome is demanded.

Statutory Requirements

The Local Government Finance Act 1988 and the Police Act 1996 and the Police Reform and Social Responsibility Act 2011 requires the Commissioner to set a balanced budget for the forthcoming year and to advise the billing authorities on the amount of precept to be collected by the 1st of March at the latest.

The provisions of the Local Government Act 2003 require adequate consideration of the following:

1. Government policy on police spending, and its implication for South Wales Police.
2. The medium term implications of the Budget and Capital Programme
3. The CIPFA Prudential Code
4. The risk assessed size and adequacy of general and specific earmarked balances, against the backdrop of sustained reductions in police funding for the foreseeable future.
5. Whether the proposals represent a balanced budget for the year
6. The impact on the Council Tax
7. The threat or risk of capping
8. The underlying pressure for infrastructure and service developments and associated risk to performance.

This Financial Strategy must provide the necessary level of supporting information to enable an effective discharge of this responsibility.

Precept Considerations

The economic and operational context and the risks facing South Wales Police require careful consideration on the level of police precept to ensure that adequate resources are available to maintain an effective policing service over the medium term.

The Commissioner has minimal influence on the level of central grants he receives but the decision on the level of police precept is determined by both the Police and Crime Panel and the Commissioner following consultation with the Chief Constable and the people of South Wales in respect of the policing priorities.

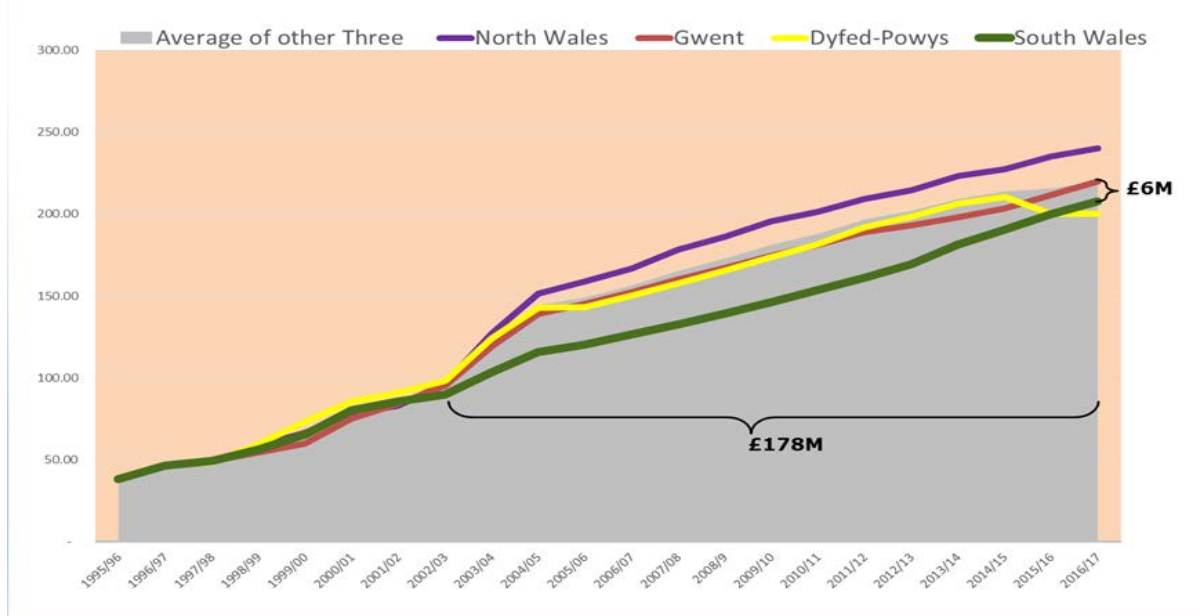
The Commissioner has considered Police Precept Proposals of 4%, 5% and 6% and the resulting implications which are summarised below:

Police Precept at 4%

This same level of precept rise as the previous year fails to even begin to address the vulnerability gap. During 2016/17 we have sought to accelerate recruitment of additional resources through non-recurrent funding particularly 31 police staff posts into Child Sexual Exploitation, Serious Sexual Offences, Internet Enabled Crime, Management of Sex and Violent Offenders as well as vulnerable adults.

A 4% precept would necessitate drawing on local policing resources to meet the vulnerability gap and that is something that we wish to avoid. South Wales Police had the highest level of police visibility in Wales and England last year and that is what the public expect. We need to protect those resources.

A 4% police precept also fails to meet the long term objective of South Wales police local funding being at the median of the forces in Wales. South Wales has been below the median for more than a decade with a funding loss of £178M (as shown below). This has been a key cause of poor investment and condition of the police estate an infrastructure for technology and transport.



A 4% police precept results in a budget gap of £5M for 2017/18 with an unfunded vulnerability funding gap of £6M and is therefore rejected as a sound funding proposal.

Police Precept at 5%

This level of funding regularises the current non-recurrent investment into the vulnerability gap but still leaves a significant £5M required investment to be deferred into following years. The Commissioner is cognisant of this and the Panel will need to consider this in future precept decisions.

The Panel should note that a 5% increase to the Police precept results in a £218.24 council tax on a Band D property. This gives a total precept requirement of £105,382,518 which would be precepted on the relevant billing Authority in accordance with Appendix 13. On this basis the resulting Net Revenue Budget Requirement for 2017/18 would be £262,789,079 and this reflects the Capital Plan and Value for Money Plan saving requirements of £3,062,088.

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 13p and 18p extra per week if they are not in receipt of any council discounts or benefits. This increase helps to begin to address the vulnerability gap and start to mitigate the latest announcements of further anticipated cuts in funding as indicated by both the Chancellor and the Office of Budget Responsibility.

Police Precept at 6%

Alternatively the Panel may wish to give consideration to increasing the Police precept by a further 1% (£2.08) to accelerate the investment into protecting vulnerable people. This would result in a £220.32 council tax on a Band D property. This gives a total precept requirement of £106,386,154 which would be precepted on the relevant billing Authority in accordance with Appendix 14. The Net Revenue Budget Requirement would be £263,792,715 and this reflects the Capital Plan and Value for Money Plan saving requirements of £3,062,088.

Therefore the recommended option is for a Police Precept increase of 5% which keeps faith with the agreed medium term precept strategy and ensures that we can address the main risks facing vulnerable people and essential infrastructure.

It is important to note that South Wales Police will still have the lowest cost of policing for the tax payer in Wales.

The decision of the Panel and the Commissioner is subject to subsequent capping judgment if it is deemed to be excessive by the Welsh Government.

POLICE AND CRIME PANEL MEETING 30th January 2017

SUBJECT		MEDIUM TERM FINANCIAL STRATEGY 2017 to 2021
REPORT BY	POLICE AND CRIME COMMISSIONER FOR SOUTH WALES	
CONTACT OFFICERS	GEOFF PETTY, TREASURER TELEPHONE: (01656 869366) UMAR HUSSAIN , CHIEF FINANCIAL OFFICER TO THE CHIEF CONSTABLE TELEPHONE: (01656 869204) GWYN WILLIAMS ASSISTANT DIRECTOR OF FINANCE TELEPHONE: (01656 869204)	
SUMMARY AND PURPOSE OF REPORT		
<p>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 2017 to 2021. To facilitate the determination of a balanced budget and the resulting police precept on Council Tax for 2017/18</p>		
PROPOSAL	<p>That the Police and Crime Panel considers this report and supports the Police and Crime Commissioner’s precept proposal in respect of 2017/18 which is in line with previous briefings to the Police and Crime Panel and is also consistent with the medium term financial projections.</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 then subject to review by the Police and Crime Panel for South Wales.
 - 1.4 This report therefore 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 this 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. We 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 reviewed, but based on the current funding levels from central government, this provides a reasonable planning assumption.

Using simple precept modelling based on force precept trends in the other 3 Welsh forces of around 4%, it would take 6 years at 5% per annum South Wales Police precept to achieve the median point and a £33M of precept revenue forgone over that period.

3. South Wales Police has had a £45M cut in funding since 2010 baseline of £202M and has delivered £44M of cashable savings over the same period. The announcements from the Treasury and the Home Office indicate a flat cash settlement compared with 2015/16 assuming a 2% precept increase and adjustments for tax base changes. This report identifies the limitations of that assumption and demonstrates the true funding requirement to achieve a sustainable police service.

It is evident, to remain within the imposed funding constraints, that South Wales Police will have to cope with continued reductions in real terms funding from the government throughout the medium term planning horizon. This means prioritising efforts on delivering a continuous improvement culture with leadership that delivers the right people, skills, tools, at the right place and time, by 2021. The latest Treasury forecast indicates no funding growth for public services for the current and following parliament that is 2025.

While the overall funding for policing is being held at the 2015/16 cash levels the police grant funding for forces including South Wales Police has not. The level of the grant has been reduced through top slicing and we could well have to cope with further challenges as a result of changes in the Police Grant Formula which is expected to be concluded soon.

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 go some way to meeting some of 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. In preparing the budget, specific consideration has been given to the cost of meeting the priorities set out in the Police and Crime Plan, including
 - Working with partners to reduce crime, disorder and antisocial behaviour while coping with a wide variety of demands that go beyond what is normally thought of as “policing”.
 - Maintaining the current level of neighbourhood policing and engagement with the communities of South Wales

- Protecting vulnerable people and reducing the likelihood of repeat offending in respect of such offences as hate crime, violence against women and girls, child sexual exploitation, domestic abuse and online crime
 - Working with partners to improve the local Criminal Justice System, particularly in respect of managing offenders and reducing reoffending by young people and those in the 18 to 25 age group.
 - Making a contribution to the Strategic Policing Requirement and protecting the public in South Wales, responding realistically to the identified threats from organised crime and terrorism and policing an ever-increasing number of events, including the UEFA Champions League Cup Final during 2017.
 - Meeting the challenge of changing standards for the training of police officers, proposed by the College of Policing while also seeking to develop our staff at every level to meet the challenges they face.
6. The Strategy will seek to maintain collaborative momentum to secure further savings for South Wales Police and its partners.
 7. The Strategy will seek to secure a sustainable infrastructure particularly estates, transport and a technology platform to secure long term productivity gains. Detailed strategies including Asset Management Plans will ensure effective provision, use and deployment of resources.
 8. The Financial strategy will ensure (as a minimum) that there is sufficient investment funding to provide a safe secure property base which is compliant with Health & Safety and other legislative requirements to maintain operational effectiveness.
 9. 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.
 10. The aim is for the budget to actual outturn accuracy to be more than 99.5%.
 11. 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, independently reviewed aspects of the South Wales Police Service and reported objectively on their findings.
- 2.4 The key findings of the Police Effectiveness Efficiency Legitimacy (PEEL) assessment (**Appendix 2**) are summarised below:

Her Majesty's Inspectorate of Constabulary's current available 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 within the letter are summarised below

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

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;
- 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.

- 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 for 2015/16 as follows:

- The Committee has received Reports, Recommendations and Observations from TIAA, the Internal Auditors, Welsh Audit Office, the External Auditors, HM Inspector of Constabulary PEEL Assessments and Reviews, and has received presentations from officers of both corporations sole in order to formulate an independent opinion and provide an independent assurance to the Police and Crime Commissioner and Chief Constable in respect of the financial and governance controls within the Corporations Sole.
- Having received these reports, the Audit Committee is satisfied that there are no major issues of concern that affect the financial standing of either corporation sole, that the control methods are adequate, that the governance framework is robust and that the risk management framework as it currently stands reflects the appropriate risks, 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 service 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 2017-2021

- 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 2017-2021 (considered by the Police and Crime Panel at its December 2016 meeting) 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 over-arching 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. We will:

1. Reduce and prevent crime and anti-social behavior to keep people safe and confident 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. Make sure that the local criminal justice system works effectively and efficiently, meeting the needs of victims and challenging offenders;
 5. Make our contribution to the Strategic Policing Requirement and successfully police major events.
 6. Spend your money wisely to protect policing in your community
- 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 has been reflected in our activities over the past year and our plans for the future. We have built upon the success of the summit on Early Intervention hosted jointly by the Commissioner and Chief Constable in the Millennium Suite at the Principality Stadium on January 22nd 2016. We have been successful with a bid to the Police Innovation Fund to introduce an Early Interventions approach in part of South Wales. Our partnership with Public Health Wales was key to our success in this bid. In April 2016, the new Offender Interventions service was launched. This is a partnership between the Commissioner, the National Offender Management Service in Wales and the Prison Service and offers a range of diversionary pathways to offenders. We continue our successful partnership with Health and Local Government. We aim to become early adopters of the Well-being of Future Generations Act (Wales) 2015 with full active membership of Public Service Boards.

- 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 2017/18 of £262.7M reflects £4.9M of

determinations by the Commissioner with the balance of £254.5M to be expended on policing activities undertaken by the Chief Constable.

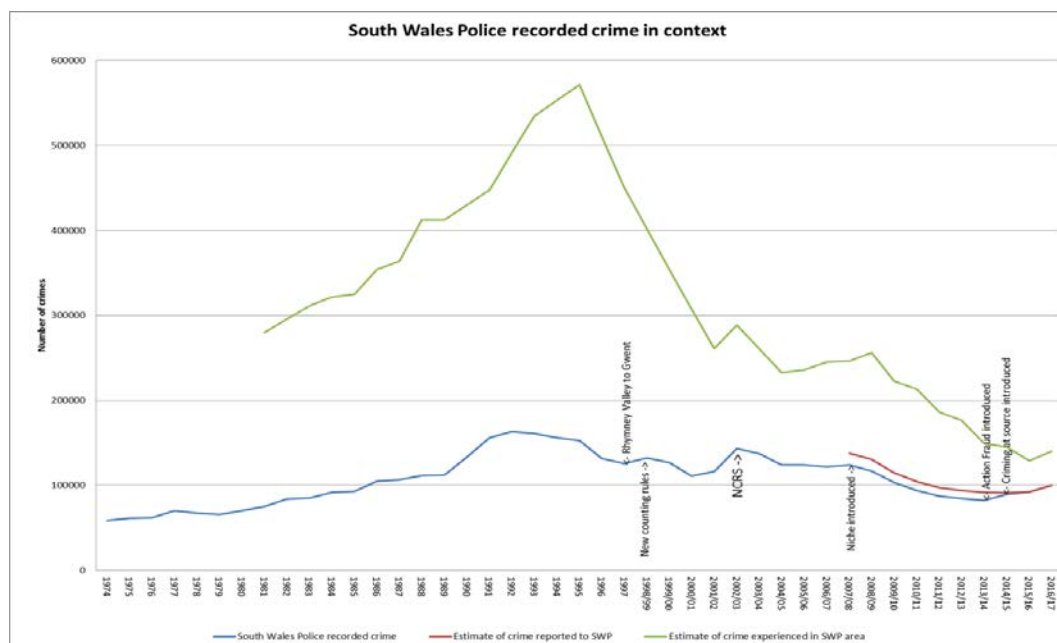
- 3.4 The Financial Strategy includes the Commissioner's precept proposal for 2017/18 and outline precept projections to 2020/21. The Police and Crime Panel must review the Commissioner's proposed precept and report on it. The Panel has power to veto the precept. In that event, the Commissioner will 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 is the 7th busiest force in England and Wales and contains 64 of the 100 most deprived communities in Wales (and indeed Europe) with resource pressures as follows:

- Providing a policing service to 1.3 million people - 42% of the Welsh population over 803 square miles.
- Managing around 49% of the total crime in Wales and
- In the 12 months to March 2016 the Force dealt with:
 - 33,917 Arrests,
 - 342,619 Incidents,
 - 181,278 Emergency (999) calls and
 - 450,188 Public Services Centre non-emergency (101 calls).
 - 1,053,095 Calls for service during 2016/17.
- Increased accuracy on recorded crime, where by the difference between reported recorded, and estimate of crime experienced has been narrowed year on year.

The following graph shows how the profile of crime has changed over the past 40 years.



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. The Capital City of Wales presents some additional policing challenges which receives no recognition whatsoever within the funding formula (our assessment of this is an unfunded cost of at least £2.6M per annum).

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.

South Wales Police is the strategic force in Wales delivering not only a local service but also providing support for major national events outside the Force area. The Force polices around 600 events each year which require varying levels of police intervention in terms of planning and resources. These include policing premier ship, European and international football, international cricket and rugby and other sporting events, concerts, royal visits, Public Military events, demonstrations and protest marches and key date policing for the night time economy in Cardiff and Swansea.

During 2016 the Force supported major sporting events including the Rugby Six Nations tournament, cricket one day internationals, the European Championship fan-zones & the Welsh Team homecoming, the World Half Marathon, Royal visits, and the Roald Dahl Centenary Celebrations. In May 2017 Cardiff will host the week long events leading up to the UEFA Champions League Final.

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, a Regional Intelligence Unit, a Regional Asset Recovery Team and has established through collaborative funding a Regional Task Force to tackle cross border issues with other police forces in Wales and England.

4.2 **Quality improvements in the South Wales policing service**

South Wales Police throughout the past seven consecutive 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:

- Victim satisfaction has moved consistently from the worst performing force in England and Wales in 2007 to a top five best performing position in England and Wales.
- Has invested in mobile technology, transforming the way we work **and was 1st in the country for visibility of policing (report by the Home Office)**
- **1st in the country for positive outcome rate for Violence with Injury.**
- **1st in the country for positive outcome rate for Domestic burglary.**
- **4th best in the country for positive outcome rate for Sexual Offences.**
- **3rd best in the country for positive outcome rate for Robbery**
- **4th best in the country for positive outcome rate** for racially and religiously aggravated crimes
- Anti Social Behaviour reduced by over 60,000 incidents p.a.
- Detections at an all time high particularly burglary and violence against the person
- Public confidence improved by 50%
- Excellent improvements in closing the Black and Minority Ethnic (BME) gap in victim satisfaction
- A modern vehicle fleet and a new workshop that is fit for purpose

- Modernised and legislatively-compliant custody facilities
- A consistent and protected model of neighborhood policing. (HMIC is concerned that many forces have eaten into neighbourhood policing).
- A beacon Public Service Centre shared with two fire Authorities and a Clinical Wales Ambulance Service Desk.
- Maintained Assets in support of the National UK wide Strategic Policing Requirement.

These year on year improvements have brought the service up to a level that we believe the public of South Wales rightly expect and require. The Commissioner and Chief Constable are committed to continuing with this impressive level of improvement.

4.3 **Serious and Organised Crime/Terrorism**

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.

South Wales Police is 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 a 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 a 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.

The Southern Wales 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 of ROCU 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.

4.4 Tactical Firearms Capability

Following the horrific attacks in Paris and more recently in Germany, the Home Secretary 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 process for allocating this funding to forces has now been determined. The allocation to SWP is 32 posts of which 16 are match funded and an assessment of training capacity, equipment and sourcing of appropriate officers is being made.

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.

Strategic Policing Demand Risk Resources Assessment

4.5 Vulnerability

The current PEEL report on vulnerability and our own assessment identifies that the force took 298 calls for assistance per 1,000 population, for the year ending 31 March 2016. 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 Strategic Assessment 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 2% of all occurrences received by the force over the last 12 months. 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 was 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.

The force has identified that there were 7,066 reports of missing persons in the 12 months to March 2016. The force's strategic assessment of missing people notes that the demand on resources created by Missing Persons is significant, with a substantial financial impact on the force. The majority of Missing Persons are either vulnerable or 'looked after' young people or vulnerable adults who have left a mental health facility. Almost all of the regular young missing persons have a CSE link and positive inroads have been made within each BCU where the newly created missing person teams work closely with the CSE teams. Whilst the capacity and capability exists within the force to deal with this area of demand, it has a detrimental effect on the efficiency and effectiveness of the force, as resources are taken away from other things in order to deal with this.

The force has produced a problem profile of child sexual exploitation and missing persons which outlines 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 strategic assessment noted that there are a lack of the specialist skills required to deal with the complexities and sensitivities of CSE and as such Chief Officers have agreed to increase the resources allocated to this area.

The HMIC recognised 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 2016, recorded domestic abuse increased by 11% against the previous 12 months and accounted for 11% of all police recorded crime.

4.6 Child Sexual Exploitation

- **Online CSE**

According to the force Strategic Assessment 2016, the force is starting to gain an understanding of the scale of the issue and as a result of the increased focus, the greater the identified problem is likely to be. 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

Recorded sexual offences have increased by 20% in the 12 months to March 2016. This equates to a 33% increase in recorded rapes and a 24% increase in other types of serious sexual offences. 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 November 2016, there were 1,425 RSOs being managed in the community, 14% of which are assessed as Very High Risk, or High Risk.

4.8 Internet Enabled Crime (Cyber)

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.

The force Strategic Assessment 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 SMS and MMS continue to decline.

At a national level, Cyber Crime has been identified as one of the 5 top priorities for the National Crime Agency. National emerging trends identified over the last 12 months include an increase in high profile data breaches against UK victims, more aggressive use of Denial of Service (DDOS) attacks and ransomware for extortion purposes and the existence of an 'enabling market place' where criminals can purchase the means to carry out cyber crime, relatively cheaply and without the need for any technological expertise.

4.9 Additional resources

The 2016 strategic assessment of the force identifies the effective protection of vulnerable people presents by far the greatest risk for the force. The highest scoring risks for the force are predominantly those that involve the effective safeguarding of the most vulnerable and defenseless members of our communities, representing eight of the top ten risks highlighted as a result of the Management of Risk in Law Enforcement (MoRiLE) Thematic Risk Assessment process.

In April 2016 a detailed proposal to uplift the police officers for the Specialist Crime portfolio, following a review of the structures concerning the public protection area of business, was put forward. The proposals included additional resources for Domestic Abuse, Child Protection/CSE, Rape and Serious Sexual Offences, Internet Enabled Crime, Serious & Violent Offenders, Vulnerable Adults and Missing Persons. A total 147 additional roles was considered operationally appropriate and agreed, 23% of these being police staff.

The rationale for the additional investment is supported by the following:

- 55% rise in violence with injury from 7,728 offences in 2011/12 to a projected 11,965 offences in 2016/17
- 173% rise in Rape and serious sexual offences from 727 offences in 2011/12 to a projected 1,988 offences in 2016/17
- Independent Inquiry Child Sexual Abuse referrals have increased 71% on the previous year, from 7 to 12
- Operation Hydrant has seen a 56% increase on previous year, from 16 to 25
- 40% increase in the number of intelligence log submissions in a comparison to the periods April-December 2015 and 2016 and is continuing to increase.
- 107% rise in Missing Person reports from 4,079 in 2012 to 8,435 in 2016, so the current average daily rate is 23 compared to 11 four years ago
- In terms of fraud, the most current figures show that over the twelve month period from Oct 2015 – Sept 2016 the total reported loss was £18.7 million and Action Fraud reports this financial year show a 15% increase over the previous year
- Suspicious Activity Reports show a 14% increase
- Consistent growth in the number of Registered Sex Offender cases over the last five years at 9% per annum. This represents an additional 128 Registered Sex Offender cases in the next 12 months and an additional 417 in the next three years. Equivalent to the caseload of an additional 8 officers in the Management of Sex Offenders and Violent Offenders (MOSOVO)

A number of key milestones for the recruitment of staff, in line with the proposed uplift, were identified with the intention of the uplift process being concluded by August 2019. The timeline was based on a staged implementation plan for the additional resources, linked to the force's recruitment plan, taking account of the need for 'new' police officers to be aligned to the BCUs and on independent patrol before any internal recruitment processes can take place; for either CID or these units.

However the latest strategic assessment provides a clear need for prioritization and resource alignment to increase capacity in this vital area by significantly compressing the earlier timeline. There is now an ambition to collapse the growth to as many as possible by the 31st March 2017 through a four phased approach, recognising the need to identify the potential costs and benefits in delivering such implementation within the newly identified milestones.

In addition, in September 2016, a Police On Line Investigation Team was created comprising of police officers and specialist police staff. Whilst the police officers have been in post from September, the Force is currently recruiting specialist police staff posts to support those police officers.

4.9 An assessment of resources required to address the above issues through a combination of internal learning and good practice as well 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 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	Officers WTE	Staff WTE	Total WTE	Total £'000
Domestic Abuse	15		15	743
Child Sexual Exploitation	24	10	34	1,574
Serious Sexual Offences	44	9	53	2,486
Internet enabled Crime	14	6	20	932
Management of Sex Offenders Violence Offenders		8	8	283
Vulnerable Adults	8	1	9	432
Missing Persons	8		8	396
Child Advocates				500
Total	113	34	147	7,346

4.10 Mental Health

The number of mental health incidents responded to by the Force increased from 15,495 in 2013/2014 to 32,109 in 2015/2016, an increase of 72.2%. Considerable efforts are being made to improve the way people with mental health issues are dealt

with when they come to the attention of South Wales Police and their partners. This work is being led by the Commissioner and ACC Drake, who is the operational lead and also has the all-Wales role on the issue. They are working with the three Local Health Boards in South Wales and with mental health charities and others to ensure that more appropriate options are available rather than the use of a police cell. However, while the “indicator” used by Welsh Government and others has been the use of powers under the Mental Health Act (known as Section Powers, a reference to Section 136 and also section 135) it is a matter of fact that use of those powers – and use of a police cell more generally – follows from the lack of alternative provision that is quickly and easily available especially at night and at the weekend. Sometimes the individuals detained are intoxicated by drugs and/or alcohol and held for their own protection as well as the protection of the public and there is general agreement that the root of the problem is not policing but the lack of alternatives. 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 then Minister, Mark Drakeford AM, to put into practice the principles set out in the recent Concordat.

South Wales Police have agreed that all children and young persons detained under section 136 would be taken to a 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, the 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.

In November 2016, the Chief Constable and Commissioner in partnership with the Armed Forces launched a Keep Safe Cymru for Veterans . Since the launch, 845 people have registered for the scheme including those who suffer with mental health conditions, learning disabilities and dementia, with 4% disclosing they are transgender.

4.13 Summary Operational Assessment

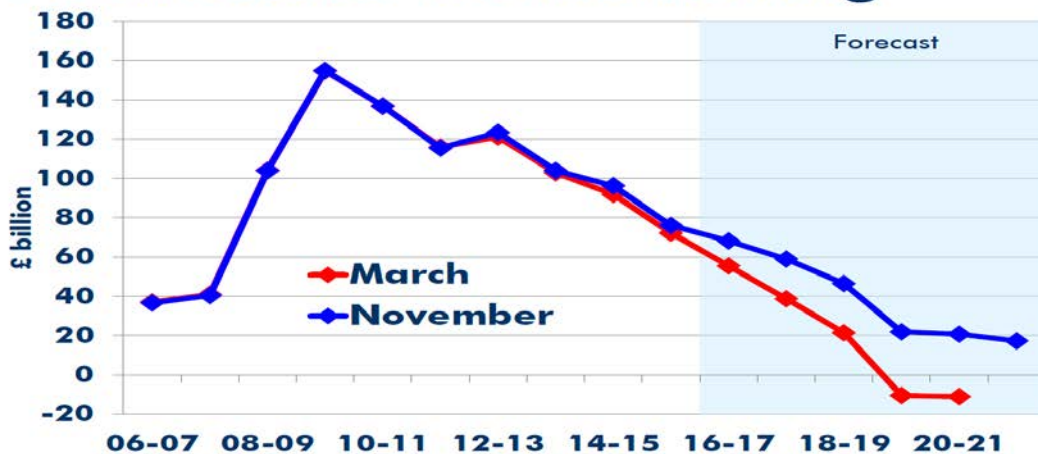
This context of local, regional and national policing requirements, coupled with the impact of the largest reduction in police funding in a generation (with strong indications of further austerity to 2025) presents a huge sustained challenge to the Chief Constable and the Commissioner in seeking to maintain 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 crisis 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 final autumn statement on the 23rd of November 2016 was that the national annual budget deficit after 7 consecutive years of austerity will still be over £68 billion.
- 5.3 The Autumn statement shows that national budget deficit has been cut by almost two-thirds from its 2009-10 post-war peak of 10.1% of GDP to 4.0% by 2016/17. However, borrowing and debt remain high, and the OBR judges that the economic and fiscal outlook for the UK has deteriorated in the wake of the EU referendum. As a result, the OBR’s forecast shows that the public finances will no longer reach a surplus by 2019-20.
- 5.3 Having missed the first target to eliminate the deficit by 2015, and the second target date of 2020 the revised proposal is to continue with the austerity programme (effectively for more than a decade). The government’s revised objective is to return the public finances to balance at the earliest possible date in the **next** Parliament. To ensure this objective is reached, the government has published a new Charter for Budget Responsibility. This commits to reducing the structural deficit to below 2% of GDP and to have debt falling as a percentage of GDP by the end of this Parliament. This new fiscal framework ensures the public finances continue on the path to sustainability, while providing the flexibility needed to support the economy in the near term. The Chart below is an extract from the Office of Budget Responsibility and shows continued budget deficit of £21 billion by 2021 instead of the previous surplus of £11 billion.

Public sector net borrowing



Office for Budget Responsibility

- 5.4 With a third of the structural deficit yet to be eliminated and with the total national debt forecast by 2021 now being £1,950 billion (more than twice the level in 2010

which is equivalent to £30k for every person in the UK), **the future funding of public services will therefore continue to decline.**

5.5 The Office for Budget Responsibility (OBR) makes the following key points on the 2016 Autumn Statement

Weaker outlook for economy

- Near-term hit from Brexit uncertainty and lower pound
- Less investment means slower trend productivity growth
- Lower net inward migration

Weaker outlook for public finances

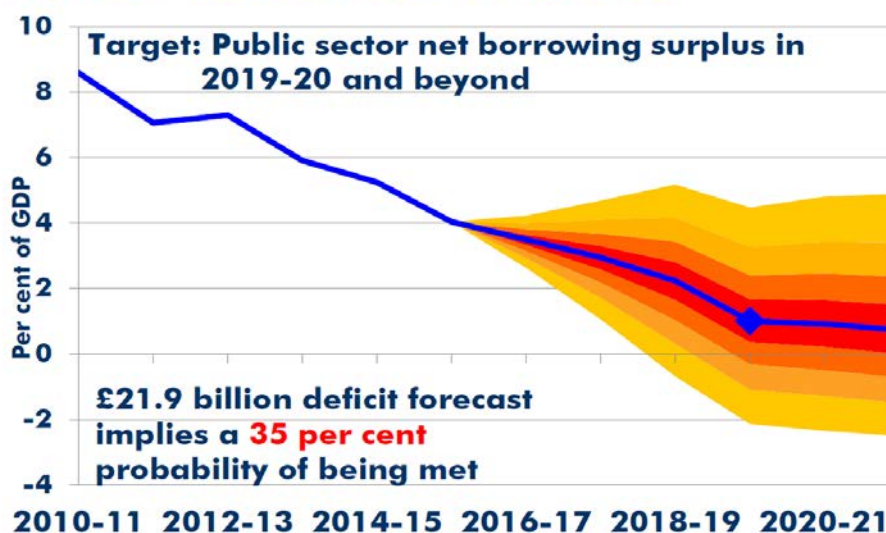
- **Borrowing already overshooting before referendum**
- **Weaker growth will hit receipts, especially income tax**
- **Autumn Statement fiscal giveaway**

Government targets change again

- All existing targets breached and replaced
- New fiscal mandate met with room to spare
- Balancing budget next Parliament not easy

The OBR assessment on public sector net borrowing returning to a surplus by 2019/20 has roughly a 35% chance of being met. The range of probabilities is shown on the chart below:

Fiscal mandate: current



Office for
**Budget
Responsibility**

5.8 The fragility of the national budget remains a key risk. The prospect of continued contraction in public spending through to the next parliament is a very realistic

prospect. Year on year real terms cuts should still be anticipated. 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.

Given the record of economic projections to date it is highly likely that austerity measures will continue to 2020. Whilst this extends beyond the period of this Medium Term Financial Strategy, the planning assumptions need to reflect the predicted longer term contraction in central government funding for policing.

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 15th of December 2016, the Policing Minister announced the provisional policing settlement for 2017/18 and confirmed that the total revenue provision for policing across England and Wales to be supported by grant in 2017/18 will be £8.4B (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:

1. The Government is committed to protecting the public. The Government will provide the resources necessary for the police to do their critical work, and prioritise finishing the job of police reform by enabling the police to transform so they can tackle changing crime, deal with previously hidden crimes and protect the vulnerable.
2. Since 2010 we have seen some of the biggest changes to policing in a generation. Crime is down by over a quarter according to the Independent Crime Survey for England and Wales. There is significantly greater local accountability and transparency and police leaders have taken the opportunity to radically reform the way they deliver services to the public.
3. Police officers have been taken out of back office roles and resources focused on front line delivery. Police forces are working more closely than ever before to reduce costs and duplication, and have started to work more closely with other emergency services through co-location and collaboration in areas such as fire and mental health.
4. As Her Majesty's Inspectorate of Constabulary (HMIC) has set out, there is still considerable scope for forces to continue to improve the efficiency of their organisations and transform the way in which they operate, and it is vital that the pace and urgency of change continues if we are to have a police force fit to meet the challenges of the 21st century.
5. HMIC noted: "we found evidence to suggest that some forces have reduced the pace and ambition of their plans since last year." The Government expects Police and Crime Commissioners (PCCs) and Chief Constables to do everything in their power to drive efficiencies at pace, and this settlement provides the opportunity to improve the quality of policing and continue to reduce crime.
6. Following the principles set out on the 4 February 2016 when publishing the final police funding settlement for 2016/17 [HCWS510] **direct resource funding for each PCC, including precept, will be protected at flat cash levels compared to 2015/16, assuming that precept income is increased to the maximum amount available in both 2016/17 and 2017/18.**
7. Precept income has increased faster than expected, which means **we can meet our planning assumption on direct resource funding for PCCs and also substantially increase the size of the Police Transformation Fund to £175m in 2017/18.**
8. This will allow the policing sector to invest additional funding in the projects that will improve efficiency, protect vulnerable victims of crime, further improve the

leadership and culture of policing and tackle new types of crime such as cyber crime.

9. The 2017/18 settlement continues the current methodology of applying uniform percentage changes to core grant funding for each PCC.
- 6.3 Paragraphs 6 and 7 are key in terms of funding. Flat cash is actually a real terms cut as pay awards and inflation are a cash cost increase without funding to pay for it. And greater top slicing has reduced direct funding to police forces.
- 6.4 Therefore despite the rhetoric the settlement reflects further cuts to police funding with a total cash reduction of 1.4% per annum.
- 6.5 What also gets forgotten is government imposed costs on employers such as the extra National Insurance Costs imposed by the 2015 budget which effectively equate to 2% of our budget (£4.5M per annum) or a 3% equivalent cut in funding and the apprenticeship levy of 0.5% (£1.0M per annum). The effects of price inflation over the previous CSR period gives a funding cut closer to 10% to 2021, part of which is expected to be met through council tax increases.
- 6.6 In the case of the budget for South Wales Police the extra National Insurance Costs and apprenticeship levy are equivalent in cash terms to a 5.0% rise in the Precept
- 6.7 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 2018/19. It is very important to note that the exemplification of the abandoned formula (by Devon and Cornwall Police) indicated a potential reduction in Police Funding to Wales of around £45M per annum. This is clearly a major cause for concern and we continue to make robust challenges and representation to the new working group established by the Home Office.
- 6.8 Until a new formula is introduced, the 2017/18 settlement continues the current methodology of applying a uniform percentage cut to core grant funding for each Police and Crime Commissioner. Thus every force in England and Wales faces a cut in central government grants of 1.4%

Top slicing has **increased** yet again to reach £1,362M per annum in 2017/18 as well as a major reduction in capital funding (41% per annum cash cut starting from 2017/18). There is a **larger** top-slice in 2017/18 to take the transformation fund to £175m as well as increases in existing top-slices, including an increase of £133m in the top slice for the new Emergency Services Network. The amount of top-slicing means that over £1 Billion is allocated by the Home Office outside a funding and needs based formula and is detailed below together with ministerial justification:

	2016/17 £M	2017/18 £M
Home Office Top Slicing		
Counter Terrorism Specific Grant	640	670
Legacy Council tax	104	104
Emergency Services Network	80	213
Transformation Fund includes £32M CTSFO	76	175
PFI Grant	73	73
Arms Length Bodies - HMIC- IPCC- COP	46	54
Police Special Grant	25	50
Major Programmes	22	-
Police Innovation Fund	55	-
GLAA + Pre Charge Bail		17
Welsh Top-up	10	6
Total Home Office Specific Grants:	1,131	1,362

Counter terrorism police funding

Funding for counter terrorism policing is protected as there is a continuation of specific funding for counter-terrorism policing over the course of the Spending Review period to ensure that the police have the capabilities to deal with the terrorist threats that we face. The indicative Spending Review profile for counter terrorism police funding in 2017/18 is £670m; this figure will be confirmed separately. In addition a further £32m will be provided for armed policing from the Police Transformation Fund in 2017/18.

Police Transformation Fund

Total funding for transformation will increase in size to £175m, an increase of over £40m. The Government will be working with the Police Reform and Transformation Board to ensure a sector led approach to use this increase in funding in order to incentivise and facilitate transformation in policing. This will improve the leadership and culture of policing, the diversity of its workforce, protection of vulnerable people, cross-force specialist capabilities, exploitation of new technology and how we respond to changing threats.

We will continue to fund a national uplift in armed policing capability and capacity to respond more quickly and effectively to a firearms attack with £32m of specific funding. We will also continue to fund current Police Innovation Fund projects.

Arms Length Bodies

The police settlement will continue to fund national policing bodies £54M to deliver services and governance which are essential to the efficient and successful functioning of the police service. We will continue to fund HMIC's PEEL inspection programme, and the College of Policing direct entry schemes. There will be increased funding to support the Independent Police Complaints Commission as it becomes the Independent Office for Police Conduct with an expanded role in investigating serious and sensitive allegations involving the police, enabling it to implement the legislative reforms in the Policing and Crime Bill and enhancing its capability to handle complex major investigations.

Police Special Grant Contingency Fund

This is the third year we 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 significant financial risk. In 2017/18 £50m will be provided from the police settlement for Police Special Grant. This is an increase which reflects both an assessment of potential

need across police forces, and the specific costs likely to be incurred preparing for the policing operation at the Commonwealth Heads of Government Meeting in 2018.

Gangmasters and Labour Abuse Authority (GLAA)

A new reallocation of around £2m will support the Gangmasters and Labour Abuse Authority (GLAA) to use new police-style enforcement powers set out in the Immigration Act 2016 to tackle labour exploitation including modern slavery across the economy. Through greater resources to use these new powers, the GLAA will be able to undertake more investigations into modern slavery offences that might otherwise fall to the police, saving police time and improving the law enforcement response to exploitation of the most vulnerable workers.

Pre-charge bail

The Government plans to implement significant reforms to pre-charge bail including time limits set out in the Policing and Crime Bill. We will end the situation where some people can spend months or even years on pre-charge bail with few or no safeguards by introducing: a presumption that suspects will be released without bail, regular reviews by the courts and formal guidance governing the imposition of conditions. This change in police practice may involve increased costs for the magistrates' courts and in legal aid, which a new reallocation of up to £15m for 2017/18 will meet.

Police technology programmes

Funding will continue to be reallocated for the new Emergency Services Network (ESN), the existing Airwave system, Home Office Biometrics and the National Law Enforcement Police Database. As planned at the time of the Spending Review, there will be an approximately £100m increase in funding for ESN. This is critical to 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. Funding for major technology programmes will be managed flexibly between projects, to ensure reallocated funding is used as efficiently as possible. Around £1m will be spent maintaining the Forensic Archive, which maintains forensic exhibits relating to criminal investigations on behalf of the police.

Baseline adjustments and reallocations

The Government has reallocated funding to support critical national priorities for policing. National and International Capital City Grants to the Metropolitan Police Service, through the Greater London Authority, will continue to receive National and International Capital City (NICC) grant funding worth £173.6m, and the City of London Police will also continue to receive 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

Police capital grant

All Local Policing Bodies will receive the same percentage cut in Capital Grant and a capital contingency will continue to be maintained. An increased investment in police technology reflects a programme of work to replace end of life hardware, increase capacity, and enhance functionality including significant investment to replace end of life hardware required for the Police National Computer.

Police capital funding in 2015/16 was £120.9M in 2016/17 it was £82M and in 2017/18 this is now £77M. of which £30M has been top-sliced and this is shown below:

Police Capital	2016/17 £m	2017/18 £m
Police Capital Grant	54.1	45.9
Special Grant Capital	1.0	1.0
National Police Air Service	16.5	12.2
Police Live Services	10.4	18.1
Total	82.0	77.2

In 2017/18 only £45.9M is now being allocated to Commissioners with each receiving the same percentage cut in capital grant. This represents a 15% cut to individual forces. We are now in a position where forces can only sustain essential capital investment from their own resources as central grant supports a fraction of the true requirement.

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.

6.8 Beyond 2017/18

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 latest funding announcements are to expect cuts in real terms funding through to the next parliament i.e. beyond 2021. The 2017/18 settlement reduces further the spending ability of forces due to the reality of a combination of grant cuts, top-slicing, National Insurance Costs, Apprenticeship Levy and no pay and price inflation result in a near 15% cut over the CSR to 2021 without considering the consequences of a new formula allocation methodology planned for 2018/19.

6.10 Using the assessment of the Independent Office of Budget Responsibility the Medium Term Financial Strategy assumes that a further grant reduction of more than 2% per annum is highly likely 2018 to 2021.

Financial Year	Actual Percentage Reduction	Forecasted Percentage Reduction	Actual Cash Cuts £M	Forecasted Cash Cuts £M
2011/12	-3.8%		-9.4	
2012/13	-5.5%		-12.2	
2013/14	-1.9%		-2.8	
2014/15	-4.8%		-8.5	
2015/16	-5.1%		-8.6	
2016/17	-0.6%		-0.92	
2017/18	-1.4%		-2.2	
2018/19		-1.8%		-2.8
2019/20		-2.2%		-3.4
2020/21		-2.6%		-4.0
Total	-23.1%	-6.6%	-44.62	-10.2
Overall Total				-54.82

Since the start of the national austerity programme the police service has lost cash funding of 23.1% with another 6.6% anticipated. **This is 29.7% and a cash cut of around £55M, which in real terms after 2% per annum inflation gives a reduction of more than a 40% cut in spending.**

It is vital then 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

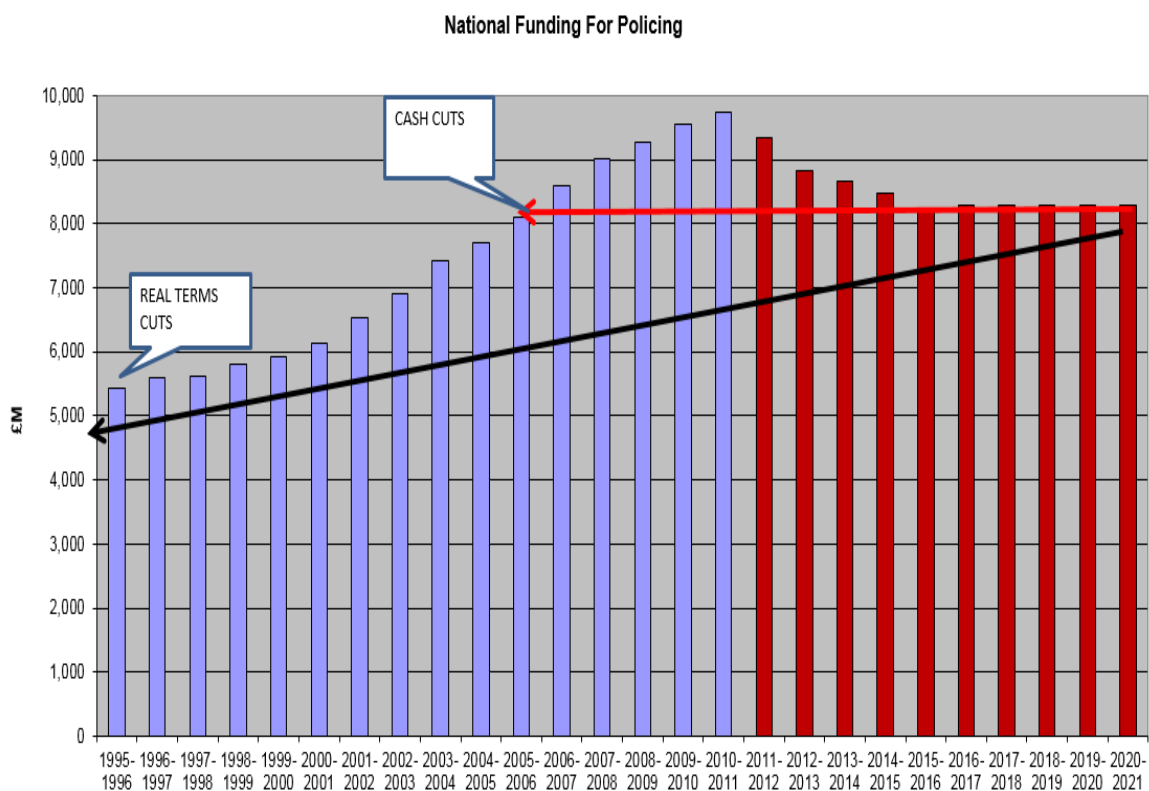
6.11 It is impossible to assess the long term consequences of this reduction but there is cause for concern given that:

- 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 current and next parliamentary cycle.**

7.0 EXTERNAL FUNDING - SOUTH WALES POLICE GRANT POSITION

7.1 The financial year 2017/18 represents the **seventh consecutive** year of cuts in funding and the allocations for South Wales Police have now been confirmed as a further reduction of £2.2M on 2016/17 funding.

The total cut in funding since 2011/12 is now £44.7M (23.5%). This is the highest percentage and cash reduction in Wales compared with the other centrally funded public services in Wales.

7.2 It is now becoming clear that the Home Office will continue to reduce police funding for the remainder of the parliament on a similar basis as 2017/18. And this now includes a reduction for council tax base growth. The forecast allocations for 2017 to 2021 are consistent with this approach and reflect a further cut in the South Wales Police grant of around £10M to 2021 (which will be compounded by inflation pressures on expenditure).

Based on an analysis of UK financial position by the Office of Budget Responsibility it is likely that further reductions in grant funding are highly likely in the subsequent parliament particularly if the then Government wish to eliminate the national structural budget deficit. The consequences for policing are therefore a steady painful reduction in resources and continuous change programmes to maintain acceptable policing levels.

7.3 This Medium Term Financial Strategy therefore prudently assumes further reductions in funding of an incremental 0.4% per annum, from a base of 1.4% in 2017/18. 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 may be realised. The resulting analysis over this period is set out in the following table.

Source of Funding	Indicative				
	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M
Police Grant	87.463	84.066	81.233	77.832	73.902
Revenue Support Grant/NNDR	72.176	73.341	73.341	73.341	73.341
Total Formula Based Grant	159.639	157.407	154.574	151.173	147.243
Comparable Funding	159.639	157.407	154.574	151.173	147.243
Percentage Reduction	-0.6%	-1.4%	-1.8%	-2.2%	-2.6%
Rule 1 Floor Funding Adjustment	(10.129)	(12.163)	(12.163)	(12.163)	(12.163)

7.4 The second attempt to develop an acceptable formula for police funding allocations is underway with an ambition to introduce a new formula for the 2018/19 settlement, subject to meaningful consultation. The dampening provisions around the current formula significantly disadvantage South Wales Police but have remained in place for decades despite the objections raised. 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 without financial redress.

7.5 The Policing Minister has continued to apply damping (Rule 1 Floor Funding Adjustment) in respect of 2017/18 and whilst this shows an increase in the dampening contribution from £10M to £12.2M, of this £3.4M relates to a technical adjustment between Revenue Support Grant and Police Grant. The Home Office has continued to shift away from direct allocation of “Welsh Top Up” that is paid to Dyfed Powys and North Wales into the Revenue Support Grant paid by Welsh Government to all 4 Welsh forces. This is the second year of this technical shift in payment route. The core amount of dampening contribution remains at £8.8M of formula dampening per annum, which is the amount the formula determines we should receive but due to even distribution of cuts ends up being top sliced.

7.7 **This £8.8M which is removed from SWP for redistribution to the other three Welsh Forces has now been effected year on year for more than a decade and the cumulative effect of this for South Wales Police has seen a loss in formula funding of £74M of police grant (£8.8M per annum equivalent to 176 Police Officer or more than 300 Police Community Support Officer posts).**

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 £23M 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	6.0	See section 16 on precept
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	23.4	

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 reducing 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 are inevitably forced to prioritise and rationalise.

- 8.5 The recently abandoned initial attempt at a revised funding formula 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 to anticipate that changes in the funding formula are likely to result in a further real-terms cut in funding for South Wales Police

9.0 REVENUE BUDGET 2017/18 AND REVENUE FORECAST TO 2020/21

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 funding for South Wales Police is a combination of central grants and local police precept. The proportion of funding from police precept varies across England and Wales from less than 14% to over 54% of the total police budget. South Wales Police has one of the lowest police precepts in Wales and its proportion of local funding as a percentage of total funding is 38%.

9.3 The refreshed medium term financial projections 2017 to 2021 are summarised below: The overall budget gap to 2017/18 before police precept is £78M (based on the actual reductions in central police grant allocations and known expenditure requirements). This £78M gap is bridged through additional income from police precept of £30M and a Value for Money Plan target to March 2018 of £48M. Having delivered £45M of cash releasing efficiency savings by March 2017 leaves a further target of £3.1M of savings to achieve a balanced budget in 2017/18.

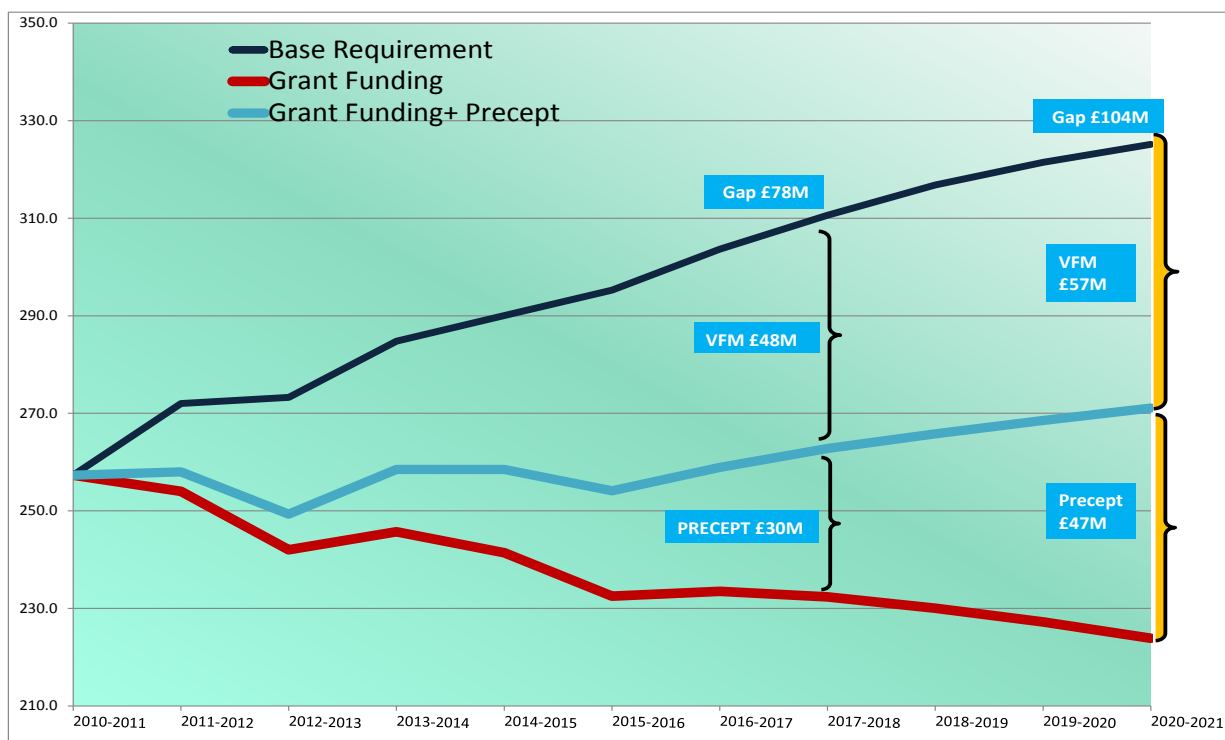
Essentially for every £1 increase in police precept is broadly matched with £1.60 of internal cost improvements and savings to minimize the impact for local tax payers.

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	2020/21 £M
Net Revenue Expenditure (Pre VFM)	272	274	285	290	294	304	311	318	324	327
External grants	(183)	(170)	(174)	(169)	(161)	(160)	(157)	(155)	(151)	(147)
Precept base	(71)	(72)	(72)	(72)	(73)	(74)	(75)	(75)	(76)	(77)
Total Resources	(254)	(242)	(246)	(241)	(233)	(234)	(232)	(230)	(227)	(224)
Cumulative Unfunded Expenditure	18	32	39	49	61	70	78	88	97	104
Precept increase	(4)	(7)	(13)	(17)	(22)	(25)	(30)	(36)	(41)	(47)
Value For Money Plan Savings Required	15	24	27	32	39	45	48	53	55	56
Current Value For Money Plan	19	24	27	32	39	45	48	49	49	49
Net VFM Plan (Surplus)/Deficit	(4)	(0)	(0)	(0)	(0)	(0)	0	4	6	7

It is important to note that as funding has been reduced (£2.2M), inflation has increased, which adds to the upward pressure on expenditure requirements and the main cost increases are as follows:

- General price inflation and pay awards £2.2M,
- Increase in the employer contribution to the Local Government Pension Scheme £2M,
- New apprenticeship levy £1M and
- Phase 1 of the Vulnerability Gap investment £2.5M.

9.4 Given the clear indications of continued austerity a further budget gap beyond 2017/18 covering the three year period 2017-2021 of £26M (£104M less £78M) is forecasted, against which £18M of savings and income has been identified leaving £7M of potential unplanned cuts. This results in a total gap since the present austerity measures were introduced of over £101M which is effectively a reduction in resources of a 1/3rd over the period and this is illustrated below.



9.5 The detailed medium term financial projections 2017 to 2021 are shown at **Appendix 6** and summarised below in broad income and expenditure classifications: The overall budget gap in 2017/18 before police precept is £8.1M and is reduced to £3.1M by the proposed (5%) contribution from the police precept.

SUMMARY REVENUE ACCOUNT	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M
Employees	235.1	239.7	244.4	247.5	250.0
Indirect Staff	1.9	1.9	4.0	5.0	5.1
Premises	9.7	10.4	10.6	10.9	11.1
Transport	4.9	5.2	5.4	5.5	5.6
Supplies and Services	18.9	19.9	20.4	21.0	21.5
Agency & Contracted Services	9.4	10.1	10.3	10.6	10.8
Capital Financing Costs	5.8	10.6	10.6	10.6	10.6
Gross Expenditure	285.7	297.9	305.7	311.0	314.8
Less income & specific grants	(26.8)	(32.0)	(32.0)	(32.0)	(32.0)
Net Expenditure	258.9	265.9	273.7	279.0	282.7
External grants	(159.6)	(157.4)	(154.6)	(151.2)	(147.2)
Precept based on 5% per annum	(99.3)	(105.4)	(111.2)	(117.3)	(123.8)
Total Resources	(258.9)	(262.8)	(265.8)	(268.5)	(271.1)
Cumulative Unfunded Expenditure 2016/17 onwards	0.0	3.1	7.9	10.5	11.7

9.6 A comprehensive reconciliation of the requirements between the two financial years 2016/17 and 2017/18 is detailed at **Appendix 7** with further analysis of the revenue budget changes in **Appendix 8**. This shows how the shortfall in funding of £8.1M arises based on the following assumptions.

a) **Pay Awards and Inflation**

Pay awards for 2017/18 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 increases and shows the equivalent OBR inflation rates for RPI and CPI respectively.

		Pay Awards and 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
	2016/17	1.0	1.0	2.0	1.0
	Total	7.3	7.3	22.2	16.1
	2017/18	1.0	1.0	3.2	2.3
	2018/19	1.0	1.0	3.5	2.5
	2019/20	1.0	1.0	3.2	2.1
	2020/21	1.0	1.0	3.1	2.0

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 increase the pressure and drive up wage claims by staff representative bodies.

The budget requirement for 2017/18 recognises the specific inflationary requirements in relation to contracted services as well as general inflationary uplifts of 2.% 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 maintain budget at the higher level, as the savings continue to be retained by the government.

The Local Government Pension Scheme (LGPS) triennial actuarial review was undertaken in 2016 and this set out the required contribution rates and capital sum payments up to and including 2019/20. Increased liabilities and falling returns have had a significant impact. **The reported increase in**

employer contribution rates for South Wales Police is 3.2% and this translates to circa £2M of additional costs.

c) Establishment Police Officers and Staff

The proposed budget for 2017/18 reflects zero-base calculations for all staff and officers drawing a salary. 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. Using the revised zero base budgets, all calculations on potential savings resulting from a reduction in staffing levels are undertaken on real costs to ensure budget accuracy.

Projected budgets for 2017/18 onwards, reflect the stated ambition to move towards the target of 3,000 funded police officer posts, with the funding provision for an additional 50 police officers and 33 police staff posts to help begin to address the operational risks related to vulnerability. As previously stated the total requirement is estimated as 147 police officer and staff posts as shown in the table below:

Operational Focus	Officers WTE	Staff WTE	Total WTE	Total £'000
Domestic Abuse	15		15	743
Child Sexual Exploitation	24	10	34	1,574
Serious Sexual Offences	44	9	53	2,486
Internet enabled Crime	14	6	20	932
MOSOVO		8	8	283
Vulnerable Adults	8	1	9	432
Missing Persons	8		8	396
Total	113	34	147	6,846

The Police staff numbers also reflect 67 posts to establish a National Indexing function which is fully funded by the Home Office and is some welcome news for the local economy given previous contraction in staffing numbers. Appendix 12 sets out the numbers in detail.

9.7 Also there are changes regarding professionalising the policing agenda. The new police educational framework introduces a range of accredited qualifications at a much higher level than historically has been the case. Starting with degree standard for new police constables through to masters standard for Superintendents. This demands a greater input from the organisation both in education and assessment terms and inevitably has financial consequences estimated at £27,000 per new officer giving an annual cost implication when fully implemented of £3.2M. There is no compensatory funding stream for Wales Police Forces to pay for this. In England the scheme is eligible for apprenticeship scheme funding through the Skills Funding Agency in the Department for Education.

10.0 Home Office Innovation and Transformation Funds

- 10.1 **The Home Secretary established the Police Innovation Fund during 2013/14** by providing a one-off £20M initial sum. This sum was then increased to £50M in 2014/15 but was top-sliced from the core police fund. The fund was increased again to £70M in 2015/16 with more top-slicing from the core police fund, but in 2016/17 the fund top-slicing returned to £55M.
- 10.2 From 2017/18, only the residual commitments will be funded as the Innovation Fund is replaced with a Transformation Fund which is again top sliced from the core police fund at £175m and is a combination of previous Innovation and Transformation funding.
- 10.3 The Commissioner and the Chief Constable have made substantial and successful bids for each round and secured funding in respect of 2016/17 as follows:
- £210k for reducing offending and re-offending amongst 18-25 age groups working in partnership with Local Authorities
 - £590k for the 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 2017.
 - £211k to employ children’s advocates to help in possible cases of child sexual exploitation.
 - £342k for the Early Interventions project in partnership with Public Health Wales to seek to identify and alleviate the consequences of adverse childhood experiences.
 - £230k for a bid by the Police ICT Company for a project in respect of the licensing of offenders (IDIOM), with the Commissioner as named lead. 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.
 - £130k as a partner with Sussex in the DRIVE project to work with perpetrators and victims of domestic violence.

The Innovation fund process has been rigid and the approval process, opaque.

- 10.4 2016/17 was the last year for bids to the Innovation Fund, although commitments into 2017/18 will be honoured. South Wales Police have also been successful in the first bidding round of the replacement Police Transformation Fund with the following bids:

- **WISDOM** (Wales Integrated Serious and Dangerous Offender Management). The project is a collaboration between the four Welsh police forces to optimise collaboration in identification, assessment and 'real time' offender management of those posing the highest risk, threat/harm, thereby preventing serious crimes and protecting victims. The funding award is £490k in 2016/17 and £885k in 2017/18
- **Facial Recognition** – This project is a natural fit within the FUSION programme and provides new capability to help identify individuals of interest in the prevention and detection of crime. As national lead we will be seeking to deploy Facial Recognition technology during the UEFA Champions League final to augment our current policing activity of Major Events. There are a number of further developments around missing persons, identity verification against custody records, identity matches from CCTV and other digital media from crime scenes against custody records. The funding award is £1.2M in 2016/17 and £0.8M for 2017/18.

11.0 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.

11.1 Continuation of Innovation Funded Projects

Whilst the Police and Crime Commissioner was successful with a series of bids to the Police Innovation Fund (as below), Innovation funding for all these projects except Early Interventions ends in April 2017 and therefore sufficient budget has been made within the Police and Crime Commissioner's Management costs to enable continuation of:

- Violence Against Women and Girls
- Violent Crime
- Preventing Offending and Re-offending Amongst 18 – 25 Year Olds- continuation funding £370K
- Early Interventions – Match funding £220K.

11.2 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 continue to be prioritised. 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 £3.3M, of which the largest element is £2.3M which has funded the former Drug Intervention Programme, operated in conjunction with the Probation Service. This service has been re-tendered in partnership with the National Probation Service and Prisons Service to create a new service offering a range of interventions to a much broader client basis than was engaged through the Drug Intervention Programme. The contract came into effect from 1st April, 2016 with a combined annual value of £3.5m. The quarterly caseload exceeds 1,700 offenders and each quarter the service engages with over 3,000 detainees within our custody suites.

The balance of funding is distributed through 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.

11.3 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 2016/17 was £1.5m and the Ministry of Justice have recently announced the same cash allocation for 17/18. The grant is used to commission a range of services for victims, including restorative justice solutions. The largest share of the grant (£0.76m) 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.

11.4 Police and Crime Commissioner's Revenue Budget

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 support, policy and project 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
- Development of policy
- Delivery of specific projects

11.5 The Commissioner reviewed the structure of his team after the 2016 election to ensure it was sufficient to deliver some of the projects that underpin the Police and Crime Reduction Plan and meet the wide range of partnership commitments that exist in South Wales. The budget for next year is £1.6M, an increase of £521k on 2016/17 (see Appendix 9 for details). The increased budget includes sufficient capacity to ensure that initiatives previously funded by the Police Innovation Fund, notably Violence Against Women and Girls and Violent Crime can continue.

12.0 CAPITAL PROGRAMME

CAPITAL STRATEGY

12.1 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.

12.2 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 2017 TO 2021

12.3 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 68% reduction since 2011 (£3.1M down to £1.0M). This is a continuation of an unhelpful trend in shifting funding for infrastructure away from direct capital grant to the Revenue Account.**

Consequently the majority of the recurring spend has been supported from revenue funding and in respect of 2017/18, an additional £4.8M to provide total recurring capital resources of £10.5M.

12.4 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	2016/17 PROJECTED OUTTURN	2017/18	2018/19	2019/20	2020/21	4 Year Total
	£M	£M	£M	£M	£M	£M
Infrastructure Maintenance						
Estates Essential and Legislative Works	2	3	2	3	2	10
Fleet	2	2	2	2	2	8
Information Services	1	2	4	2	3	11
Other	1	0	0	0	0	0
One - Off Projects to be Internally Funded						
Estates	2	8	12	10	14	44
Information Services	1	3	5	3	0	11
Total One - Off Projects to be Internally Funded	3	11	17	13	14	55
Projects Supported By External Funding						
Estates - Externally Funded Projects	9	0	0	0	0	0
Information Services - Externally Funded Projects	3	5	2	2	2	11
Total Projects Supported By External Funding	12	5	2	2	2	11
TOTAL CAPITAL PROGRAMME	22	23	27	21	23	94
Total Funding Available	27	27	18	19	10	74
In year Balance of Funds	5	4	-9	-2	-13	
Cumulative Capital Funding Shortfall		4	(5)	(7)	(20)	(20)

It is important to note that the 2018 – 2021 requirements are currently not fully funded.

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

- The Property Condition Surveys (independent professional assessment) on 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 £8M of unfunded expenditure which in addition to the above £20M capital programme funding shortfall gives an overall £28M capital funding shortfall.
- The Vehicle Replacement Programme has been actively reduced through the use of IR3+ and is now more than 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 remains at an acceptable standard and the replacement cycle continues to ensure effective operational response capability from an efficient and effective transport service.
- In terms of Information Services, South Wales Police has rapidly 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 improved 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. The one-off funded projects costs reflect the replacement of Airwave with a new Emergency Services Communications Network.
- The medium term capital programme recognises the investment requirement in respect of the Estates Strategy and known issues to be resolved including the approved replacement welfare facility at HQ, and a number of operational buildings which are subject to the further business cases (including funding) around replacement firearms range, training centre and storage as well as a Bridewell in the Western BCU (to bring this up to current detention standards). The programme over the medium term is unfunded by £20M (including assumptions on building disposal income and partner contributions of £15M). The strategy will seek to grow the capital investment Reserve to bridge this gap as non-recurring opportunities arise over the medium term.

12.6 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 which is represented in the £20M capital programme funding gap.

- 12.7 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 and HQ rationalisation project (under construction) have now depleted the capital reserves previously established for such purpose. The external capital grant is now reduced to £1M against a £7M requirement, therefore internal resources are now limited to the core recurring programme only.
- 12.8 ***The funding for new capital bids puts greater pressure on Revenue Funding and consequently the capital programme funding gap is added to the Value for Money Plan gap (Appendix 11)***

13.0 TREASURY MANAGEMENT POLICY AND PRUDENTIAL BORROWING

13.1 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.

13.2 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	2016/17	2017/18	2018/19	2019/20	2020/21
		Estimated	Estimated	Estimated	Estimated	Estimated
		£M	£M	£M	£M	£M
1	Estimates of Capital Expenditure	22.386	23.299	26.554	21.178	22.570
2	Capital Financing Requirement (CFR) (as at 31 March)-	19.574	20.161	20.766	21.389	22.031
3	External Borrowing	18.745	18.401	17.953	17.468	17.041

13.3 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.

14.0 FINANCIAL STANDING 2017 - 2021

UNCERTAINTY/RISK MANAGEMENT AND FINANCIAL CONSEQUENCES

- 14.1 South Wales Police has renewed its 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 received the highest internal governance assurance.
- 14.2 The Joint 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 uncertainty/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 2021 is reflected in the Capital Reserve Target as £20M
 - 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 156 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 presents 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 2017/18 at the same cash level as the previous year to demonstrate his commitment to partnership working. 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 2017/18 and subsequent years, including an assessment of the contingency reserve.

14.5 The table below shows the forecast balance in our Reserves at the end of March 2017 against the required target level and shows a shortfall in contingency reserves of £22M.

Reserves and Provisions	Forecast 2016/17 £M	Target 2017/18 £M	Shortfall £M
Unallocated Reserves			
General Reserve	9.2	9.2	0.0
Development/Transformation Reserve	2.0	2.0	0.0
UEFA Champions League Cup	1.2	3.6	2.4
Earmarked Reserves			
Specific Requirements	4.2	4.5	0.0
Partnership Initiatives	1.0	1.0	0.0
Capital Reserve	4.9	25.0	20.1
Provisions			
Insurance Liabilities	5.2	5.2	0.0
Total	27.7	50.5	22.5

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 circa £9M. 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 health and well being/ organisational development and 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.

15.0 VALUE FOR MONEY

- 15.1 The confirmation of a further round of cuts to police funding to 2021 continues to highlight the importance of effective forward planning and development of efficiency 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 £45M of savings since the CSR2010 and the forecast over the next four years requires further savings of £9M giving a total savings target of £56.6M to 2021. The current plans identify £49.1M savings to 2021 leaving a £7.3M residual gap after taking into account precept growth. In addition the capital programme funding gap (**Appendix 10**) of £19.3M 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
2016/17* Plus NI increase	0.6%	5.4
Sub-Total		44.7
2017/18	1.4%	3.1
Forecast savings 2018/19	1.8%	1.1
Forecast savings 2019/20	2.2%	0.2
Forecast savings 2020/21	2.4%	0
Total VFM Plan Revenue Savings		49.1
Residual Gap Revenue		7.3
Total VFM Revenue Savings needed		56.4
Additional Capital Funding Gap		19.3

- 15.4 The change programme implemented by the Chief Constable has been fundamental in delivering the £45M cash releasing savings delivered to 2017 whilst at the same time improving operational performance with notable achievements being as follows :
- Victim satisfaction propelled from the worst force in England and Wales in 2007 to a top five position among forces in England and Wales.
 - **1st in the country for visibility of policing (report by the Home Office)**
 - **Has invested** in mobile technology, transforming the way we work..
 - **1st in the country for positive outcome rate for Violence with Injury.**
 - **1st in the country for positive outcome rate for Domestic burglary.**
 - **6th best in the country for positive outcome rate for Sexual Offences.**
 - **3rd best in the country for positive outcome rate for Robbery**

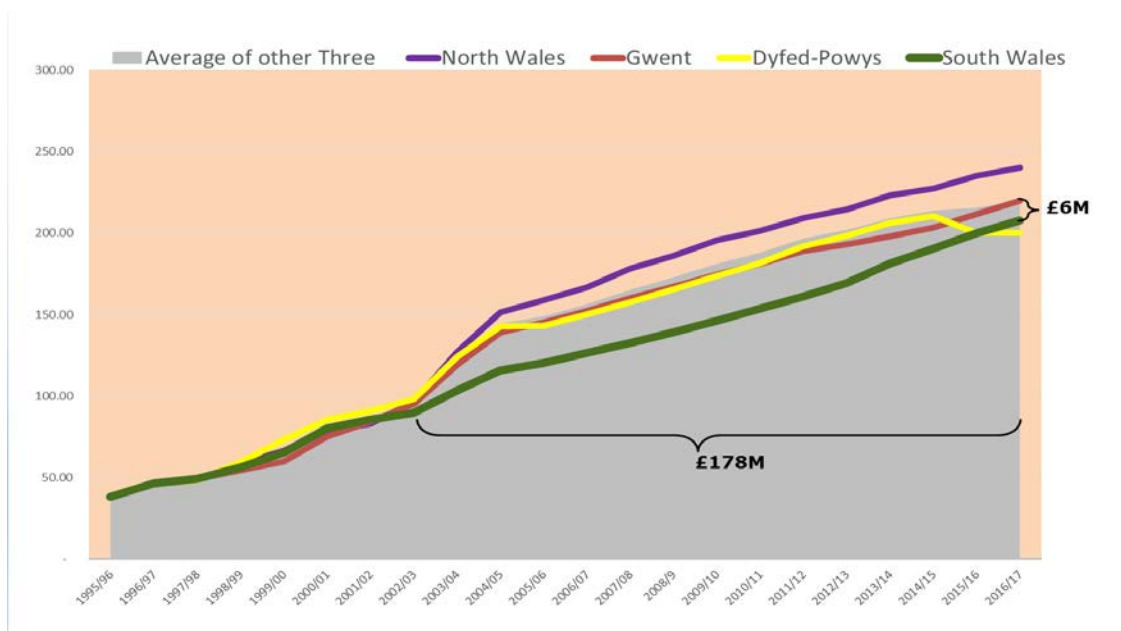
- **3rd best in the country for positive outcome rate for racially and religiously aggravated crimes**
 - Anti Social Behaviour reduced by over 60,000 incidents p.a.
 - Detections at an all time high particularly burglary and violence against the person
 - Public confidence improved by 50%
 - Excellent improvements in closing the Black and Minority Ethnic (BME) gap in victim satisfaction
 - A modern vehicle fleet and a new workshop that is fit for purpose
 - Modernised and legislatively-compliant custody facilities
 - A consistent and protected model of neighborhood policing. (HMIC is concerned that many forces have eaten into neighbourhood policing).
 - A beacon Public Service Centre shared with two fire Authorities and a Clinical Wales Ambulance Service Desk.
 - Maintained Assets in support of the National UK wide Strategic Policing Requirement.
- 15.5 The latest announcements by the Chancellor, Home Office Ministers and the Office of Budget Responsibility all confirm a continued reduction in public expenditure beyond 2021. This is predicated on the national structural budget deficit now being addressed until the next parliament as well as uncertainties around economic consequences from Brexit.
- 15.6 Given the national economic circumstance a sustained efficiency drive is unavoidable 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.
- 15.7 The Financial Strategy sets out the scale of the task arising from the funding reductions imposed by CSR2010 and CSR2016. 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.**
- 15.8 Despite every effort to maintain the staffing levels on which the force depends, a reduction in police officers and police staff establishment of 1,132 posts since the CSR 2010 has resulted, in order to deliver an affordable service. A reconciliation of the proposed establishment changes is detailed at **Appendix 12.**
- 15.9 The plan assumes an increase of 44 police officers to address the vulnerability gap taking the funded establishment to 2,844 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. The pre austerity establishment was 3,244 and therefore 400 police officer posts have been lost since austerity was imposed. Her Majesty's 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.

- 15.10 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.
- 15.11 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 2017/18 budget can be balanced through a combination of cuts and precept increases the 2018 to 2021 budgets remain unbalanced by a significant sum of £10M on the Revenue account and £20M on the required capital programme. Work is going at pace to address this over the next 12 months.
- 15.12 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. A clear operational need to address vulnerability requires a growth in both Police Officer and Staff establishments and the rate of this growth is entirely dependent upon the level of police precept. It is also clear that any further funding reductions on top of the unfunded forecast gap would materially threaten policing resilience in South Wales.

16.0 POLICE PRECEPT AND BUDGET REQUIREMENT FOR 2017/18

- 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. 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 seen the lowest level of police precept in Wales for more than a decade.
- 16.2 Nationally the amount of local funding through precept compared to total funding varies between 14% in Northumbria to 54% in Surrey. In this context, the South Wales Police percentage of local funding is 38% (mid-point across 43 forces).

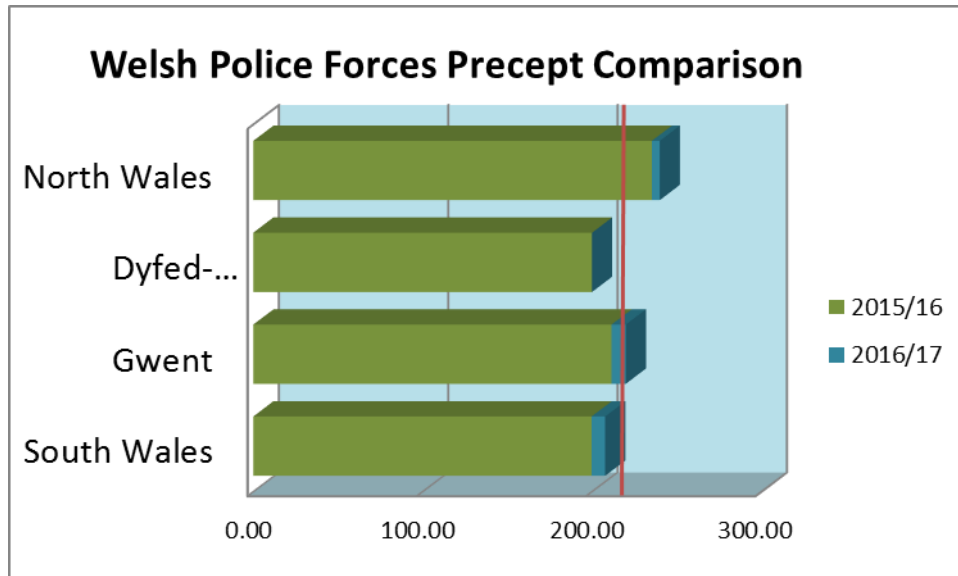
It is also important to note where the percentage of local funding is low those forces also gain from funding formula damping whereas in South Wales Police we lose £9M in formula funding due to damping.



- 16.3 It is important to note that the £6M differential in local police precept funding coupled with the other funding inequities disadvantages South Wales Police by £24M per annum as shown below:

Funding Inequities Impacting on South Wales Police	£M	Medium Term Financial Strategy Reference
Police Precept Differential Wales	6.0	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	23.4	

- 16.4 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 £75M over the past seven 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.
- 16.5 The 2016/17 average level of Police Precepts in Wales, excluding that of South Wales Police is £220.08. South Wales Police precept is currently £207.85 or £12.23 below the average which is equivalent to annual additional investment of £6M or sufficient to recruit up to 150 police officers.



16.6 The level of precept in 2016/17 for each Welsh force is:

Force	2016/17 £	Potential Impact of a 1% increase £
North Wales	240.12	2.40
Dyfed Powys	200.07	2.00
Gwent	220.06	2.20
South Wales	207.85	2.08

16.7 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 (£2.40 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 £12.00 but the same percentage results in an increase of £10.39 for a Band D in South Wales. Essentially to achieve parity with North Wales Police on income would require a 5.8% increase for South Wales Band D property (total additional income of £0.8M per annum).

- 16.8 The Commissioner and the Police and Crime Panel have considered the medium term financial implications in briefings and seminars during the current 2017/18 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.
- 16.9 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.
- 16.10 In preparing the detailed budget, all the above factors have been considered and addressed. The delivery of cash releasing efficiencies of £45M over the past six 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.
- 16.11 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.
- 16.12 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 23rd November to 16th December. Over 600 individuals and organisations were directly contacted.
- 16.13 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 20 Assembly Members and 15 MP's, over 40 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. Many of these partners circulated the consultation onwards through their networks. 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 think that the council tax precept proposal to be very reasonable.

An increase of 3% would be more acceptable to the taxpayer but service levels compared to costs and price to pay have to be considered.

The majority of people within communities would accept a small increase in council tax to fund additional police presence on the streets as long as they could see the physical outcomes of the expense.

There should be no increase in the precept, recognising that ordinary people have no additional resources to pay for any increase.

Neighbourhood policing needs to be maintained to the highest possible level.

A strong presence provides comfort to people living in their own communities.

- 16.14 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 an effective police force in South Wales. I have carefully considered this balance of views in formulating my precept proposal.
- 16.15 It is important to recognise that the Financial Strategy currently matches every £1 increase in police precept with nearly £1.60 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.
- 16.16 South Wales Police has seen its grant funding reduced by over £45M 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.

16.17 The Commissioner has considered Police Precept Proposals of 4%, 5% and 6% and the resulting implications which are summarised below:

Police Precept at 4%

16.18 This same level of precept rise as the previous year fails to even begin to address the vulnerability gap. During 2016/17 we have sought to accelerate recruitment of additional resources through non-recurrent funding particularly 31 police staff posts into Child Sexual Exploitation, Serious Sexual Offences, Internet Enabled Crime, Management of Sex and Violent Offenders as well as vulnerable adults.

16.19 A 4% precept would necessitate drawing on local policing resources to meet the vulnerability gap and that is something that we wish to avoid. South Wales Police had the highest level of police visibility in Wales and England last year and that is what the public expect. We need to protect those resources.

16.20 A 4% police precept also fails to meet the long term objective of South Wales police local funding being at the median of the forces in Wales. South Wales has been below the median for more than a decade with a funding loss of £178M. This has been a key cause of poor investment and condition of the police estate and infrastructure for technology and transport.

16.21 A 4% police precept results in a budget gap of £5M and a vulnerability funding gap of £6M and has therefore been rejected as a sound funding proposal.

Police Precept at 5%

16.22 The recommended level of police precept in respect of 2017/18 is to increase the Police precept by 5%, which will raise £5M but still means that South Wales Police will have to deal with a budget gap of £3.1M next year and nearly £9.3M to 2021 based on prudent assumptions.

This level of funding does however, regularises the current non-recurrent investment into the vulnerability gap but still leaves a significant £5M required investment to be deferred into following years. The Commissioner is cognisant of this and the Panel will need to consider this in future precept decisions.

16.23 The financial implication of a 5% police precept are outlined below and detailed at Appendix 13.

	2016/17	2017/18	2018/19	2019/20	2020/21
Band D Precept	£207.85	£218.24	£229.15	£240.61	£252.64
Annual Increase in Precept	£7.99	£10.39	£10.91	£11.46	£12.03
Weekly Increase in Precept	£0.15	£0.20	£0.21	£0.22	£0.23
Percentage increase	4%	5.0%	5%	5%	5%

16.24 Whilst a 5% increase in the police precept enables the Chief Constable to sustain current level of Police Officer numbers and start to make inroads into the Vulnerability

Gap, 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.

A 5% increase would add £10.39 to the annual Band D precept which equates to an increase of 20p 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 13p and 18p extra per week if they are not in receipt of any council tax discounts or benefits. 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.**

- 16.25 The Panel should note that a 5% increase to the Police precept results in a £218.24 council tax on a Band D property. This gives a total precept requirement of £105,382,518 which would be precepted on the relevant billing Authority in accordance with Appendix 13. On this basis the resulting Net Revenue Budget Requirement for 2017/18 would be £262,789,079 and this reflects the Capital Plan and Value for Money Plan saving requirements of £3,062,088.

Police Precept at 6%

- 16.26 Alternatively the Panel may wish to give consideration to increasing the Police precept by a further 1% (£2.08) to accelerate the investment into protecting vulnerable people. This would result in a £220.32 council tax on a Band D property. This gives a total precept requirement of £106,386,154 which would be precepted on the relevant billing Authority in accordance with Appendix 14. The Net Revenue Budget Requirement would be £263,792,715 and this reflects the Capital Plan and Value for Money Plan saving requirements of £3,062,088.

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			%
	2016/17	2017/18	Change	
Cardiff County Council	141,288.00	143,032.00	1,744.00	1.2%
City & County of Swansea	89,151.00	89,465.00	314.00	0.4%
Bridgend County Borough	51,916.19	52,759.01	842.82	1.6%
Merthyr Tydfil County Borough	17,896.23	18,069.24	173.01	1.0%
Neath Port Talbot County Borough	46,538.38	46,641.68	103.30	0.2%
Rhondda Cynon Taff County Borough	74,301.87	74,978.22	676.35	0.9%
The Vale of Glamorgan Council	56,550.00	57,920.00	1,370.00	2.4%
Total Council Tax Base	477,641.67	482,865.15	5,223.48	1.1%

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 2017/18 and 2020/21. Increase in demand and additional costs, such as the increase in the costs of police training and technology infrastructure mean that this will only be partly offset by a Council Tax strategy that assumes 5% 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 2017/18 is forecast to deliver sufficient savings to balance the 2017/18 budget. However, beyond 2017/18, the current plan is insufficient to produce a balanced budget throughout the Medium Term Financial Plan horizon and shows a residual budget gap of £6M for revenue and £20M for capital by 2021. 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 2017/18 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 develop further savings proposals to address the residual budget gap of £25M for the planning period to 2021.

**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 £3M of further cuts on top of the £45M delivered in 2011 to 2017 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 2021.

21.4 It is important to note that there is still a shortfall in the Value For Money plan (Revenue Account) of £7M based on the national projections on future police funding levels and risk assessed resource requirements whilst modelling a 5% precept increase per annum to 2021.

21.5 There has been a significant contraction in Capital Funding and the programme has an unfunded pressure of £20M.

21.6 The 5% police precept proposal is therefore the minimum necessary to maintain an effective police service in 2017/18 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.

- 21.7 Addressing the Vulnerability Gap is recognised as priority by the Commissioner, the Chief Constable and the Police and Crime Panel. A further 1% increase precept would yield a £1M of additional income and fund 20 police officers into the Protecting Vulnerable People resource gap. Consequently Appendix 14 sets out the implications on a Band D property of this as a further £2 per annum or 4p per week.

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 of 2017/18 which is in line with previous briefings to the Police and Crime Panel and is also consistent with the medium term financial projections.**
- 2. That the Panel notes that a 5% recommended increase to the Police precept results in a £218.24 council tax on a Band D property. This gives a total precept requirement of £105,382,518 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 2017/18 would be £262,789,079 and this reflects the Capital Plan and Value for Money Plan saving requirements of £3,062,088.**
- 4. Alternatively the Panel may wish to give consideration to increasing the Police precept by a further 1% (£2.08) to accelerate the investment into protecting vulnerable people. This would result in a £220.32 council tax on a Band D property. This gives a total precept requirement of £106,386,154 which would be precepted on the relevant billing Authority in accordance with Appendix 14. The Net Revenue Budget Requirement would be £263,792,715 and this reflects the Capital Plan and Value for Money Plan saving requirements of £3,062,088.**

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 2017/18 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 5% 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 2017 to 2018 (National Assembly for Wales)
Police Grant Report England and Wales 2017 to 2018 (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 2015/16
- Appendix 4 Summary of the Police Revenue funding announcement for 2017 - 2021
- Appendix 5 Funding Inequities Impacting on South Wales Police
- Appendix 6 South Wales Police Budget Summary 2017/18 to 2020/21
- Appendix 7 Reconciliation of Revenue Budget Changes 2016/17 to 2017/18
- Appendix 8 Detailed Analysis of Revenue Budget Changes 2016/17 to 2017/18
- Appendix 9 Police & Crime Commissioner Budget 2017/18
- Appendix 10 Summary Capital Programme and Financing Arrangements 2017/18 to 2020/21
- Appendix 11 Value for Money Plan 2017/18 to 2020/2021
- Appendix 12 Reconciliation of Establishment Changes
- Appendix 13 5% Police Precept 2017/18 implications
- Appendix 14 6% Police Precept 2017/18 implications

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.

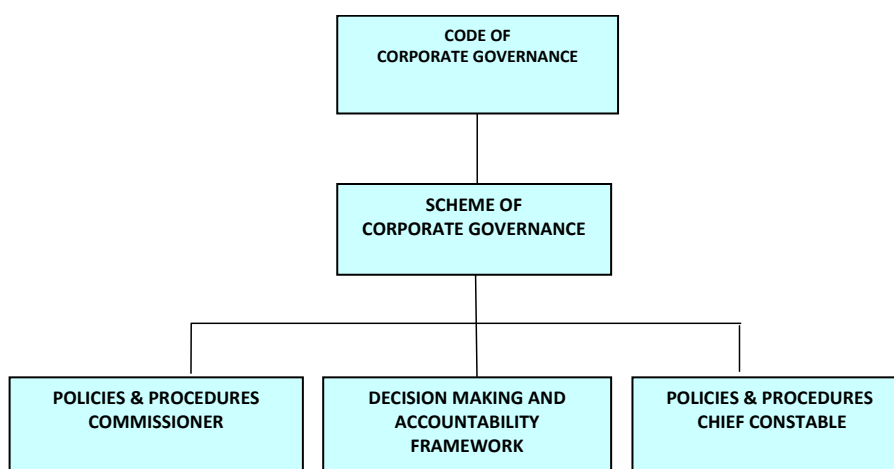
5.0 The Chief Executive (Chief of Staff) to the Police and Crime Commissioner

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.

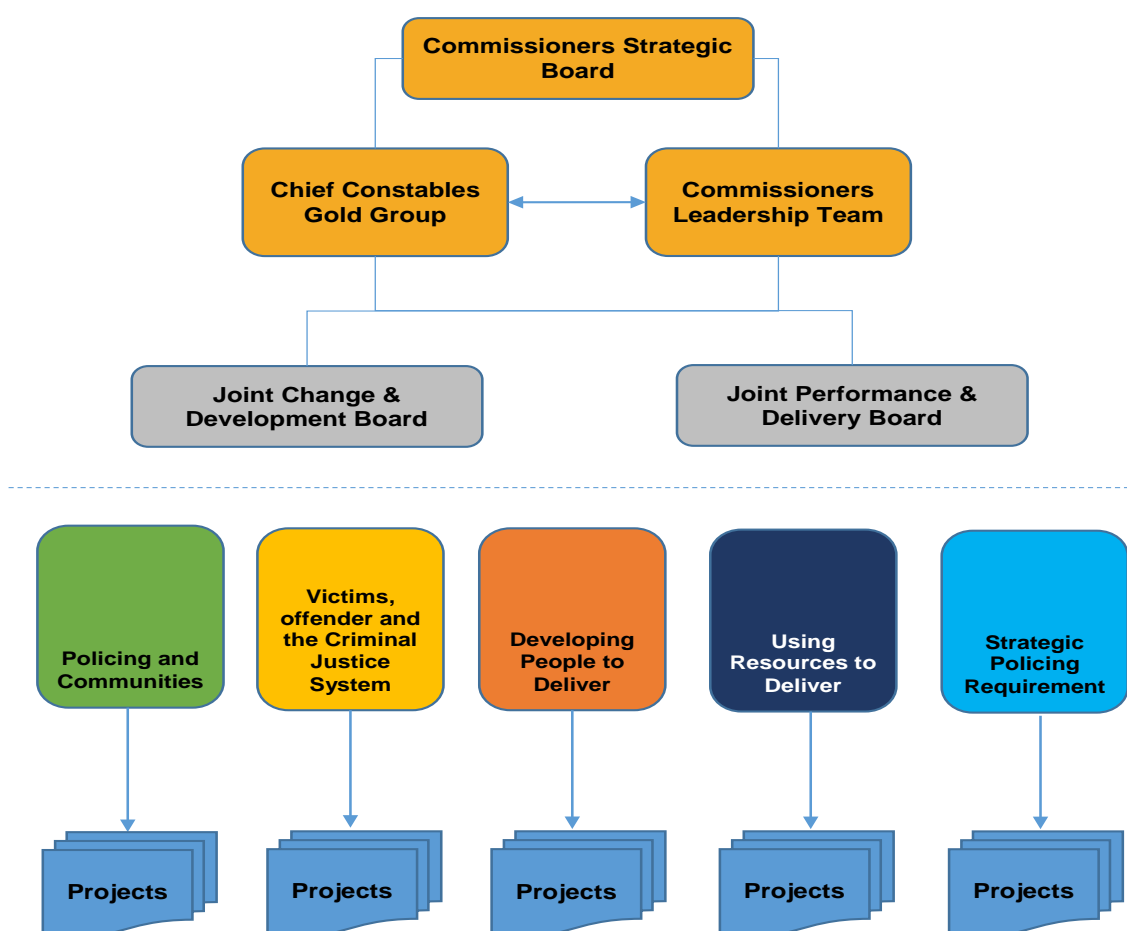


7.0 **Commissioners Strategic Board**

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 arrangement. 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 EFFICIENCY ASSESSMENT FOR SOUTH WALES POLICE 2016

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



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU
Audit year: 2015-16

APPENDIX 3

Archwilydd Cyffredinol Cymru Auditor General for Wales

This document has been prepared for the internal use of Police & Crime Commissioner for South Wales and the Chief Constable of South Wales Police as part of work performed in accordance with statutory functions.

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

Report for 2015-16 - Police & Crime Commissioner for South Wales and Chief Constable of South Wales Police

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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 2016.
- 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 corporations' sole 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 has discussed and agreed these reports with officers and presented them to the Police and Crime Commissioner, the Chief Constable and Joint Audit Committee. My 2016 Audit Plan set out the financial statements audit risks for 2016, and [Appendix 2](#) shows how they were addressed as part of the audit.

I issued unqualified opinions on the 2015-16 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 their responsibility 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 2015-16 and relevant regulations.

6 On 30 September 2016, 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 The draft financial statements were signed by the Chief Financial Officers to the Commissioner and the Chief Constable on 30 June 2016, in line with the statutory deadline. We received these draft financial statements for the year ended 31 March 2016 on 6 July 2016, in line with the agreed audit timetable.

8 The quality of the draft accounts submitted for audit was a further improvement on the previous year, reflecting additional work on the part of management and staff as part of the year-end closedown process. We found the information and working papers provided to support the accounts to be relevant, reliable, comparable, and easy to understand. We concluded that accounting policies and estimates were appropriate and financial statement disclosures unbiased, fair and clear. There were no significant difficulties encountered during the audit. We received information in a timely and helpful manner and were not restricted in our work.

9 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

16 September 2016. 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, unqualified opinions given.
Unadjusted misstatements.	No uncorrected misstatements.
Views about the qualitative aspects of the entity’s accounting practices and financial reporting.	No matters reported.
Matters corresponded upon with management.	No matters corresponded upon with management.
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 Chief Constable had appropriate arrangements in place in the year to secure economy, efficiency and effectiveness in their use of resources

10 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;
- 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.

11 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 1](#). For each question, I consider whether there are gaps in the arrangements expected to be in place, and the significance of those gaps.

24 The Commissioner and Chief Constable have well established frameworks in place to set, consult on and monitor performance against strategic objectives and priorities

12 We found that the Commissioner has set out his priorities and objectives clearly. A Police and Crime Reduction Plan 2015-18 was already in place for this purpose, with the introduction of a new Police and Crime Reduction Plan 2016-21 in January 2016. The respective Plans are underpinned by the Chief Constable's Delivery Plan.

13 Review and monitoring of progress against the Commissioner's priorities and objectives has been performed by the Joint Planning and Performance Group under the 2015-18 Plan, which in turn reported to the Commissioner's Strategic Board. However, from January 2016 five 'Bronze' Boards have been established (each with representation from the Commissioner and Chief Constable) to review and monitor progress against the priorities set out in the revised 2016-21 Plan. These arrangements have ensured an appropriate level of scrutiny and challenge during the year.

14 The Commissioner has consulted widely on the priorities to be included in both Police and Crime Reduction Plans, as well as other key projects such as the recent Community Remedy Scheme. The Commissioner and Chief Constable meet

regularly with the Leaders and Chief Executives of all seven Local Authorities within the Force's boundaries, and also engage with the wider public, with a Joint Consultation Team in place to manage this work. This indicates a strong level of engagement with partners and the wider public.

15 The Commissioner's Strategic Board and the Chief Constable's Gold Group are responsible for monitoring the operational performance of the Force. This includes monitoring of financial performance and value for money savings plans. As noted above, governance arrangements below this level have changed since January 2016. The independent Police and Crime Panel (the Panel) receives and discusses regular performance and outturn reports on a wide range of operational issues. The Panel also scrutinises and comments on strategy papers produced by the Commissioner.

16 The systems of internal control and governance have developed in 2015-16. The Manual of Corporate Governance (reviewed annually) sets out the Hallmarks of Relationships between the Commissioner and Chief Constable, schemes of delegation, financial regulations and contract standing orders. A new Independent Ethics Committee was also established in November 2015 to provide advice and guidance to the Commissioner and Chief Constable on ethical matters. A Joint Risk Register was produced prior to January 2016 and reported to the Commissioner's Strategic Board and Audit Committee. Since January 2016, five revised Registers of Uncertainty have been produced which are reported to the five 'Bronze' Boards established by the Commissioner and Chief Constable.

17 The Joint Audit Committee formally met four times in 2015-16 to consider the results of the work of Internal Audit and ourselves. The Joint Audit Committee continues to work well, providing appropriate assurances and recommendations to the Commissioner and Chief Constable, and producing an annual report summarising its work.

18 The Commissioners and Chief Constables of the four forces in Wales meet regularly in the All Wales Policing Group to consider issues and coordinate responses. This group developed a standard Memorandum of Understanding for all-Wales collaborative work, which sets out the monitoring and scrutiny arrangements for such work. This Memorandum of Understanding has also been adopted by the Commissioner across his collaborative arrangements. A Southern Wales Collaboration Board also met four times in 2015-16 to receive updates on current collaboration schemes, consider business cases for potential future collaboration and review the ongoing financial impacts of any such ventures.

19 Our audit work on the Commissioner's and Chief Constable's 2015-16 financial statements and Annual Governance Statements did not identify any significant weaknesses in the systems of control, with only minor improvements recommended to management.

20 There are some areas of arrangements for the Commissioner and Chief Constable to develop in 2016-17. Alongside the recommendations from our national and local reports on Community Safety Partnerships, the revised governance and risk

management arrangements will need to be consolidated, and to continue the appropriate governance of collaboration as further joint arrangements are considered by the Force.

21 Reviews conducted by HMIC support my conclusions about arrangements to secure an efficient and effective police service. Alongside their reviews of specific aspects of the Force's operations, HMIC also conduct an overall review of police effectiveness, efficiency and legitimacy (PEEL). HMIC published its 2015 PEEL assessment and a review of the Force's leadership in February 2016, and the efficiency element of the 2016 PEEL assessment was published in November 2016. Further details of the PEEL methodology and the detailed PEEL assessment conclusions relating to South Wales Police are available on HMIC's website at <http://www.justiceinspectrates.gov.uk/hmic/>.

25 The Commissioner and Chief Constable met their revenue budgets for 2015-16, and continue to respond positively to significant financial challenges

22 Against a total budget requirement for the year of £257.0 million, the Commissioner reported a small underspend of £0.2 million. Transfers from earmarked reserves ensured that the Police Fund General Reserve was maintained at £9.2 million at 31 March 2016.

24 In 2016-17, the Commissioner and the Chief Constable continue to receive regular reports from the Chief Finance Officer and the Director of Finance, respectively, on expenditure and position against budget. This information is also provided to the Strategy Board. There is increasing pressure to identify savings that, alongside council tax precept increases, will cover the predicted cumulative financial deficit of

£96.0 million to 31 March 2020 identified from the 2010 and 2013 Comprehensive Spending Reviews. Total cumulative savings/cost reductions of £39.4 million were delivered by 31 March 2016, and include £7.0 million of savings delivered in 2015-16. Further savings of £19.0 million are forecasted to be required over the next four years to 31 March 2020, alongside council tax precept increases, in order to cover the cumulative financial deficit.

26 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.

27 The South Wales Police and Crime Commissioner provides effective leadership on community safety but complex working arrangements and poor alignment of plans are creating barriers to improvement

28 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 formed part of a national study, undertaken at an all Wales (Welsh Government), regional (Commissioner area) and local (local authority/Community Safety Partnership) levels.

29 The Auditor General for Wales published his national report on 18 October 2016 and provided conclusions on the work of all of the partners involved in the management of community safety in Wales. The national report [Community safety in Wales](#) is available on our website.

30 We also produced a specific 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. In this local report we concluded that **The South Wales Police and Crime Commissioner provides effective leadership on community safety but complex working arrangements and poor alignment of plans are creating barriers to improvement**. We reached this conclusion because:

- the Commissioner provides effective leadership on community safety;
- the Commissioner has appropriate plans and strategies for addressing community safety however other plans for community safety within the region are not sufficiently integrated or aligned;
- the Commissioner is working effectively with partners to deliver their community safety priorities;
- the Commissioner is continually striving to improve value for money in community safety; and
- the Commissioner has appropriate performance management systems but could do more to explain the information to the public and partners.

31 We are aware that since our fieldwork, some organisations continue to develop and review their work on community safety. We 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.

32 Based on the Commissioner's and Chief Constable's Annual Governance Statements and the work carried out as described above, 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 their responsibilities 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

I issued a certificate confirming that the audit of the accounts had been completed on 30 September 2016

30 I issued a certificate confirming that the audit of the accounts for the Commissioner and the Chief Constable had been completed on 30 September 2016.

31 I estimated in the Audit Plan 2016 that the 2015-16 audit fee would be £106,670. The actual audit fee is in line with my original estimate.

Appendix 1

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

Exhibit 2: Criteria for assessing arrangements

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	Has the Commissioner/Chief Constable put in place arrangements to evaluate and improve the value for money he achieves in his use of resources?
	Has the Commissioner/Chief Constable put in place arrangements to ensure that his spending matches his available resources?
	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?
Proper standards of conduct etc	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?
	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?

Appendix 2

Significant audit risks

My 2016 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.

Exhibit 3: Significant audit risks

Significant audit risk	Proposed audit response	Work done and outcome
<p>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].</p> <p>In particular, the ongoing financial constraints (and cost savings requirements) arising from recent UK Government comprehensive spending reviews increase the risk of management override.</p>	<p>My audit team will:</p> <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. 	<p>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.</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>A number of changes to the notes to the accounts were made as a result of this work and disclosures are in line with accounting requirements.</p>
<p>There will be Police & Crime Commissioner elections in May 2016 which could impact on production and</p>	<p>My audit team will liaise with management to identify areas of the accounts production process that could be affected by these upcoming</p>	<p>No significant issues were noted.</p>

Significant audit risk	Proposed audit response	Work done and outcome
audit of key documents during the year.	elections, and will work to ensure that any potential disruption is minimised.	
There is a planned restructure of the Finance department during the year.	We will liaise with management to determine the progress of this restructure, and how it will affect the logistics of accounts production and our financial audit.	No significant issues were noted from the financial restructure and our testing on the associated costs.
There were a number of separate provision balances and contingent liability disclosures included in the 2014-15 financial statements. We are aware that there have been developments with regard to a number of these balances and disclosures during the year.	My audit team will review all significant provision balances and contingent liability disclosures, and assess the impact of any developments occurring during the year on the financial statements.	We tested the provision balances and contingent liability disclosures and no significant issues were noted.
Work is ongoing to identify jointly-controlled operations which require disclosure under the Code and audit regulations. This work will require co-ordination with other Welsh forces to determine agreed outcomes and consistency across Wales.	My audit team will liaise with management and offer assistance during this work where required, to ensure that all jointly controlled operations are identified and reported upon accurately in the financial statements.	Appropriate adjustments were made to the 2015-16 financial statements to reflect the calculated share of benefit from collaborative operations. Further work with other Welsh forces is needed to provide this information earlier for 2016-17.
The Home Office and Ministry of Justice have provided several funding streams to the Commissioner in the year.	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.	No significant issues were noted.

Summary of the Police Revenue Funding Announcement for 2017-2021

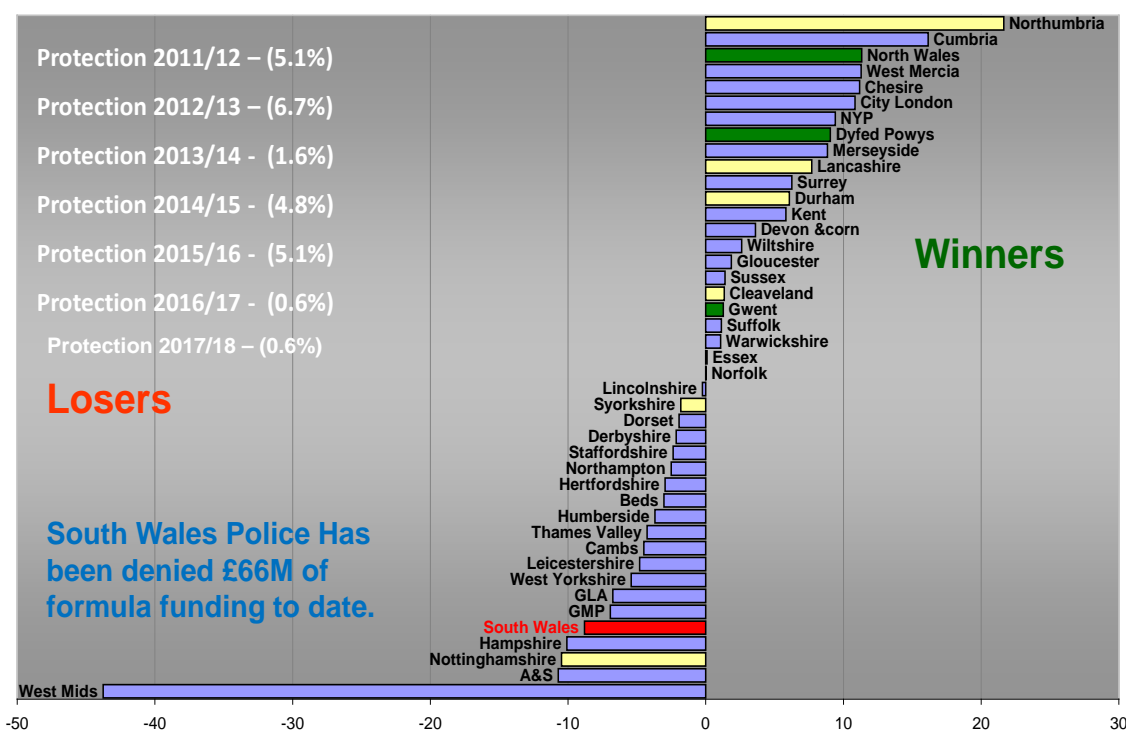
	2014/15 £M	2015/16 £M	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M
Total Formula Funding:							
Police Core Settlement	4,585	4312	4290	4233	4233	4233	4233
of which Home Office Police Main Grant	4,407	4136	4112	4055	4055	4055	4055
National, International and Capital City Grant (MPA/MoPC only)	176	174	174	174	174	174	174
City of London Capital City Grant	2	3	5	5	5	5	5
DCLG General Grant	2,926	2820	2802	2765	2765	2765	2765
of which formula funding	2,924	2818	2800	2763	2763	2763	2763
of which Ordnance Survey	2	2	2	2	2	2	2
WAG General Grant	140	135	137	139	139	139	139
National Police Co-ordination Centre	2	0					
National IT Cost Recovery	0			1	1	1	1
CORE SETTLEMENT	7,653	7,267	7,229	7,138	7,138	7,138	7,138
Total Home Office Specific Grants:	819	919	1,130	1,362	1,492	1,647	1,647
Comprising....							
Welsh Top-up	13	13	9.9	5.9	5.9	5.9	5.9
Counter Terrorism Specific Grant	564	564	640	670	670	670	670
Police Innovation Fund	50	70	55	0	0	0	0
Independent Police Complaints Commission	18	30	32				
College of Policing (for direct entry schemes)	3	5	5				
HMIC for regular force inspections	9	9	9				
Arms Length Bodies - HMIC- IPCC- COP				54	54	54	54
Police Special Grant		15	25	50	50	50	50
Major Programmes		40	22				
GLAA + Pre Charge Bail				17	17	17	17
Transformation Fund includes £32M CTSFO			76	175	175	175	175
PFI Grant	73	73	73	73	73	73	73
Legacy Council Tax Freeze Grants							
of which legacy Council Tax - England	23	31	31	31	31	31	31
of which legacy Council Tax (11/12) Freeze Grant	59	59	59	59	59	59	59
of which legacy Council Tax (13/14) Freeze Grant	7	7	7	7	7	7	7
of which legacy Council Tax (14/15) Freeze Grant		3	3	3	3	3	3
of which legacy Council Tax (15/16) Freeze Grant			4	4	4	4	4
ESN Migration			80	213	343	498	498
Total Government Funding	8,479	8,186	8,359	8,500	8,630	8,785	8,785
% cash change in Total Government Funding	-3.3%	-3.5%	2.1%	1.7%	1.5%	1.8%	0.0%
Adjustments							
Legacy Council Tax Grants DCLG		404	404	404	404	404	404
DCLG freeze grants MOPAC and City Of London Police		37	37	37	37	37	37
Airwave		204	204	204	204	204	204
Central Government Funding including CT	8,479	8,831	9,004	9,145	9,275	9,430	9,430
NCA Baseline adjustment		14	14	28	28	28	28
CT		(564)	(640)	(670)	(670)	(670)	(670)
Total Government funding Excl CT		8,281	8,378	8,503	8,633	8,788	8,788
FIGURES FROM HANSARD (EXCL CT)		8,271	8,378	8,497	8,631	8,785	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 **£75M**.

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 £75m 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.

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, whereas 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.

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 49% 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
2017/18 - 2020/21

APPENDIX 6

	Actual Budget 2016/17 £000	Forecast Budget 2017/18 £000	Forecast Budget 2018/19 £000	Forecast Budget 2019/20 £000	Forecast Budget 2020/21 £000
Employees					
Police Officers	131,700	129,448	132,042	133,933	135,272
Police Staff	59,940	67,310	67,983	68,663	69,350
Police Community Support Officers	13,447	13,956	14,096	14,237	14,379
Police Pensions (net)	30,052	29,028	30,238	30,671	30,977
Total Employee Costs	235,139	239,742	244,359	247,503	249,978
Running Exps					
Non Pay to be split below		Nominal Split			
Indirect Staff	1,832	1,944	3,993	5,043	5,094
Premises Costs	9,754	10,353	10,612	10,877	11,149
Transport Costs	4,919	5,221	5,351	5,485	5,622
Supplies and Services	18,792	19,945	20,444	20,955	21,479
Agency and Contracted Services	9,485	10,067	10,319	10,577	10,841
Total Running Expenses	44,782	47,531	50,719	52,937	54,185
Capital Financing Costs	5,822	10,608	10,608	10,608	10,608
Total Expenditure	285,743	297,881	305,686	311,048	314,771
Income					
Specific Grants	(13,224)	(16,207)	(16,207)	(16,207)	(16,207)
Specific Grants- WG PCSOs	(6,910)	(7,180)	(7,180)	(7,180)	(7,180)
Other Income	(6,691)	(8,642)	(8,642)	(8,642)	(8,642)
Total Income	(26,825)	(32,029)	(32,029)	(32,029)	(32,029)
TOTAL NET REVENUE EXPENDITURE	258,918	265,852	273,657	279,019	282,742
Grants and Precepts - Based on					
Police Grant	(97,592)	(96,229)	(96,229)	(93,396)	(89,995)
NNDR/RSG	(72,176)	(73,341)	(73,341)	(73,341)	(73,341)
Rule 1	10,129	12,163	12,163	12,163	12,163
Anticipated Reduction in Funding (1.8% 18-19, 2.2% 19-20, 2.6% 20-21)			2,833	3,401	3,930
Total External Support	(159,639)	(157,407)	(154,574)	(151,173)	(147,243)
Precepts on Billing Authorities	(99,279)	(105,383)	(111,205)	(117,349)	(123,832)
TOTAL RESOURCES	(258,918)	(262,790)	(265,779)	(268,522)	(271,075)
Cumulative Unfunded Expenditure	0	3,062	7,878	10,497	11,667
Value For Money Plan Savings	0	(3,062)	(4,206)	(4,406)	(4,406)
Residual Budget Gap	0	0	3,672	6,091	7,261
TAXBASE Est 0.5% increase p.a from 18/19 onwards	477,641.67	482,865.15	485,279.48	487,705.87	490,144.40
BAND D PRECEPT AT 5%	£207.85	£218.24	£229.16	£240.61	£252.64

REVENUE BUDGET 2017/18
RECONCILIATION OF CHANGES 2016/17 to 2017/18

Increases in Budget above 2016/17**Unavoidable Costs**

	Expenditure		Band D Equivalent Tax Net of External Funding as per settlement	
	£000	%	£	%
Pay Inflation and Incremental Drift (inc Winsor)	4,521	1.7%	9.36	4.5%
Other Inflation	817	0.3%	1.69	0.8%
Base Budget Adjustments and Re-allocations	4,848	1.9%	10.04	4.8%
Specific Grant Allocations	(3,253)	-1.3%	(6.74)	(3.2)%
Revised Police Grant/RSG/NNDR	2,232	0.9%	4.62	2.2%
Change in Budget Requirement	9,165	3.5%	18.98	9.1%

Budget Balance Actions

Additional Value For Money Plan Savings	(3,062)	(1.2)%	(6.34)	(3.1)%
Tax Base Increase	(1,086)	(0.4)%	(2.25)	(1.1)%
Balance of Funding from Police Precept Increase	(5,017)	(1.9)%	(10.39)	(5.0)%
Residual Balance	-			

**SOUTH WALES POLICE
ANALYSIS OF REVENUE BUDGET CHANGES- 2016/17 to 2017/18**

APPENDIX 8

	£'000	£'000
Pay & Pensions Inflation and Incremental Drift		TOTAL
<u>Police Officers</u>		
Pay Award	1,574	
Re-based establishment including Incremental drift/ rank structure	(1,266)	
Ill Health Retirement	(300)	
Vulnerability Gap/ Additional 44 Posts	1,331	
Apprenticeship Levy	600	
Increase in Vacancy Factor	(5,148)	
Net changes in externally funded posts	95	
<u>Overheads & Allowances</u>		
Housing, Rent, CRTP & Allowances	(456)	
Overtime	212	
		(3,358)
<u>Police Staff</u>		
Pay Award	725	
Incremental Drift/ Scale Changes/ W/E Shift	644	
Apprenticeship Levy	300	
Staff Pension rate increase	2,046	
Living Wage	15	
33 Vulnerability Gap Posts	1,217	
Apollo Indexer Posts (externally funded)	1,416	
Regularise recurring budget requirements e.g Fusion	795	
Net Increase Staff Costs PCC	150	
Changes in other Externally Funded Posts	571	
		7,879
Sub - Total Pay & Pensions Inflation and Incremental Drift		4,521
<u>Other Inflation</u>		
Inflation, Contracts & Utilities	905	
Inflationary Increases on Income	(88)	
Sub - Total Other Inflation		817
<u>Base Budget Adjustments and Re-allocations</u>		
Net Base Budget Adjustments	89	
Direct Revenue Financing	4,787	
PCC- Base budget changes	265	
Changes in External Funding	(293)	
Sub - Total Base Budget Adjustments and Re-allocations		4,848
<u>Specific & General Grant</u>		
Misc Changes in Specific External Funding	(3,253)	
Decrease in Police Grant/RSG/NNDR - CSR 2010	2,232	
Sub - Total Specific & General Grant		(1,021)
Tax Base Increase		(1,086)
Total Standstill Budget Requirement		8,079
5% Precept Increase		(5,017)
Total Unfunded Expenditure		3,062

POLICE & CRIME COMMISSIONER BUDGET CHANGES

2017/18 BUDGET	2016/17	2017/18	Variance
	Budget	Budget	
Commissioners Budget	£'000	£'000	£'000
Staff Salary Costs	845	1,229	
Officer Salary Costs	58	58	
Indirect Employee Costs	23	30	
Premises Costs	4	4	
Transport Costs	26	26	
Supplies & Services	98	228	
Sub-total	1,054	1,575	521
Community Safety Fund			
Dyfodol- Offender Interventions	2,374	2,324	
Drug Testing Programme	110	-	
Community Safety Partnerships	625	625	
Youth Offending Teams	332	332	
Contingency for In-Year Decisions	35	35	
Sub-total	3,476	3,316	- 160
Total	4,530	4,891	361

Capital Programme Budget 2017/18 and Forecast to 2020/21

APPENDIX 10

Description	Budget Profile					
	2016/17 PROJECTED OUTTURN	2017/18	2018/19	2019/20	2020/21	4 Year Future Total
	£'000	£'000	£'000	£'000	£'000	£'000
Infrastructure Maintenance						
Estates Essential and Legislative Works	1,630	2,648	1,829	2,535	2,081	9,093
Fleet	2,470	2,401	2,005	1,936	1,946	8,288
Information Services	1,435	2,262	3,697	2,262	2,872	11,093
Other	1,120	10	10	10	10	40
Total Infrastructure Maintenance	6,655	7,321	7,541	6,743	6,909	28,514
One - Off Projects to be Internally Funded						
Estates	2,176	8,000	12,000	9,500	13,500	43,000
Information Services	1,059	3,165	5,313	3,365	0	11,843
Total One - Off Projects to be Internally Funded	3,235	11,165	17,313	12,865	13,500	54,843
Projects Supported By External Funding						
Estates - Externally Funded Projects	9,414	0	0	0	0	0
Information Services - Externally Funded Projects	3,082	4,813	1,700	1,570	2,161	10,244
Total Projects Supported By External Funding	12,496	4,813	1,700	1,570	2,161	10,244
TOTAL CAPITAL PROGRAMME	22,386	23,299	26,554	21,178	22,570	93,601
Summary of Funding						
Core Funding						
Baseline Capital Grants	1,149	1,000	1,000	1,000	1,000	4,000
Revenue Contribution	3,060	3,060	3,060	3,060	3,060	12,240
Additional Revenue Contribution		4,786	4,786	4,786	4,786	19,144
Additional Revenue Contribution initially planned to replace borrowing	1,671					0
Unsupported Borrowing		1,671	1,671	1,671	1,671	6,684
Total Core Funding	5,880	10,517	10,517	10,517	10,517	42,068
Grant Funding	590	5,365	0	0	0	5,365
Other Contributions	5,607	6,023	7,749	8,000	0	21,772
Specific Earmarked Reserves	13,374	288	0	0	0	288
Earmarked Capital Reserve	1,796	4,861	3,756	(4,533)	(7,193)	(7,193)
Total Funding Available	27,247	27,054	22,022	13,984	3,324	3,324
Capital Reserve Carried Forward	4,861	3,756	(4,533)	(7,193)	(19,246)	(19,246)
Total Capital Funding Shortfall		3,756	(4,533)	(7,193)	(19,246)	(19,246)

VALUE FOR MONEY PLAN 2017/18 TO 2020/21

APPENDIX 11

EVENTS	General Election	CSR 2010 Local Elections				General Election One Year Settlement	CSR2016 Local Elections			General Election	Local Elections		Total
	2010/11 Target	2011/12 Target	2012/13 Target	2013/14 Target	2014/15 Target	2015/16 Target	2016/17 Target	Total To Date	2017/18 Target	2018/19 Target	2019/20 Target	2020/21 Target	
	Cumulative												
	£'000	£'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	5,370	44,756	3,062	7,878	10,497	11,667	56,423
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	3,539	15,774	1,000	1,000	1,000	1,000	16,774
PCSO Numbers	-	679	-	-	1,000	2,000		3,679					3,679
De-civilianisation								-					-
Terms and Conditions + Transformation+ oncosts	-		-	700	959	420	489	2,568	-	-	-	-	2,568
Collaboration	-		-	-	-	359		359	131	1,000	1,000	1,000	1,359
Goods and Services	-	859	784	100	1,209	1,640	1,342	5,934	1,009	1,043	1,043	1,043	6,977
Transport	-	500	500	-	-	250		1,250	202	202	202	202	1,452
Estate	-	695	105	-	-	200		1,000	159	400	600	600	1,600
Capital Programme	-	-	-	-	-	1,000		1,000					1,000
Income	-	-	100	-	150	500		750	561	561	561	561	1,311
Value For Money Delivery	2,600	16,439	5,239	2,300	5,331	7,477	5,370	44,756	3,062	4,206	4,406	4,406	49,162
REVENUE SHORTFALL	-	-	-	-	-	-	-		0	3,672	6,091	7,261	7,261
CAPITAL PROGRAMME SHORTFALL										4,533	7,193	19,246	19,246
										8,205	13,284	26,508	26,508

SOUTH WALES POLICE
2017/18 BUDGET
ESTABLISHMENT MOVEMENTS FTE

APPENDIX 12

	VFM Plan Cuts	SWP Funded Projected	External Funded	Total Funded
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	-	2,800	137	2,937
2017/18	-	2,844	139	2,983
2018/19 - Forecast		2,894	139	3,033
2019/20 - Forecast		2,913	139	3,052
2020/21 - Forecast		2,913	139	3,052
	(444)			
Total Police Officers Funded Establishment in 2017/18		2,844	139	2,983

	VFM Plan Cuts	SWP Funded Projected	Welsh Gov Funded	Total Funded
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	-	200	206	406
2017/18	-	200	206	406
2018/19 - Forecast		200	206	406
2019/20 - Forecast		200	206	406
2020/21 - Forecast		200	206	406
	(125)			
Total PCSO Establishment 2017/18		200	206	406

	VFM Plan Cuts	WFT/ CDO/ Other Adj	SWP Funded Projected	External Funded	Total Funded
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		1,707
2013/14	(60)	13	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
2017/18	0	67	1,633	222	1,855
2018/19 - Forecast		2	1,635	222	1,857
2019/20 - Forecast			1,635	222	1,857
2020/21 - Forecast			1,635	222	1,857
	(563)				
Police Staff Establishment 2017/18			1,633	222	1,855

* External funded disaggregated

TOTAL VFM PLAN CUTS	(1,132)			
TOTAL FUNDED ESTABLISHMENT 2017/18		4,677	567	5,244

Our People

Having made many difficult choices in restructuring the force to meet the financial challenges of recent years the balance is shifting towards a greater focus on developing our capability and productivity. Restructures for efficiency will always be part of a thriving organisation but with 16 major functions restructured in the last 2 years the greater opportunity in efficiency has to be with driving productivity through increased capability and capacity.

The force is already hard at work with a range of capacity developments:

- An ambitious plan for recruitment which raises the overall number of officers, both Specials and Regulars, with a combined total of 240 recruits in 2016/17 and 260 in 2017/18. Exceeding the rate of natural leavers such that the force will have grown in net total officer numbers over this period. Detailed recruitment numbers beyond 2018 are yet to be finalised but will at least maintain the growth that has been secured. These inputs will feed internal capacity shifts in specialist capabilities such as Protecting Vulnerable People.
- Maintain the enhanced total of 406 PCSO's across the force with continued recruitment.
- Secure the resilience in the Public Contact Centre with up to 60 new recruits per year.
- Expand the Volunteers programme which will include further development of the Police Youth Volunteers programme.
- South Wales Police will also further grow its hosting of the National Data Management Centre with new externally funded recruits through to 2018.

The aggregated recruitment and initial learning demand has put the force at significant stretch and whilst all the plans are in place considerable detailed day to day management is necessary to ensure that the plans can be successfully delivered. Whilst the force already has a wide range of development and training options it will also be seeking to ensure it can be at the forefront in particular in leadership competence and capability to deliver on the corporate objectives. Our continued focus on development seeks to support over 18,000 training days a year. With such a large scale of development inputs the force has to ensure that it is appropriately targeted to get value for money and meet the needs of the public. Through the use of FIRMS system and the national policing specialist capabilities assessment we are refining the competence levels we require in force to ensure we are targeting the areas of greatest need.

Organisational development will feature considerably in the period of this review. At a national level and local level we will see initiatives which combined will have a positive effect on the overall productivity within the force. Releasing the productivity potential from the investment by South Wales Police in force systems and technology will be achieved through organisational development initiatives to improve efficiency and effectiveness of officers and staff as they go about their daily work.

We are looking at an overall objective of improving the health and wellbeing of staff and officers through greater engagement which will require additional investment and plans to deliver this are in development

At a national policing level across Wales and England there are a wide range of initiatives emanating from the College of Policing. These include:

- The provision of Continuous Professional Development records for every member of staff,
- Competence related pay,
- New competencies,
- Developments in police office rank structures,
- New service entry and exit routes to open flexibility in resourcing as well as more flexible reward models,
- The accreditation of all learning programmes to a set learning standard and minimum education levels across all police ranks,
- In England the advanced apprenticeships scheme is the approved funding stream for this shift in Officer qualification.

As these progress a consideration of their appropriateness for use in South Wales and managing their implementation will be important. However they may offer potential to make our resourcing model more flexible and attract a different range of candidates than traditionally has been the case. These developments will also require significant investment and management time to successfully embed in the force. South Wales Police is well engaged with these national programmes and better placed than many to be able to implement them successfully. However the volume and complexity of these cannot be underestimated and we will have to focus leadership effort and attention to ensure they get delivered.

The above recruitment, retention , progression and organisational development context needs to be considered against a background of a highly successful delivery of a change programme which has resulted in around 1,000 fewer officers and staff since 2010. The future outlook in people matters is maximising the capability, capacity, engagement and well being of staff to improve productivity.

**SOUTH WALES POLICE
REVENUE BUDGET 2017/18
PRECEPT @ 5%**

APPENDIX 13

A		BUDGET AND COUNCIL TAX REQUIREMENT		£
				5%
TOTAL BUDGET				286,175,707
LESS: Specific Grants				23,386,628
BUDGET REQUIREMENT				262,789,079
LESS: Revenue Support Grant				51,050,456
NDR				22,290,378
Police Specific Grant				84,065,727
SOUTH WALES POLICE AUTHORITY PRECEPT				105,382,518
B	SWPA ELEMENT OF COUNCIL TAX BY PROPERTY	Proportion of Band D	Council Tax	£
	Band A	6/9	145.50	
	Band B	7/9	169.75	
	Band C	8/9	193.99	
	Band D	9/9	218.24	
	Band E	11/9	266.74	
	Band F	13/9	315.24	
	Band G	15/9	363.74	
	Band H	18/9	436.49	
	Band I	21/9	509.24	
C	PRECEPTS ON UNITARY AUTHORITIES	No. of Band D Equivalent Properties	SWPA Precept	£
	Cardiff County Council	143,032.00	31,215,904	
	City & County of Swansea	89,465.00	19,525,217	
	Bridgend County Borough	52,759.01	11,514,348	
	Merthyr Tydfil County Borough	18,069.24	3,943,507	
	Neath Port Talbot County Borough	46,641.68	10,179,276	
	Rhondda Cynon Taff County Borough	74,978.22	16,363,562	
	The Vale of Glamorgan Council	57,920.00	12,640,704	
		482,865.15	105,382,518	

A		BUDGET AND COUNCIL TAX REQUIREMENT		£
				6%
TOTAL BUDGET				287,179,343
LESS: Specific Grants				23,386,628
BUDGET REQUIREMENT				263,792,715
LESS: Revenue Support Grant				51,050,456
NNDR				22,290,378
Police Specific Grant				84,065,727
SOUTH WALES POLICE AUTHORITY PRECEPT				106,386,154
B	SWPA ELEMENT OF COUNCIL TAX BY PROPERTY	Proportion of Band D	Council Tax	£
	Band A	6/9	146.88	
	Band B	7/9	171.36	
	Band C	8/9	195.84	
	Band D	9/9	220.32	
	Band E	11/9	269.28	
	Band F	13/9	318.24	
	Band G	15/9	367.20	
	Band H	18/9	440.65	
	Band I	21/9	514.09	
C	PRECEPTS ON UNITARY AUTHORITIES	No. of Band D Equivalent Properties		SWPA Precept £
	Cardiff County Council	143,032.00		31,513,196
	City & County of Swansea	89,465.00		19,711,170
	Bridgend County Borough	52,759.01		11,624,008
	Merthyr Tydfil County Borough	18,069.24		3,981,064
	Neath Port Talbot County Borough	46,641.68		10,276,221
	Rhondda Cynon Taff County Borough	74,978.22		16,519,404
	The Vale of Glamorgan Council	57,920.00		12,761,091
		482,865.15		106,386,154

PART B

SUBJECT	TREASURY MANAGEMENT STRATEGY & PRUDENTIAL INDICATORS 2017/18
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 recommended Treasury Management Strategy & Prudential Indicators for 2017/18 subject to approval by the Commissioner as part of this overall Medium Term Financial Strategy.	
	<ol style="list-style-type: none">1. Adopt the Treasury Management Strategy for 2017/182. Adopt the Investment Strategy and counterparty criteria contained in the Treasury Management Strategy for 2017/183. Approve the Prudential Indicators for 2016/17 to 2020/214. Approve the Minimum Revenue Provision (MRP) Statement.

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 October 2016 is included at Appendix B.
- 1.5 Banking services for the Police and Crime Commissioner for South Wales are currently provided by Lloyds Bank, following a change from September 2014.

2 TREASURY MANAGEMENT CONSULTANCY AND INVESTMENT BROKERS

- 2.1 A contract is agreed on an annual fee basis with Capita Asset Services (Treasury Solutions), 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 On 8th December 2016 Capita plc announced its intention to 'sell' Capita Asset Services, possibly to an unknown third party. We will monitor the process as it unfolds, however, in the meantime we are assured in an email 16 December 2016 that it's very much business as usual and there will be no disruption to our service levels.
- 2.3 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.
- 2.4 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 2016 commentary by Capita Asset Services, incorporating a first bank rate increase in **2019**:

November 2016 quarterly inflation report and post US Presidential election review

We have updated our forecasts of 9 August to take into account the Bank of England quarterly Inflation Report for November 2016, the decision of the MPC meeting of 3 November, and the US Presidential election of 8 November.

The MPC meeting of 3 November left **Bank Rate** unchanged at 0.25% and other monetary policy measures also remained unaltered. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer in its forward guidance that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolve in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in **June 2019** (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

Gilt yields, and consequently **PWLB rates**, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and have hit a peak on the way up again of 1.46% on 14 November.

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	NOW	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
BANK RATE	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75
3 month LIBID	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.40	0.50	0.60	0.70	0.80	0.90
6 month LIBID	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.50	0.60	0.70	0.80	0.90	1.00
12 month LIBID	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.80	0.80	0.90	1.00	1.10	1.20	1.30	1.40
5 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.70
25 yr PWLB	3.00	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.30	3.40
50 yr PWLB	2.70	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.90	2.90	3.00	3.00	3.10	3.10	3.20

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 2016 totaled **£19.959M**, which included **£11.877M** 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 2016 totaled **£19.033M** with an average capital interest rate of **3.70% (£0.710M)**.

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 2017/18 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 over-riding risk consideration that of counterparty security risk. The 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.

5.4.8 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
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	Overseas 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 Accounts with group’s bankers (in addition to current account and fixed term deposits) - Increased maximum limit to accommodate higher sums currently restrictive	Non specified	10	10
J	Call Accounts (other banks) (In addition to above fixed term deposit limits) - Increased maximum limit to accommodate higher sums currently restrictive	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 2017/18 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	2016/17	2017/18	2018/19	2019/20	2020/21
	Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
New borrowing- annual sum	0.000	1.671	1.671	1.671	1.671
- Additional revenue contribution £1.671M replacing planned borrowing 2016/17					
Replacement borrowing (option to be kept under review)	-	-	-	-	-
TOTAL	0.000	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:	2017/18 Estimated	2017/18 Estimated 1%	2017/18 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. For information Previous Indicators are included in Appendix F.

- 6.2 These are based on the suggested Capital Programme of **January 2017**, which outlines estimates of capital expenditure to be incurred.

No.	PRUDENTIAL INDICATORS FOR PRUDENCE	2016/17	2017/18	2018/19	2019/20	2020/21
		Estimated	Estimated	Estimated	Estimated	Estimated
		£M	£M	£M	£M	£M
1	Estimates of Capital Expenditure	22.386	23.299	26.554	21.178	22.570
2	Capital Financing Requirement (CFR) (as at 31 March)- excluding 'factor A' a technical adjustment reducing the estimates by £4m based on external advice from Capita. Previous estimates included this adjustment.	19.574	20.161	20.766	21.389	22.031
3	External Borrowing – assuming new annual borrowing at £1.671m pa	18.745	18.401	17.953	17.468	17.041

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 2017/18, 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 External Borrowing and Capital Financing Requirement requires that:

“In order to ensure that over the medium term borrowing will only be for a capital purpose, the local authority should ensure that gross 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.” The table at paragraph 6.2 shows that 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 organisations 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 of debt repayments 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	2016/17	2017/18	2018/19	2019/2020	2020/2021
		Estimated	Estimated	Estimated	Estimated	Estimated
4	Ratio of Financing Costs to Net Revenue Stream	4.17%	4.17%	4.19%	4.19%	4.15%

Impact of Capital Investment Decisions on Council Tax

5	Increase in Band D Council Tax as per Capital Programme (incl. prudential Borrowing)	£4.52	£4.52	£4.52	£4.52	£4.52
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	2016/17	2017/18	2018/19	2019/20	2020/21
		Estimated	Estimated	Estimated	Estimated	Estimated
		£M	£M	£M	£M	£M
7	Authorised limit for external debt -					

	Borrowing	21.7	21.4	21.0	20.5	20.0
	Other long term liabilities	-	-	-	-	-
	TOTAL	21.7	21.4	21.0	20.5	20.0
8	Operational boundary -					
	Borrowing	19.7	19.4	19.0	18.5	18.0
	Other long term liabilities	-	-	-	-	-
	TOTAL	19.7	19.4	19.0	18.5	18.0
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:

12	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':

1.1.4 **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 the:

- Medium Term Financial Strategy; and
- Treasury Management Strategy, including the Annual Investment Strategy

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

5.3 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.

8 RECOMMENDATIONS

Adopt the Treasury Management Strategy for 2017/18.

Adopt the Investment Strategy and counterparty criteria contained in the Treasury Management Strategy for 2017/18.

Approve the Prudential Indicators for 2016/17 to 2020/21.

Approve the Minimum Revenue Provision (MRP) Statement.

9 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.

10 PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES

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

11 LIST OF BACKGROUND PAPERS

Treasury Management Policy Statement Report February 2016.

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 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

3rd Revised Code (2013)

The prudential indicator for prudence changed its definition from using net debt to gross debt.

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

APPENDIX B

6. Review of Treasury Management Performance – October 2016

- 6.1 In line with the approved Treasury Management Policy, surplus monies were invested with authorised deposit takers during the 6 month period April to October 2016 resulting in interest income totalling £60K. However, total investment interest of £106K 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 0.25% 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. Following the UK referendum in June 2016, which resulted in a vote to 'exit' the EU, investment markets and the UK economy have since entered a considerable period of uncertainty. Interest rates were reduced from 0.5% to 0.25% on 4 August and are now forecast to stay low for longer. All investments continue to be placed with UK entities, which remains unchanged, despite the UK's sovereign rating being slightly downgraded. This being relative to continued risk of EU investments.
- 6.3 For illustrative purposes an analysis of investments made up to October 2016 is shown in the following table, which gives a broad indication of the level and spread of investment activity undertaken to date. In total 15 investments (£56M) have been made with 8 institutions (average investment of £3.7M).

Analysis of 2016/17 Treasury Management Deposits (Fixed Term)

Deposits made from 1st April 2016 up to and including : 31/10/2016

(excludes deposits made in 2015/16 maturing in 2016/17 and Callable Accounts)

BORROWER	Total Invested £m	No. of Investments	Average Investment £m	Average Days Invested	Average Interest Rate	Total Interest £
Bank of Scotland	21.0	5	4.2	72	0.47	16,042
Coventry Building Society	5.8	3	1.9	32	0.39	2,185
Nationwide Building Society	1.5	1	1.5	117	0.44	2,116
Newcastle Building Society	5.0	1	5.0	87	0.50	5,959
Nottingham Building Society	8.5	2	4.3	85	0.41	8,062
Principality Building Society	5.0	1	5.0	207	0.47	13,327
Skipton Building Society	4.0	1	4.0	117	0.46	5,898
West Bromwich Building Society	5.0	1	5.0	87	0.53	6,316
Total	55.8	15	3.7	83	0.45	59,906

Funds deposited into callable bank accounts, retrievable on very short notice, are summarised in the following table:

Analysis of 2016/17 Treasury Management Deposits (Callable Accounts)

BORROWER	No. of Investments	Average Investment £m	Average Days Invested	Average/ Current Interest Rate	Total Interest £
LLOYDS	12	7.7	214	0.50%	22,685
BARCLAYS	15	7.6	214	0.40%	14,815
RBS	22	5.5	214	0.25%	8,103
Total	49				45,603

6.4 The interest achieved up to October 2016 is equivalent to an average return of 0.45% (excluding investments in callable accounts), and is above the current bank base rate of 0.25%. 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 October 2016, the following use of investment brokers has been made :

	No. of Transactions
Garban Intercapital Europe Limited	2
Tullet Prebon (Europe) Limited	8
Direct with Investor	5
Direct with UK Debt Management Office	0
Total	15
Direct with Callable Accounts	49

7. Icelandic Update

7.1 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). 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 will not be required in 2016/17 but will potentially be required (£1.671M in each of the years from 2017/18 to 2020/21 inclusive) to partly finance Capital Expenditure over long-term repayment terms, in line with the Capital Programme. The related debt repayments and interest costs 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

Normal bank 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 – 15.11.2016

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 and developments in financial markets transpire 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, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

We have pointed out consistently that the Fed. Rate is likely to go up more quickly and more strongly than Bank Rate in the UK and recent events have not changed that view, just that the timing of such increases may well have been deferred somewhat during 2016. While there is normally a high degree of correlation between the two yields, we would expect to see a growing 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 remains to the downside, particularly with the current uncertainty over the final terms of Brexit.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newflashes 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 Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and 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:

- The pace and timing of increases in the Fed. funds rate 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.

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.

Accounting Technician

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
5. Transmission procedures
6. Provide routine reports on: transactions made, cash flow actuals and projections and level of debt/ investment.

