

Key Points

1. The key points from this year's budget and precept proposal from the Police and Crime Commissioner (PCC) are:
 - A proposed increase in the precept of £12.00 a year, or 7.6% for a Band D property, equivalent to £1 a month
 - A council tax for an average Band D property of £169.15
 - This increase will help fund up to 200 new police officers and over 80 new staff
 - A net revenue budget after savings of £290.4m
 - A savings requirement over the medium term of £21.4m
 - A capital programme of £15m for 2018/19 and £52.3m over the medium term
 - The use of £7.9m of reserves to support the budget in 2018/19
 - The use of £30.1m of reserves including capital investment over the medium term
 - A final balance in reserves at the end of 2021/22 of £14.9m

Background

2. The purpose of this report is to set out the PCC's proposed budget and precept proposals. It will deliver one of the key responsibilities of the PCC under the Police Reform and Social Responsibility Act 2011. In determining his budget proposals the PCC has had regard to:
 - The priorities within his 'Safer in Kent' police and crime plan
 - National targets and objectives including the strategic policing requirement
 - Consultation with the Chief Constable
 - The results of consultation with the public and partners
 - The plans and policies of other partner agencies relating to community safety and crime reduction
 - Government policy on public spending and the Police Funding Settlement
 - Medium Term Financial Plan
 - The Reserves Strategy and the prudent use of reserves over the medium term
 - The capital strategy and investment programme
 - Continuous improvement and value for money for the tax payer of Kent
3. This report will set out the details of:
 - 2018/19 budget and precept proposals
 - The Government's police funding settlement for 2018/19
 - Medium Term Financial Plan
 - Reserves Strategy
 - Capital Strategy
 - Chief Finance Officer's Professional Statement

Introduction

4. The PCC has set out his policing priorities for Kent in his Police and Crime Plan 'Safer in Kent'. The 2017/18 budget went some way towards meeting these priorities. When the PCC was elected he had a clear policy of maintaining police officer numbers in Kent and an insistence on Kent Police becoming ever more efficient in how it manages its resources to achieve this. The implementation of the new policing model has proved to be successful and has identified more benefits and efficiencies than expected. This means the PCC is keen to increase the number of police officers as well as maintaining the number of Specials and PCSO's.
5. The PCC supported through the use of reserves the introduction of 'New Horizon' - a new policing model for Kent. This model was launched in September 2017 and is providing new investment and realignment of existing resources into the following areas; mental health; investigation of domestic abuse, child and adult abuse and sexual offences; vulnerable investigation; community safety units; CID; a missing and child exploitation bureau and a wanted person's bureau.

6. Kent Police has been among the top-rated forces in the country in independent inspections for efficiency, effectiveness and legitimacy in 2016 and 2017. They have been deemed “Good” or “Outstanding” in every assessment, bar one. Antisocial behaviour is down 11%. There is a new cybercrime team and the Volunteer Police Cadets programme is back and the firearms licensing backlog has been cleared.
7. The PCC also invested in projects to support all victims of crime and abuse such as the Victim Support service based in Ashford, and commissioned services that reduce pressure on policing through the Mental Health in Policing Fund which included supporting Crisis Cafes, Counselling services and a safe haven bus.
8. During 2017/18 the PCC launched a new Restorative Justice Service to enable victims to cope and recover and make offenders pay for the harm they have caused.
9. Overall over £4m has been invested through the PCC’s Commissioning Strategy to support the Safer in Kent Plan.

2018/19 Budget and Precept Proposal

10. For 2018/19 the PCC is looking to build on the successes of 2017/18 and the PCC has been actively looking to increase the number of police officers. The flexibility afforded to the PCC through the precept referendum limits has provided the opportunity for the PCC to challenge the Chief Constable to provide more police officers for the communities of Kent by use of the additional precept.
11. The PCC has empowered the Chief Constable to increase the number of police officers by up to 200 during 2018/19. These officers will form part of an expansion of the New Horizon model and will be used specifically to deal with the high harm issues, as well as more visible neighbourhood policing, including rural and roads policing, local communities, fighting cybercrime and providing greater public protection. This will take the total number of police officers in Kent to its highest level since 2012.
12. In addition to this there will be a boost in the number of call handlers answering 999 and 101 calls, so that people can get help quicker and more information can be provided to the police. This will be alongside the new online reporting service, which is available for certain issues for those who wish to use it. There will be over 80 new police staff roles that will cover this, as well as other areas of policing.
13. The PCC has recognised that recruiting the additional officers will have a significant impact on HR, vetting and other support services. In order to deal with this pressure the PCC has authorised the use of £2m of reserves during 2018/19 to support these services and the recruitment of police staff roles so that more of the additional precept is spent on visible police officers.
14. On top of that, the PCC has identified a saving of £200k within his own office budget that he is making available to the Force for additional police officer recruitment. This is the first reduction in the office budget since the PCC replaced the Kent Police Authority. The PCC already provides extra money from his budget for Kent Police projects, such as the Volunteer Police Cadets and mental health workers in the Force Control Room.
15. The PCC recognises the changing demands on policing and encourages the Force to be innovative in how it tackles this demand. With that in mind, the PCC has agreed to contribute towards a new Innovation Task Force within the Force to look at the demands on policing and to enable Kent Police to get upstream and deal with demand before it impacts on front line policing.
16. The PCC has remained steadfast in his view that Kent Police should become more efficient. The decision to invest the additional funding provided by the increase in precept, the reduction in the PCC’s office budget and use of reserves into new police officers rather than soaking up existing or future pressures means that the Force will continue to be required to make savings. These savings were already planned under the previous Medium Term Financial Plan and the PCC has reviewed the proposals for £9.8m of cost savings in 2018/19 and as they will have a minimal impact on the frontline, they have now been delivered.

17. The budget and precept proposal for 2018/19 is as follows:

Table 1: Budget Requirement and Precept

Budget Requirement	£290.364m
Less Police Grant	£104.799m
Less Revenue Support Grant	£65.667m
Less Legacy Council Tax Grants	£13.298m
Sub Total	£106.600m
Less Collection Fund Surplus	£1.520m
Amount to be raised by Council Tax	£105.080m
Divided by aggregate council tax base	621,225
Band D Council Tax	£169.15

Commissioning Strategy

18. The PCC's Safer in Kent Plan has as a key priority to 'enhance services for victims of crime and abuse' and the early announcement by the Ministry of Justice (MoJ) of the continued specific victims' grant of £2.1m has enabled the commissioning of key victims services to begin. This means that services can continue or be put in place for the beginning of the financial year. This funding will be allocated as per grant conditions on vital services for victims, including those delivered from Compass House, including the Victim Support service, the Independent Sexual Violence Advisor (ISVA) services and the PCC's new Restorative Justice Service.
19. The PCC has again agreed to match fund the figure from the MoJ so in total, the MoJ funding plus the commissioning and victims support budget means £4.2m will be available for allocation in 2018/19, the same level of funding as 2017/18.

Funding Settlement

20. On the 19 December, the Policing Minister announced the draft general grant allocation for each force area for 2018/19. The highlights of the Minister's announcement, in line with the earlier Spending Review decisions set out by the Chancellor, were as follows:
- Precept flexibility of up to £12 for all PCCs (or equivalents) in 2018/19.
 - Flat cash grant funding (i.e. the same allocations as in 2017/18 for Home Office Core Police Settlement, Ex-DCLG, Welsh Assembly grant and Legacy Council Tax).
 - Updated assumptions around tax base growth, using OBR figures of 1.34% in England and 0.8% in Wales.
 - Any tax base growth greater than the above figures will be kept locally.
 - Including these assumptions on council tax and based on the 1.5% GDP deflator, the resulting settlement, including council tax, represents a "real terms" increase between 2017/18 and 2018/19.
 - £450m additional funding for the service nationally – includes £130m additional reallocation and approximately £147m as a result of additional council tax flexibilities.
 - £50m additional Counter Terrorism funding and the remaining £123m can be considered as "new money".
 - In respect of capital grants to PCCs, total Police Capital Grants have reduced from £77.2m in 2017/18 to £75.2m for 2018/19. However, Police Capital grant allocations (those provided to individual PCCs) are unchanged from 2017/18.
21. The Minister's statement was clear that this funding settlement to PCCs 'must be matched by a serious commitment from PCCs and Chief Constables to reform by improving productivity and efficiency to deliver a better more transparent service to the public'. In particular the Minister outlined three clear priorities:
- Seek and deliver further cost efficiencies, especially through better procurement.
 - A modern digitally enabled workforce, so front line officers can spend more time preventing and fighting crime.
 - Greater transparency in how public money is used, particularly in the holding and use of reserves.

22. The Minister will be agreeing milestones against these priorities with police leadership early in 2018. The PCC is confident that through this budget and medium term plan that Kent Police is already meeting these priorities.

23. Locally, as a result of the settlement, the funding received by Kent is as follows:

Table 2: Funding Settlement

Funding Stream	2018/19	2017/18	Variance
	£	£	£
Police Core Settlement	104,798,627	104,798,627	0
Ex DCLG Funding	65,665,644	65,665,644	0
Legacy Council Tax Grants	13,297,595	13,297,595	0
MoJ Victims Funding	2,115,831	2,111,419	4,412
HO Capital Grant	1,100,000	1,100,000	0
Total	186,977,697	186,973,285	4,412

24. The Minister's letter and statement both state the Home Office's intention to offer greater certainty on plans for 2019/20. Their intention is to maintain the flat cash settlement with the same precept flexibility but this is dependent on progress against the milestones to be agreed. The Minister also stated that the Police Formula review is now unlikely to be revisited until the next spending review.

Medium Term Financial Plan – 4 years to 2021/22

25. The Medium Term Financial plan is agreed each February as part of the budget setting process and is updated and refreshed throughout the year as further information becomes available. The plan covers 4 years from 2018/19 through to 2021/22. For obvious reasons there is more certainty around the figures included in the early years of the plan than for those towards the end of the four years. Therefore a number of assumptions are made. The key assumptions included in the plan are:

Funding assumptions

- The precept will increase by £12 in 2018/19 and thereafter by 1.99% each year.
- This assumes that the referendum limit will remain at 2% in 2019/20 and in future years, in line with previous assumptions.
- That the greater precept flexibility that may be available in 2019/20 is not confirmed and therefore not included.
- The council tax base will grow by 2.1% in 2018/19, then 1.5% in 2019/20 and 1% each year thereafter.
- The revenue grant will, in line with the Minister's statement, remain the same for 2019/20 and will be maintained over the Medium Term Financial Plan.
- That no funding review will take place within the Medium term Financial Plan life cycle or if it does that it will maintain the current level of support.
- Any top slicing and reallocating from the overall Police Grant by the Home Office will remain at 2018/19 levels in real terms.

Cost Assumptions

- Up to 200 police officers and over 80 police staff will be recruited in 2018/19.
- These officers and staff will form part of the ongoing establishment.
- Pay cost inflation for officers and staff will be 2% each year.
- Any additional bonus payment or pay award above the 2% will be funded through any underspend or reserves.
- Non-pay inflation will be 2% for each year of the Medium Term Financial Plan, in line with the Bank of England target.
- The employer's pension contribution will continue to be increased in steps in line with the triennial valuation until there is an additional £1m contribution in 2019/20.

26. With these assumptions there is a savings gap to 2021/22 of £31.2m. The Force have a good track record of identifying savings ahead of schedule and the Chief Constable has identified £9.8m of savings to meet the gap next year with no impact on front-line policing and these have been removed from the 2018/19 budget figures. Approximately £3.5m has been achieved from non-pay budgets through procurement, income opportunities and support services amongst others. The remaining £6.3m of savings were identified from pay budgets through more sophisticated budgeting for posts or the early identification of vacancies. Once these savings are removed, £21.4m of savings are required by 2021/22.
27. A summary of the medium term plan is set out in Annex 1. On the basis of these assumptions the savings profile would be as follows:

Table 3: Savings requirement

Savings	2018/19	2019/20	2020/21	2021/2022	Total
Delivered	9.8	0.0	0.0	0.0	9.8
Required	0.0	9.7	5.8	5.9	21.4
Total	9.8	9.7	5.8	5.9	31.2

28. The £9.7m savings required for 2019/20 have already been identified by the Force and reviewed and agreed by the PCC and these will be delivered during 2018/19 in time for the 2019/20 budget.

Reserves Strategy

29. An important element of the PCC's financial strategy is the use of reserves over the medium term to support the budget and fund investment in transformational projects. The PCC's reserve strategy has the following key elements:
- A general non-earmarked reserve of 3% of the net budget will be maintained for unknown and/or unforeseeable events.
 - A prudent approach to risk management will be maintained and accordingly earmarked reserves will be created to cover for possible significant risks.
 - A prudent reserve to provide for the costs of change, especially in respect of redundancy and ill health retirements.
 - In the interest of the council tax payer, the PCC will seek as far as possible to protect its 'non-debt' status and instead of borrowing for investment, build up and rely on reserves for that purpose over the long term.
 - The PCC will take a long term approach to protecting, maintaining and investing in all its assets supporting policing for the long term as well as short term.
 - Reserves not required for the above purposes will be clearly identified as available for other discretionary opportunities.
30. The total general and earmarked reserves are expected to be £45.0m as at the 1 April 2018. Of this, general reserves will amount to £8.8m or broadly 3% of the net budget. This is an increase on last year and brings us more into line with other PCCs. The remaining reserves are all earmarked. It should be noted that £17.2m of those total earmarked reserves, are there to support investment and capital spending over the medium to long term as opposed to more costly borrowing. This capital reserve has been built up from accumulated underspends, capital grants and capital receipts over the years.
31. In last year's budget the PCC agreed to the prudent use of reserves to allow the Chief Constable to smooth the impact of the additional savings required over the medium term. This included a proposed use of £3.5m reserves in 2018/19 and the PCC has confirmed this in the budget for 2018/19. This does not absolve the Force from making those savings but changes the profile of savings delivery to avoid any precipitous decisions being taken.
32. The PCC has also agreed £2m from reserves to support the recruitment of the new police officers and staff. This alongside a provision for ill health retirements, the museum curator, the Innovation Task Force and other budget support in relation to the national pay bonus means approximately £8.0m will be used during 2018/19.
33. The PCC has notified the Chief Constable that any in year underspends may be used in the first instance to support the additional recruitment of officers and staff. If this is not required then the underspend will

be taken back into reserves in order to mitigate risks over the medium term and support the investment programme. Any in-year reallocations of underspends will only be considered by the PCC where an exceptional business case is made.

34. The level of reserves held by PCCs has come under increased scrutiny and was specifically mentioned in the Ministers statement on the funding settlement so it is worth putting Kent's reserves into context. The Police and Crime Commissioners Treasurers Society commissioned a survey on police reserves which showed that overall policing has £1.6bn in reserves which represents 15% of annual police funding (including council tax). Kent Police currently holds reserves equivalent to 12% of its annual police funding, below the national average.

Use of Reserves

35. As at 31 March 2018, due to normal movements and adjustments during the year, total earmarked and non-earmarked reserves are expected to fall to £45.0m. The reserves position in 2018/19 is set out below:

Table 4: Reserves

Reserve	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m	£m
General	5.6	8.8	9.1	9.3	9.6	9.6
Funding Volatility	6.0	4.2	0.0	0.0	0.0	0.0
Insurance	3.1	3.1	3.1	3.1	3.1	3.1
Change Management	17.0	10.8	6.2	3.1	0.1	0.0
Investment Reserve (capital and revenue)	28.9	17.2	20.5	7.8	8.8	1.3
PCC	0.0	0.0	0.2	0.1	0.0	0.0
POCA	0.9	0.9	0.9	0.9	0.9	0.9
Total	61.5	45.0	40.0	24.3	22.5	14.9

36. The reserves are held for the following:

- a. **General reserve** is used to mitigate against unknown and unexpected events that incur considerable cost that could not be borne within the revenue budget such as Operation Stack, public order, major investigation costs or to fund initial costs of major disruption/ disaster response (i.e. flooding). This would be used before applying to the Government's Special Grant scheme should the criteria be met.
- b. **Funding volatility** is used to mitigate any sudden or unexpected funding levels. This reserve also funds our partner authorities in their attempts to increase the tax base and reduce fraud in council tax collection.
- c. **Insurance reserve** is held to cover potential liabilities in any insurance claim. In order to keep our insurance premiums at a reasonable level we self-insure to a significant degree. This level is suggested by our Insurance advisors as an appropriate amount to keep in reserve should we incur a large insurance claim.
- d. **Change Management** is held to help fund projects that will enhance policing in Kent and provide financial savings to the organisation. It helps mitigate the impact of redundancies and ill-health retirements on the ongoing revenue budget.
- e. **Investment Reserve** funds the capital and revenue investment in our investment programme. The investment programme is a number of long term projects that are designed to improve/create assets for the Force that will reduce financial commitments and improve policing in Kent. All sales of assets (capital receipts) fall into this reserve to be used for future capital investment. Capital projects will typically incur some revenue investment and this reserve helps fund that part of the investment programme without impacting on the ongoing revenue budget.
- f. **PCC** reserve holds funds set aside from the PCCs budget to fund innovative projects to help transform policing and fund local PCC priorities.
- g. **POCA (Proceeds of Crime Act)** is a reserve that covers any shortfall in funding for our POCA investigators and to fund community projects through the Property Fund.

37. Over the medium term, taking all the plans and provisions into account, total earmarked reserves are expected to fall to £14.9m, a reduction of 76% from the level held in 2017/18. This is in part due to reserves being used to support the budget, ill health retirements and the ongoing investment programme. Further detail can be found in Annex 2.
38. The investment reserve will be reduced to £1.3m by March 2022 increasing the likelihood that the Force will need to borrow externally for significant capital investment or provide a revenue contribution to capital from 2022/23 onwards. As stated in paragraph 29 the PCC will seek as far as possible to protect his 'non-debt' status and instead of borrowing for investment, build up and rely on reserves for that purpose over the long term. With that in mind the PCC has notified the Chief Constable that any revenue underspends not being used to support recruitment will be taken back into reserves in order to boost the investment reserve to fund future capital programmes.

Capital Strategy

39. The key themes driving investment can be summarised as follows:
- Policy led with clear linkages to operational requirements and the Safer in Kent Plan.
 - Using technology and innovation to reduce demand and increase the time and focus officers can devote to core policing.
 - Putting victims and witnesses at the heart of the service.
 - Ensuring sound and reliable equipment and facilities for officers.
 - Exploiting tangible efficiency and effectiveness opportunities in partnership with others.
 - Maximising the efficiency and effectiveness of the estate.
40. A summary of the planned schemes and projects and how they will be funded for 2018/19 to 2021/22 is shown below. Further details are outlined in Annex 3. As per normal practice, actual release of funding next year and in future years will depend on the completion of sound business cases.

Table 5: Investment Programme

	2018/19	2019/20	2020/21	2021/22
Expenditure	£m	£m	£m	£m
IT	10.0	10.2	10.9	3.3
Estates	1.9	1.7	1.0	1.0
Transport	1.9	1.6	1.6	1.5
ANPR	0.5	0.5	0.5	0.5
Other	0.7	1.0	1.0	1.0
Total	15.0	15.0	15.0	7.3
Funded by				
Capital Grant	1.1	1.1	1.1	1.1
Capital Receipts	7.7	10.5	11.7	4.2
Investment Reserve	6.2	3.4	2.2	2.0
Borrowing	0.0	0.0	0.0	0.0
Total	15.0	15.0	15.0	7.3

41. The planned investment programme for 2018/19 has been restricted to expenditure of £15m. This is in line with the level of expenditure achieved in previous years and it is hoped will provide a clear focus on the key priority projects and reduce the amount of slippage that is typically incurred at the end of the year. It is dominated by IT projects, which include national obligations (i.e. Emergency Services Network), joint projects with Essex (SAP) and Kent only projects. The implementation of these IT projects is key to modernising the Force and the way it works and help drive savings from the organisation.
42. The estates expenditure includes the recently announced refurbishment of Ashford Police Station. The PCC has agreed to release funds from the investment reserves to make significant improvements to Ashford Police Station. Following extensive research into the future of the building and its facilities the PCC has approved a recommendation by the Chief Constable to retain and develop the Tufton Street premises.

43. The investment programme is funded by both the capital and revenue investment reserves, capital grant received from the Government and by the use of capital receipts from disposing of assets during the year. All asset disposals are subject to a business case and require approval by the PCC.
44. The PCC is keen to maximise the use of the police estate and considers all options from disposal through to refurbishment and income generation. The PCC is particularly keen to increase collaborative work on estates with our partners, particularly the Kent Fire and Rescue Service so that both organisations can benefit from efficiencies and increased understanding and collaborative work.
45. The PCC will be holding the Chief Constable to account for the delivery of the investment programme on a regular basis throughout the year.

Professional Statement

46. It is a statutory requirement that the designated Chief Finance Officer must issue a professional statement on the adequacy of reserves, the robustness of estimates and the overall effectiveness of the systems of financial control and risk management.
47. In determining the above, the Chief Finance Officer has reviewed the financial environment and the risks facing policing in Kent and has taken the following into account:
 48. The Minister's announcement that the settlement for 2018/19 will be the same as 2017/18 was better than expected and provided a positive impact on the medium term position. For Kent, Government grant makes up approximately 63% of net funding excluding specific grants. Consequently, any changes in grant will inevitably have an impact on policing operations. It is also noted that the Government are allowing PCCs to retain any additional tax base growth over and above the Government's assumptions. This means that PCCs will get to keep the financial benefit from local decisions on housing and help fund the additional pressures that arise.
 49. The additional announcement of the Government's intention to maintain this settlement in 2019/20 was refreshing. Any certainty over future funding settlements is to be welcomed as it enables improved planning over the medium term which in turn leads to improved decision making as decisions can be taken in full view of the financial impact and with fewer assumptions. However it should be noted that this future settlement is not guaranteed and does come with caveats which all PCCs will need to meet during the year. Due to this uncertainty the future flexibility has not been included within the Medium Term Financial Plan. Any decision on future precept levels will be taken by the PCC at the appropriate time and with full public consultation.
50. The increase in precept flexibility for 2018/19 is appreciated and provides PCCs with scope to set a precept in line with their Police and Crime Plan priorities. However, it should be noted that this does transfer the burden of funding policing away from central government towards the local council tax payer and the uncertainties on tax collection and tax base that this presents.
51. The continued level of financial support and the additional precept flexibility has enabled the PCC to plan an increase of up to 200 police officers for 2018/19. These additional officers will provide a visible sign of the increased contribution from tax payers. By increasing officer numbers rather than absorbing cost pressures the PCC is still expecting the Force to deliver on its savings proposals over the next 4 years. This is in line with the PCCs aim for the Force to deliver an efficient and value for money service.
52. The level of reserves held by PCCs has come under increasing scrutiny during 2017/18 and the PCC has laid out plans for a substantial but prudent use of reserves over the medium term. The level of general reserves has been increased to 3% of the net revenue budget. The previous lower level had been noted by HMIC and our external auditors so this increase keeps us more in line with our contemporaries. The level of general reserves will account for any major event that may require recourse to the Government's special Police Grant. This covers the cost of any major unforeseen cost incurred to policing over and above 1% of the net revenue budget. The 3% in general reserves covers us for two such events over the four year plan and a further 1% contingency.

53. The Force have a good track record of identifying savings early through effective financial management and planning but this still leaves a pressure of £21.4m of savings to be found over the next 3 years. While the Force have always met their target the delivery of savings becomes harder each year. The initial £9.7m for 2019/20 has been identified and agreed, however, there is a risk that these savings targets may not be met over the medium term. This risk though is small and therefore no provision in reserves is made for this.
54. There is a greater risk of delays in the delivery of savings, particularly in relation to some of the larger complex invest to save schemes such as Athena. Again the Force have a good track record in meeting savings targets and would in any event cover any shortfall from in year underspends. While no presumption of in-year underspending should be made because, having agreed the budget the PCC authorises its spending, history suggests that the Force has consistent delivery of underspending. This is typical of organisations with strong budget management arrangements. It should be noted that the PCC is maintaining the £3.5m contribution from reserves to support the budget in 2018/19. This continues the commitment made by the PCC in last year's budget and enables the Force to smooth its savings proposals over the medium term. Therefore no provision in reserves is made for this risk.
55. The government's planned review of the formula for distributing the national pot of general police grants between forces is now on hold and is unlikely to be reviewed until the new CSR period. As has been stated in previous budget reports this could be a significant risk on the funding received by Kent particularly in the latter years of the Medium Term Financial Plan. However, due to the decision to place this on hold and the unknown timing of any review and implementation of the formula there is no requirement to have some protection against this risk and therefore no provision in reserves has been made.
56. The Government is currently planning for the replacement of the Emergency Services Network (ESN). This is the communication network for all emergency services with the police service being the largest user and therefore the largest financial contributor. The initial estimated capital investment is £1bn, with expected revenue savings of £350m. This implementation of the new network has been delayed and has an impact on local forces. The delay in implementation incurs additional costs to policing and it is not yet clear where these additional costs will fall, either at a national or local level. At a local level some estimates put the additional cost to Kent in the region of £7m. A cost of this magnitude would be a significant pressure for Kent. Any additional revenue costs would be met either from further efficiencies or through the use of reserves. Any additional capital costs would be met through the use of reserves or in exceptional circumstances authorised borrowing. The uncertainties regarding the timing of the implementation of ESN, the level of costs to be incurred and the mitigation included above means that no provision is included within reserves in this budget and Medium Term Financial Plan.
57. At the time of the budget we have assumed pay awards are capped at 2% for the four years 2018/19 to 2021/22 and an average 1% for increments. For non-pay we are assuming general inflation at 2% for all four years. We have been prudent in our assumptions. The key assumption on grant resources is the provisionally announced flat cash settlement in general grant for 2019/20 and it is presumed that this will remain over the medium term. Beyond the precept announced for 2018/19 it is assumed precept limits will return to historic levels of 2% in line with inflation forecasts.
58. A significant element of total reserves is the capital and revenue investment reserve built up from accumulated underspends and accumulated capital receipts. This reserve, in conjunction with targeted capital receipts, is vital to help finance the major planned capital spend by the Chief Constable of £52.3m over the next 4 years. The increased demand for capital investment coupled with the reducing ability to produce capital receipts means that the investment programme for 2018/19 and future years has been capped at £15m. Even with this the reserve is reduced to £1.3m at the end of 2021/22. There is a risk that the PCC may have to borrow to fund the capital programme at some point from 2022/23 onwards leading to debt charges falling on the revenue account and having to be financed from further operational savings.

59. The Investment programme is focused on IT. One area of IT is the introduction of software as a service. This is where software providers are moving away from a one-off cost to purchase software to an ongoing annual licence. This necessitates a change in funding from capital to revenue. This may remove some pressure from the capital budgets but adds pressure to our revenue budgets. At the current time it is unclear how much of an impact this will have and when, so no provision in reserves is held, but this will be monitored.
60. Currently there is no clear view as to what Brexit will look like or the impact that it will have on policing and in particular Kent as the gateway to Europe. The PCC and the Force are actively engaging with the Home Office to ensure Kent's voice is heard in the discussions and to take advantage of any funding opportunities should they arise.
61. The Force and the OPCC maintain active risk registers and associated risk management processes for operational and management risks which are monitored by the Independent Joint Audit Committee. As well as the financial challenges described above, many of the key risks inevitably fall on the Force, rather than the OPCC, from both existing and newer threats. Examples of the latter include the local response to counter terrorism threats, CSE, organised crime and cybercrime. Within the OPCC, ongoing strategic risks relate to ensuring the core statutory functions of the PCC are met; this includes overall financial governance and value for money.
62. Overall, I have considered the level and need of reserves against the strategic risk registers of the Force and the OPCC. On the whole, existing reserves are sound and in each case I am satisfied that they are prudent and appropriate after consideration of the latest key risk assessments. I am satisfied that the estimates have been drawn up in a robust way, recognising that medium term forecasts beyond 2018/19 will inevitably carry more uncertainty. I am also satisfied that the operation of internal and external audit and the operation of financial controls are sound. Regular monitoring and review of delivery plans and active risk management, including via the Independent Joint Audit Committee, remain vital parts of the local governance arrangements.

Rob Phillips
Chief Finance Officer
Office of the Kent Police and Crime Commissioner
February 2018

Supporting information:

Annex 1 – Summary of Medium Term Plan, 2017/18 to 2021/22

Annex 2 – Summary of Reserves Position

Annex 3 – Summary of Capital Programme to 2021/22