

## Nottinghamshire Police and Crime Commissioner

### Notice of Decision



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<b>Date Received*:</b>	<b>16<sup>th</sup> February 2015</b>
<b>Ref*:</b>	<b>2015.005</b>

\*to be inserted by Office of PCC

#### **PRECEPT, BUDGET, MTFP, Reserves Strategy, 4 Year Capital Programme and Treasury Management REPORTS 2015-16**

#### **EXECUTIVE SUMMARY:**

The attached reports have been approved in principle by the Commissioner ahead of the Police & Crime Panel meeting on 2<sup>nd</sup> February 2015.

The Police & Crime Panel supported the Commissioners decision to increase the precept by 1.98%.

The Precept Report details the levies to be made on the Billing Authorities and the increase on a Band D rate of 1.98% taking the cost to £176.40. This version of the report includes actual tax base data from all billing authorities.

The Budget Report details how the revenue expenditure will be incurred during 2015-16 in support of the Police & Crime Plan priorities. This has been a difficult budget to prepare for as the funding pressures continue to tighten. A reduction in grant of 5.1% is significant after 20% over the current CSR period.

The MTFP (Medium Term Financial Plan) forecasts the revenue expenditure anticipated over the next 4 years and the current financial gaps. It is estimated that a further 20+% decrease in grant will need to be met. With grant accounting for 72% of total funding this will mean further significant changes to the way in which policing will be delivered.

The Reserves Strategy details the levels of reserves, both General and Earmarked and their intended use. Whilst healthy the current and forecast levels are not excessive and risks relating to delivery of the required efficiencies could impact significantly on these reserves, which are can only support one-off expenditure.

The 4 Year Capital Programme details the proposed capital projects. This includes regional investment and projects where there is revenue support through additional Innovation Fund Grants. The programme has been prioritised by the force based upon collaborative commitment, business critical need, what can be delivered and what is affordable.

The Treasury Management Strategy supports the 4 Year Capital Programme and details how the capital expenditure will be financed.

All of the above reports demonstrate how difficult it is to deliver cuts to the continuing levels that we have. We are working very closely with local partners and regional partners and beyond to find new ways of working, reducing costs and keeping local policing a priority.

## Nottinghamshire Police and Crime Commissioner

### Notice of Decision

#### INFORMATION IN SUPPORT OF DECISION: (e.g report or business case)



Precept Report

2015-16 10-02-2015. 2015-16 10-02-15.do



Budget Report

2015-16 MTFP report



10-02-15.docx



Reserves Strategy

2015-16 10-02-15.do



Capital Report

2015-2019 10-02-15. management strategy



Treasury

Is any of the supporting information classified as non-public or confidential information\*\*?

No

✓

Yes

#### DECISION:

The Police & Crime Commissioner is requested to formally record the approval given relating to the reports attached and listed above as supported by the Police & Crime Panel. He is particularly requested to formally approve:

- The Band D Council Tax rate of £176.40 providing £52.4m in revenue funding for 2015-16. And making a contribution to reserves of £1.4m.
- The Revenue Net Expenditure Budget of £189.6m utilising £3.0m from reserves for 2015-16.
- The assumptions currently being made within the MTFP.
- The Reserves Strategy including minimum and maximum levels of general reserve.
- The Capital Programme of £16.187m with a reduction of £0.4m to be provided reflecting the reduction in capital grant for 2015-16 and the proposals for the following three years.
- The Treasury Management Strategy, which supports the Capital Programme, provides the Investment Strategy and sets the prudential and treasury limits within which we must operate.

#### DECLARATION:

I confirm that I do not have any disclosable pecuniary interests in this decision and I take the decision in compliance with the Code of Conduct for the Nottinghamshire Office of the Police and Crime Commissioner. Any interests are indicated below:

The above request has my approval.

Signature:



Nottinghamshire Police and Crime Commissioner

Date:

16/2/15

#### OFFICER APPROVAL

I have been consulted about the proposal and confirm that the appropriate advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner.

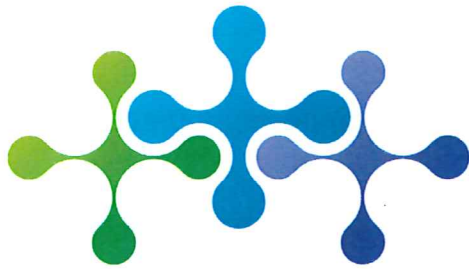
Signature:

Chief Executive



Date: 16th February 2015

CHIEF FINANCE OFFICER



Nottinghamshire

**POLICE & CRIME COMMISSIONER**

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**Precept 2015-16**

January 2015



# The Police & Crime Commissioner's

## Precept 2015-16

The Nottinghamshire Police & Crime Commissioner is proposing a precept increase of 1.98% for the 2015-16 financial year.

This supports the budget report and the commitment to Rural Crime initiatives and Victims Services, a duty transferred to the Commissioner by the Ministry of Justice during 2014-15. Further priorities include crime prevention and partnership working, both vital to community safety.

The current Comprehensive Spending Review (CSR) period has been difficult with major cuts in grant funding, whilst costs continue to increase. The next CSR is not looking any better with a further anticipated cut in funding of over 20%. The Budget Report and the Medium Term Financial Report on today's agenda details further the plans for 2015-16 and the potential risks relating to the efficiencies that need to be achieved.

The detailed budget for 2015-16, the Medium Term Financial Plan, the Reserves Strategy, the 4 Year Capital Programme and the Treasury Management Strategy are provided for information purposes to the Police & Crime Panel. These have been drawn together to support the Police and Crime Plan, which has been refreshed and which the panel have received and which is currently out for consultation.

**This report is updated compared to the version reported to the Police & Crime Panel. This reflects the final figures declared by the billing authorities relating to the tax base and surplus on the collection funds.**



When setting the budget and capital programme for the forthcoming financial year the Police and Crime Commissioner must be satisfied that adequate consideration has been given to the following:

- **The Government policy on police spending** – the current economic climate is improving and the forecast is promising. However, the Government policy continues to reduce public sector spending.
- **The medium term implications of the budget and capital programme** - the separate report sets out the Medium Term Financial Plan, which is regularly received and updated.
- **The CIPFA Prudential Code** - the separate Treasury Management Strategy report covers the CIPFA Prudential Code, which evaluates whether the capital programme and its revenue implications are prudent, affordable and sustainable. The implications of borrowing to finance the unsupported element of the capital programme are incorporated within the proposed revenue Budget for 2015-16 and the Medium Term Financial Plan.
- **The size and adequacy of general and specific earmarked reserves** - the current forecast of the general reserves at 31 March 2015 is £7 million which is higher than the minimum 2% level in the approved reserves strategy and is considered by the Chief Finance Officer to be an adequate level for the year ahead. The Chief Finance Officer considers that all of the earmarked reserves set out in the Reserves Strategy, are adequate to cover the purposes for which they are held and provide some robustness against the risks identified within the budget. The Chief Finance Officer also confirms that the budgeted insurance provision is fully adequate to meet outstanding claims.
- **Whether the proposal represents a balanced budget for the year** - the assurances about the robustness of the estimates are covered in **Section 8** of this report. The proposals within this report do represent a balanced budget based upon an assumed 1.98% maximum increase in the Police & Crime Precept on the Council Tax.
- **The impact on Council Tax** - this is covered in **Section 7** of this report.
- **The risk of referendum** – the limit set for requiring a referendum is a 2% increase on the precept for all Police and Crime Commissioners. The proposed increase of up to 1.98% is just below the limit set (further detail is provided in **Section 6**).

## 1. COUNCIL TAX BASE

For 2015-16 the Billing Authorities have consulted on proposed changes to the local Council Tax Support Schemes introduced in 2013-14. There have not been any significant changes affecting the individual schemes, although collection rates have been higher than anticipated

The Billing Authorities are working hard to keep collection rates up and as a consequence all have seen an increase in estimated tax bases. This is also partly due to an increase in the number of new properties in each area.

The estimated tax base as notified by the unitary and district councils (Billing Authorities) has increased by 1.83% overall, slightly down on last year's increase of 2.06%. This information has to be confirmed in writing by 31 January, the statutory deadline.

Tax base	Band D Properties 2014/15	Band D Properties 2015/16	Change %
	No	No	
Ashfield	30,256.20	31,052.20	2.63
Bassetlaw	31,893.84	32,545.35	2.04
Broxtowe	32,188.65	32,400.60	0.66
Gedling	34,912.38	35,610.06	2.00
Mansfield	26,943.82	27,751.40	3.00
Newark & Sherwood	36,233.47	36,770.96	1.48
Nottingham City	59,949.00	61,047.00	1.83
Rushcliffe	39,373.00	39,923.10	1.40
<b>Total</b>	<b>291,750.36</b>	<b>297,100.67</b>	<b>1.83</b>

It is intended that any impact from a change between the estimated tax base and the actual tax base will be met from or contributed towards reserves.

## 2. COLLECTION FUND POSITION

Each billing authority uses a Collection Fund to manage the collection of the Council Tax. For 2015-16 the surplus continues to increase as collection rates are better than anticipated and fewer benefit payments are being made. A breakdown is provided in the table below:

Surplus/(deficit)	Collection Fund	
	2014-15	2015-16
	£	£
Ashfield	62,867	114,087
Bassetlaw	57,929	105,189
Broxtowe	26,288	30,472
Gedling	57,966	83,253
Mansfield	0	46,542
Newark & Sherwood	0	0
Nottingham City	147,589	252,916
Rushcliffe	95,254	80,186
<b>Total</b>	<b>447,893</b>	<b>712,645</b>

It is intended that the surplus will be transferred to balances to contribute towards the request for use of reserves for the transformational change programme.



### **3. COUNCIL TAX FREEZE GRANT**

The Government continues to offer freeze grant equivalent to a 1.0% increase in the council tax. Consequently, the Police & Crime Commissioner has had to consider how taking the freeze grant with a short term benefit compares with a rise in the level of precept, and how each impact on the council tax paying people of Nottinghamshire.

The freeze grant would mean that the council tax payers would not see an increase in the police and crime element of their bills. However, the freeze grant will cease and therefore creates a further gap in balancing the income and expenditure of the OPCC in future years.

An increase in the precept in 2015-16 would see a long term benefit to the funding of the OPCC, but would also require the council tax payers to pay an additional £3.42 per annum (Band D equivalent properties).

Therefore, the conclusion is that the freeze grant proposal for 2015-16 does not provide financial stability for the long term and consequently, the decision taken has been to increase the council tax charge.

### **4. COUNCIL TAX SUPPORT GRANT**

Council Tax Support Grant is received by Commissioners for each Policing area:

As part of the settlement announcement the Home Office has combined the payment relating to freeze grants with the amount previously identified as Council Tax Support. These will be treated outside the grant system as Legacy Council Tax Grants and total £9.7m for 2015-16. No change on the 2014-15 amounts.

### **5. CONSULTATION**

#### **Consultation and Engagement Strategy**

The Police and Crime Commissioner has a wide remit to cut crime and improve community safety in Nottingham and Nottinghamshire. Various consultation and engagement exercises were conducted last year to identify the relevant issues from communities to refresh the planning and prioritisation of policing and community safety. The consultation programme will not be fully completed until the beginning of February with any significant issues forwarded to the Police and Crime Panel for consideration.

## **Consultation with the Public, Stakeholders and Interested Parties**

The Commissioner and his Deputy have consulted and engaged with members of the public, stakeholders and partner organisations to identify the priorities and supporting activities to be addressed for refreshing the Police and Crime Plan and setting the budget and proposing the precept levels. Throughout the last year the Commissioner and his Deputy have attended various meetings, local events throughout the summer, public meetings and walkabouts to engage and discuss local policing and crime concerns with individuals, communities and victims of crime.

## **Police and Crime Plan Priorities and Budget Consultation 2014/15**

Consultation has been carried out on behalf of the Commissioner, which has included more than 4,000 views of residents from:

- Consultant led focus groups, one in Nottingham (City on the 25<sup>th</sup> November 2014), one in North Nottingham (Worksop on the 26<sup>th</sup> November 2014), one in South Nottingham (Bingham on the 27<sup>th</sup> November 2014), one with women (25<sup>th</sup> November 2014) and one with members of the BME community (14<sup>th</sup> January 2015).
- The Commissioner's online consultation questionnaire and supporting video on the Police's Delivering the Future proposals (September to November 2014).
- Evidence collected through Nottingham County Council Annual Residents Satisfaction Survey 2014 (October 2014) and the Nottingham City Crime and Drugs Partnership Annual Respect Survey.
- Academic led research from telephone surveys for the Partnership Plus Areas (November 2014 to February 2015).

Main findings being:

- There was overall support for having to remodel policing for Nottinghamshire 62% given the national context of austerity and on-going policing budget cuts, however, 82% did not support savings to local policing.

Key areas for potential savings included:

- Investing in preventing crime and early intervention through education and working with communities.

- Joined up working with other agencies through multi-agency hubs, supported by training and information sharing, particularly for areas such as domestic violence, child abuse and other serious crime.
  - Support for collaboration with other forces.
  - General support for specialist investigative teams to assist with bringing more people to justice, and focusing on protecting vulnerable people against crime such as child sexual exploitation and domestic violence.
  - Support for victims of crime having a single point of contact throughout their journey.
  - General support for volunteering, with 86% having participated in volunteering over the last 12 months.
  - Increasing PCSO powers, or more Police Staff to ensure that Police Officers are utilised for jobs requiring warranted powers.
  - Reducing the number of senior policing ranks and the number of meetings Police Officers attend, find savings through enabling officers with improved technology and reducing bureaucracy to free them up to be accessible in their communities to focus on tackling local issues.
  - Savings to the Nottinghamshire Office of the Police and Crime Commissioner, 44% and 50% said no to reducing police support functions.
- Respondents identified that they would be prepared to pay more for policing, 53% of respondents from the Residents Survey (with 14% responding maybe).

Key areas to invest in policing included:

- There were concerns for closing police buildings, but general support for increasing visibility of officers 85%, with the Independent Advisory Groups 28%, 75% saying no to reducing policing time dealing with the public.
- Clearer communication with communities, particularly for reporting crime, also promoting the confidence to contact the police for less serious issues to pass on intelligence, but a clear definition of an emergency would be useful to promote together with the numbers to call other than 999.



- Acceptance that new communication and social media are important tools for policing, but should not be the only method of communicating with the public.
  - Support for a named Police Officer for each area to improve response times.
  - Support for spending more on drug and alcohol related crime and exploiting new technology to assist tackling some crimes.
- Victims focused
    - Recognised importance for offering restorative justice where appropriate, with specific emphasis on it needing to be victim led.
    - Concern that there needs to be an equitable distribution of resources across the City and County.
    - Improve road safety awareness and tackle illegal parking, 58% did not want any cuts to roads policing.
    - Three quarters (75%) of all respondents reported feeling safe (either very or fairly safe) in their local area when outside after dark.
    - Perceptions of anti-social behaviour being a very or fairly big problems being: noisy neighbours (4%/7%), groups of people hanging around the streets (5%/13%), rubbish or litter lying around (10%/16%), vandalism, graffiti and deliberate damage to property or vehicles (5%/11%), people being drunk or rowdy in public places (7%/9%), people using or dealing drugs (9%/11%), people being attacked/harassed because of their skin colour /ethnic origin/religion (1%/4%), abandoned or burnt out vehicles (0%/2%).
- Communicating with the Commissioner
    - Preferred method of obtaining information about the Commissioner, being through local newspapers and newsletters (20% and 23%).
    - Important business areas identified for review include:
      - Stop and search – very important (33%), important (46%).
      - Recruitment and retention of police officers – very important (59%), important (36%).
      - Hate crime related to disability – very important (47%), important (43%).

## 6. COUNCIL TAX REFERENDUMS

The Localism Act 2011 requires authorities including Police & Crime Commissioners to determine whether their 'relevant basic amount of council tax' for a year is excessive, as excessive increases trigger a council tax referendum. From 2012-13 onwards, the Secretary of State is required to set out principles annually, determining what increase is excessive. For 2015-16 the principles state that, for Police and Crime Commissioners, an increase of more than 2% in the basic amount of council tax between 2014-15 and 2015-16 is excessive.

For 2015-16 the relevant basic amount is calculated as follows:

Formula:

$$\frac{\text{Council Tax Requirement}}{\text{Total tax base for police authority area}} = \text{Relevant basic amount of council tax}$$

Nottinghamshire 2015-16 estimated calculation:

$$\frac{£52,408,588.19}{297,100.67} = £176.40 \text{ (1.98\%)}$$

With a 2% increase the Band D equivalent charge would be £176.44.

This year the Referendum limit has been announced at the time of settlement notifications. It has been set at 2% for 2015-16.

## 7. RECOMMENDATION ON THE LEVEL OF POLICE & CRIME PRECEPT ON THE COUNCIL TAX

As discussed in the Budget report resources have been allocated to support the police and crime plan. In assessing appropriate spending levels, consideration has been given to the significant unavoidable commitments facing the Police & Crime Commissioner including pay awards, and pension liabilities. Due regard has been given to the overall cost to the local council tax payer. Consideration has also been given to the projected value of the available reserves and balances and the medium term financial assessment (both reported separately).

The Commissioners proposed spending plans for 2015-16 result in a Police & Crime Precept on the Council Tax of £176.40 for a Band D property, representing an increase of 1.98%.

For comparison purposes the Council Tax for Precepting Authorities is always quoted for a Band D property. In Nottinghamshire by far the largest number of properties are in Band A.

To achieve a balanced budget with reduced grant income an increase in the Police & Crime Precept has been required. This is on top of significant budget reductions and efficiencies to be achieved in year.

The calculation of the Police & Crime Precept on the Council Tax is as follows:

	<b>2014-15 Budget £m</b>	<b>2015-16 Budget £m</b>	<b>Increase/ Decrease £m</b>
Budget	193.8	191.2	2.6 (-)
External Income	143.3 (-)	136.5 (-)	6.8 (+)
Collection Surplus	0.5 (-)	0.7* (-)	0.2 (-)
Reserves	0.5 (+)	1.6** (-)	1.1 (-)
<b>Precept</b>	<b>50.5 (-)</b>	<b>52.4 (-)</b>	<b>1.9 (-)</b>
Council Tax Base	291,770	297,100	5,330
Council Tax Band D	£172.98	£176.40	£3.42
Council Tax Band A	£115.32	£117.60	£2.28



\* Collection fund surplus/deficit total unconfirmed at time of the panel meeting transferred to reserves

\*\* £3.0m requested to balance the budget. Current estimate for precept collection is £0.7m over estimated, so will transfer excess to reserves.

The overall Police & Crime Precept to be collected on behalf of the Police & Crime Commissioner for 2015-16 is:

	<b>£m</b>	
Budgeted Expenditure	191.2	+
Less income from:		
Police & Crime Grant	126.8	(-)
Legacy Council Tax Grant	9.7	(-)
Collection Fund surplus	0.7	(-)
Net contribution to/from Balances	1.6	(-)
Police & Crime Precept on the Council Tax	52.4	(-)

The resulting precept and Council Tax levels derived from the measures contained in this report are detailed below:

**Police & Crime element of the Council Tax**

<b>Band</b>	<b>2014-15 £</b>	<b>2015-16 £</b>
A	115.32	117.60
B	134.54	137.20
C	153.76	156.80
<b>D</b>	<b>172.98</b>	<b>176.40</b>
E	211.42	215.60
F	249.86	254.80
G	288.30	294.00
H	345.96	352.80

Amounts to be raised from Council Tax in each billing authority area 2015-16:

	Precept amount to be collected £	Collection Fund Surplus/(Deficit) £	Total amount due £
Ashfield	5,477,608.08	114,087	5,591,695.08
Bassetlaw	5,740,999.74	105,189	5,846,188.74
Broxtowe	5,715,465.84	30,472	5,745,937.84
Gedling	6,281,614.58	83,253	6,364,867.58
Mansfield	4,895,346.96	46,542	4,941,888.96
Newark & Sherwood	6,486,397.34	0	6,486,397.34
Nottingham City	10,768,690.80	252,916	11,021,606.80
Rushcliffe	7,042,434.84	80,186	7,122,620.84
<b>Total</b>	<b>52,408,558.19</b>	<b>712,645</b>	<b>53,121,203.19</b>

### Collection Dates

The dates, by which the Commissioners bank account must receive the credit in equal instalments, otherwise interest will be charged.

	£
<b><u>2015</u></b>	
20 April	5,312,120.31
29 May	5,312,120.31
01 July	5,312,120.31
05 August	5,312,120.31
10 September	5,312,120.31
15 October	5,312,120.31
19 November	5,312,120.31
<b><u>2016</u></b>	
04 January	5,312,120.31
05 February	5,312,120.31
11 March	5,312,120.40
	<b><u>53,121,203.19</u></b>

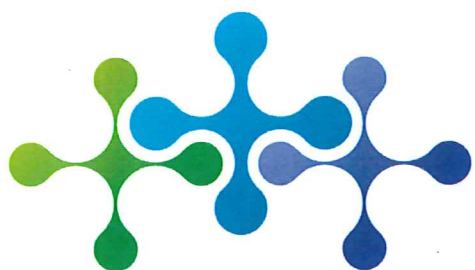
## **8. ROBUSTNESS OF THE ESTIMATES**

The Chief Finance Officer to the Police & Crime Commissioner has worked closely with Head of Finance & Business to ensure assurance on the accuracy of the estimates can be provided. There have been weekly meetings between the Commissioner, Chief Constable and their professional officers.

The budget proposed within this report represents a balanced budget. To achieve this, the force has provided detail on how efficiencies and savings will be delivered. There are some potential risks to the full amount of savings being achieved and should this be the case reserves may need to be used to smooth the implementation of change. The Force will work hard to achieve required reduction of £11.0m and this will be monitored by the Commissioner.

The balanced budget is based upon the recommended 1.98% increase in Council Tax for 2015-16.





Nottinghamshire

**POLICE & CRIME COMMISSIONER**

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**Budget 2015-16**

January 2015

## **INTRODUCTION**

Since setting his first budget for 2013-14, which was itself challenging, the pressure on the Commissioner's budget has increased substantially. In 2014-15 alone a budget gap of £12.7m needs to be met.

The Government grant continues to be reduced while; any precept increase is restrained by the referendum limit. The position is exacerbated by the inevitable increase in core costs.

Since 2010-11 funding Nottinghamshire has seen its funding reduced by over £42m and in December 2014 it was confirmed that next year's policing grant will be cut by a further 5.1%. Taking inflation into account, this equates to a loss of approximately £10m in Nottinghamshire.

Despite this much has been achieved:

- Real progress is being made with the implementation and review of plans to tackle challenging areas of performance.
- Reductions continue in key areas such as burglary, robbery and vehicle crime.
- The Force is implementing its far-reaching 'Delivering the Future' change programme, focusing on how it can improve every area of the business to become more efficient and effective.
- There is evidence that the introduction of the Crime Resolution and Incident Management team is reducing demand on resources, thereby benefitting communities through the provision of increased frontline capacity.
- The Commissioner and Force have been working closely with regional forces and local partners to reduce cost and maintain service provision. Pivotal to this is the development of a single IT system (with Leicestershire, Lincolnshire and Northamptonshire forces) to enable the sharing of, and access to, information from almost anywhere in the region.
- Successful bids for funding from the Home Office Innovation Fund have seen progress in collaborative projects focussing on the benefits delivered by new technology, including Rapid DNA testing, the introduction of Body Worn Cameras and a Virtual Courts System.
- Nottinghamshire Police has been commended by HMIC for its strong focus on reducing offending and supporting victims.
- Victim satisfaction and public confidence has improved significantly over recent years and work to further embed the Victims' Code of Practice is continuing, overseen by the Deputy PCC.
- Performance continues to improve over the longer term, but recorded crime has increased over the last 12 months.
- Resources provided to local partners and third sector organisations via the Commissioner's own funding streams are delivering real improvements in the support provided to victims; tackling issues such as domestic abuse, sexual exploitation of young people, hate crime

and alcohol-related problems; and the reduction of crime and ASB within our communities.

- During the year the Commissioner became an early adopter for Victims Services, taking over responsibility for commissioning services to deliver this important role. The work to improve the service delivered to victims will continue to develop as newly designed services are commissioned and embedded.
- A focus on early intervention and crime prevention is designed to see demand for services reduced.
- Building on previous years' work listening to rural communities, this year's budget also recognises the importance of rural crime and crime in rural areas, with plans in place to ensure these communities feel that they have sufficient protection.
- The importance of resourcing high crime areas appropriately, with partners, is recognised and work strands are underway to ensure such areas are resourced effectively with key partners.
- The importance of appropriate care for those in mental health crisis has been acknowledged by a wide range of partners, all of whom have signed up to the Mental Health Concordat. To the end of November 2014 there was been a 46% reduction in the number of non-crime related mental health patients detained in the Force Custody Suites.
- Three quarters (75%) of all respondents to the Nottinghamshire Residents Satisfaction Survey reported feeling safe (either very or fairly safe) in their local area when outside after dark.
- Plans to redesign the police estate to make it more suitable for modern day needs are being implemented, reducing overheads and driving modernisation. In turn this work will increase officer visibility as the adoption of new technology becomes more widespread.
- Roughly 50% of local residents responding to surveys and questions have indicated that they are prepared to pay more towards policing.

Throughout the year the Commissioner and the Deputy PCC have been out and about throughout the City and the County meeting and listening to members of the public, stakeholders and partners. The feedback from these visits helps to shape the refreshing of the Commissioner's Police and Crime Plan, for which this budget seeks to provide the appropriate resources.

The budget gap of £11m is being met through efficiencies identified by the force, which also include savings from regional collaboration, and the transformational change programme 'Delivering the Future'.

While a large percentage of these savings will be delivered in-year, more work is needed. The risks relating to the delivery of these efficiencies relate to dependency on regional partners; the rate at which change can be delivered; and the ability of the force to drive the full level of efficiencies needed in-house. Later on in this report, the proposed way forward is discussed in more detail.

## 1. **BUDGET 2015-16**

The Commissioner is continuing to manage further reductions in funding for the current Comprehensive Spending Review (CSR) and the probable reductions in funding in the next CSR. This budget is based on this premise and has to be taken within the context of the longer term plans of the Commissioner.

### 1.1. **Funding Levels**

The provisional funding levels have been set by the Home Office and the Department of Communities and Local Government. This anticipated funding is shown below.

<b>Funding 2015-16</b>	2015-16 £m
<b>Core Grants and Funding</b>	
Police & Crime Grant	(126.8)
Council Tax Legacy Grant	(9.7)
<b>Sub-total Core Grants</b>	<b>(136.5)</b>
<b>Precept</b>	<b>(52.4)</b>
Collection Fund (surplus)/deficit	(0.7)
<b>Total Funding available</b>	<b>(189.6)</b>

Final confirmation of grant settlement was laid before Parliament in February. No changes were made.

The Referendum Limit was announced at the same time as the provisional settlement and is set at 2% for 2015-16.

There is an estimated £3.0 million required from reserves to finance one-off expenditure relating to the programme of transformational change to deliver medium to long term savings. This is netted by a transfer to reserves of the collection fund surplus and additional precept from the higher than estimated council tax base.

The precept figure above assumes that the Police & Crime Panel support the Commissioners decision to increase precept by 1.98%.

The Commissioner has written to the Home Secretary in relation to single year settlements affecting our ability for medium and long term financial planning and in relation to the amount of grant withheld in the floors mechanism.

## 1.2 Summary Expenditure

The Commissioner is required to set a balanced budget each year for the following financial year.

With a reduction in grant income of 5.1% and increased pressures from inflation, pay awards and new responsibilities this inevitable means efficiencies have to be identified and delivered in order to balance the budget.

<b>Expenditure 2015-16</b>	<b>2015-16 £m</b>
Previous Expenditure	191.8
In year increases	8.4
Transformation Programme costs	2.0
<b>Sub-total Expenditure</b>	<b>202.2</b>
Efficiencies	(11.0)
Use of Reserves	(1.6)
<b>Total Net Expenditure</b>	<b>189.6</b>

Inflation increases account for £2.9m of the in year increases above. This is detailed further in the sections relating to expenditure.

Further detail on expenditure and efficiencies is provided later within this report.

At the time of writing this report we had submitted bids for Innovation Fund financing from the Home Office, building on successful bids in the previous two years and the transformational work underway. We will be notified in March as whether our local and regional submissions have been successful.

## 2. Budget breakdown

Annex 1 details the proposed expenditure budget for 2015-16. The proposed revenue budget is £189.6m.

<b>Net Expenditure Budget</b>	<b>2015-16 £m</b>	<b>Note</b>
Employee	158.8	2.1
Premises	6.0	2.2
Transport	5.9	2.3
Supplies & Services	14.1	2.4
Agency & Contract Services	11.3	2.5
Pensions	4.5	2.6
Capital Financing	6.3	2.7
Income	(4.7)	2.9
Efficiencies	(11.0)	3.2
Net Use of Reserves	(1.6)	2.8
<b>Total Net Expenditure</b>	<b>189.6</b>	<b>Annex 1</b>

### 2.1 Employee Related Expenditure

Despite the fact that the budget has been reduced by 20% since 2010 the Police and Crime Commissioner has continued to recruit Police Officers and PCSO's. However, Officers continue to leave the Force at a faster pace than anticipated and the predicted impact of a further 20% reduction in funding over the next CSR means that Officer numbers will reduce.

To ensure that this reduction is managed effectively a team has been set up to design and implement a new policing model. Where warranted officers are not required civilians will perform the tasks (e.g. investigators and prisoner handling). This will ensure that local policing remains the top priority.

A pay award has been included in the budget at 1% payable from 1<sup>st</sup> September each year. Employee expenditure accounts for approximately 80% of the total expenditure budget.

Annex 2 details the budgeted staff movement between the current year and 2015-16. Annex 3 details the budgeted police officer, police staff and PCSO numbers for 2015-16.

## **2.2 Premises Related Expenditure**

Over the past few years the Commissioners estate has been reduced in order to achieve efficiencies, but also to ensure resources are allocated based upon need and to facilitate planned changes in working arrangements. Such changes will include remote working through better technologies ensuring officers are in the communities and not stations and hot-desking to ensure optimal use of the space available.

Premises related expenditure includes the provision of utility services to those properties and these are elements of the budget that are adversely affected by inflation. For 2015-16 inflation for gas and electricity has been budgeted at 2.0%.

## **2.3 Transport Related Expenditure**

The Force has in place a Public Finance Initiative (PFI) for the provision of police vehicles. This agreement ensures that there is always the required number of vehicles and driver slots. However, this is an expensive agreement and requires careful management to ensure the most advantageous service is obtained from the supplier. During the year negotiations with the contractor were successful in identifying areas where expenditure could be reduced and managed better.

## **2.4 Supplies and Services Expenditure**

This category of expenditure captures most of the remaining items such as insurance, printing, communications, information technology (IT) and equipment.

Some of the IT systems that the Force uses are provided through national contracts that the Home Office recharge the Force for. A recent notification from the Home Office sees the total cost of these systems increasing substantially again and we have been informed that total police grant will be top sliced in future for this expenditure.

For all other expenditure an inflation factor of 2.0% has been applied in 2015-16.

## **2.5 Agency & Contract Services**

This category of expenditure includes agency costs for the provision of staff, professional services such as internal and external audit and treasury management, and the costs associated with regional collaboration.

A breakdown of the costs associated with this classification is summarised below:



<b>Analysis of Agency &amp; Contracted Services</b>	<b>2015-16 £m</b>
Agency Costs	0.6
Collaboration Contributions	6.7
Community Safety Grant	3.5
Other partnership costs	0.5
<b>TOTAL</b>	<b>11.3</b>

The costs associated with the use of agency staff have been a concern for sometime and going forward will need to be very carefully managed and reduced.

Regional collaboration is shown as a joint authority as this is the basis of the collaboration agreements. The region has been challenged to deliver savings from across those projects already in place. Nottinghamshire's element of the regional budget is £6.7m for 2015-16.

There are two major areas of transformation that will be delivered through regional arrangements. These relate to IT and Corporate services. Currently, Nottinghamshire is progressing on these areas with Northamptonshire and Lincolnshire. These are large scale changes that will require investment in order to be delivered.

## **2.6 Pensions**

This category includes the employer contributions to the two Police Pension Schemes in place and to the Local Government Pension Scheme (LGPS) for police staff.

There are two areas of increasing costs in relation to pensions. These are the employer contribution to the LGPS and the increasing number of medical retirements of police officers.

The reduced contribution rate to police pensions will not be passed onto individual Forces as a benefit; instead there will be a reduction in police grant.

The impact of the change to employers' national insurance contribution rates for the state pension changes have been factored into the MTFP.

The budgeting for medical retirements remains an issue with the number of medical retirements and the associated costs increasing significantly above the original budget.

## **2.7 Capital Financing Costs**

This relates directly to the value of the capital expenditure in previous years. The proposed capital programme for 2015-16 has been limited again and priority given to projects where collaborative commitment has been made (e.g. Innovation fund projects). This will assist in managing down the capital costs in the future. Slippage from this financial year will also need to be prioritised.

Currently, market rates are favourable and therefore the cost of borrowing is low. However, our advisors predict an increase in rates commencing in 2015-16.

## **2.8 Transformational Change Programme**

Transformational change will be needed to balance future budgets. The Force have commenced on a programme to deliver this change through Delivering the Future project, which will design how the service will look in 2020 and the changes needed to achieve this. A team has been created to deliver this from experienced and knowledgeable staff and officers in the Force. Consequently, there is a need to temporarily back fill such posts. This is one-off additional expenditure and therefore it is appropriate that the cost will be met from reserves. The reserves figure is shown net of the transfer into reserves from the collection fund and precept.

## **2.9 Income**

This is not a major activity for the Force. Income is currently received from other grants (e.g. PFI and Counter Terrorism), re-imbursement for mutual aid (where the Force has provided officers and resources to other Forces), some fees and charges (such as football matches and other large events that the public pay to attend) and from investment of bank balances short term.

# **3. Efficiencies**

During this CSR the Force will have delivered £42m in efficiencies.

## **3.1 2014-15 Efficiencies**

As part of the 2014-15 budget the following efficiencies were required in order to set a balanced budget.

Each year achieving cuts in expenditure becomes harder and this year the prediction is that there will be a shortfall of just under £1m against the required savings. Any shortfall will need to be met from budget underspends or reserves.

The table below details the efficiencies planned and the forecast position for 2014-15:

<b>Efficiencies 2014-15</b>	<b>Original £m</b>	<b>Forecast £m</b>
Collaboration	0.3	0.3
Procurement	1.3	0.9
Estates	1.4	1.0
Corporate Services	2.9	2.9
Fleet	0.2	0.4
Operational Efficiencies	0.0	0.0
Income Generation	1.2	0.8
Commissioners Office	0.1	0.1
<b>Sub total</b>	<b>7.4</b>	<b>6.4</b>
Collaboration	0.3	1.7
Local Policing	2.0	3.8
Systems re-thinking	2.0	0
Regional ICT	1.0	0
<b>Sub total</b>	<b>5.3</b>	<b>5.5</b>
<b>TOTAL</b>	<b>12.7</b>	<b>11.8</b>

### 3.2 2015-16 Efficiencies

In order to balance the budget for 2015-16 savings and efficiencies of £11.0m need to be delivered.

The efficiencies identified to deliver a balanced budget in 2015-16 are summarised in the table below:

<b>Efficiencies 2015-16</b>	<b>£m</b>
Collaboration	1.3
Procurement	0.8
Estates	0.3
Corporate services	1.9
Transport	0.8
Operational Efficiencies	1.4
Income generation	0.4
<b>Total</b>	<b>6.9</b>

<b>Further Savings identified 2015-16</b>	<b>£m</b>
Collaboration	0.5
Estates	0.1
Corporate Services	0.8
Operational Efficiencies	1.9
Commissioners Office	0.1
Other	0.7
<b>Total</b>	<b>4.1</b>

- 3.3** The Commissioner is of the view that achieving these efficiencies will be challenging. He has mapped out a programme of work and monitoring with the Force.
- 3.4** If these targets are not met the Commissioner will need to use reserves. But this is a one off solution.
- 3.5** The work with Northamptonshire, in setting up a Joint Police Business Support team, is now moving into implementation stages and should be in place for October 2015. There is now a real commitment to make progress quickly with regard to progressing the joint business support unit and IT strategy, which achieve a convergence and investment in new IT systems.

## **4. External Funding**

There is an assessment of the financial risk in respect of external funding currently provided. In 2014/15 29 officers and 59 staff FTE's are funded through this external funding and are not added within the expenditure and workforce plans. This could be an additional pressure in 2015-16 and future years as funding pressures mount for partners.

If this external funding was to cease the Commissioner and the Chief Constable would consider the necessity for these posts and may decide not to fund from the already pressured revenue budgets.

## 2015-16 Commissioner's Total Budget (£m)

	<b>Total Budget 2015-16</b>
<b>Payroll</b>	
Police Pay & Allowances	103.1
Police Overtime	3.3
Police Staff Pay & Allowances	51.5
Police Staff - Overtime	0.4
Other Employee Expenses	0.5
	<b>158.8</b>
<b>Other Operating Expenses</b>	
Premises Running Expenses	6.0
Transport Allowances	0.7
Transport Costs	5.9
Equipment, Furniture & Materials	0.4
Expenses	0.1
Clothing, Uniform & Laundry	0.5
Printing & Stationery	0.6
Comms & Computing	5.9
Miscellaneous Expenses	2.2
Supplies & Services	3.7
Agency & Contract Services	11.3
Pensions	4.5
Capital Financing	6.3
	<b>48.1</b>
<b>Total Expenditure</b>	<b>206.9</b>
<b>Income</b>	
Special Services	(0.3)
Fees, Reports & Charges	(0.3)
Other Income	(3.9)
Other Operating Income	(0.2)
	<b>(4.7)</b>
<b>Efficiencies</b>	<b>(11.0)</b>
<b>Net Use of Reserves</b>	<b>(1.6)</b>
<b>Total</b>	<b>189.6</b>

## Workforce Movements Budget 2014-15 v Budget 2015-16

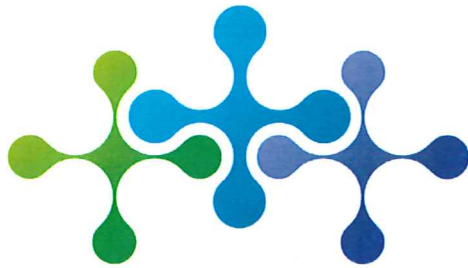
	<b>2014-15 Total FTE's</b>	<b>2015-16 Total FTE's</b>	<b>Movements FTE's</b>
<b>Police Officers</b>			
Local Policing	1,393	1,306	(87)
Specialist Services	507	493	(14)
Corporate Services	43	42	(1)
Region	90	81	(9)
	<b>2,033</b>	<b>1,922</b>	<b>(111)</b>
<b>Police Staff</b>			
PCSO	329	253	(76)
Other Police Staff	1,268	1,221	(47)
	<b>1,597</b>	<b>1,474</b>	<b>(123)</b>
<b>TOTAL</b>	<b>3,630</b>	<b>3,396</b>	<b>(234)</b>



## Workforce Plan FTE's

2015-16					
	Local Policing FTE's	Specialist Services FTE's	Corporate Services FTE's	Region FTE's	Total FTE's
<b>Police Officers</b>					
Opening balance	1,393	507	43	90	<b>2,033</b>
Restructure	-	-	-	-	-
Retirement /					
Leavers	(87)	(14)	(1)	(9)	<b>(111)</b>
Recruitment	-	-	-	-	-
	<b>1,306</b>	<b>493</b>	<b>42</b>	<b>81</b>	<b>1,922</b>
<b>Police Staff</b>					
Opening balance	380	465	396	27	<b>1,268</b>
Restructure	-	-	(47)	-	<b>(47)</b>
Recruitment	-	-	-	-	-
	<b>380</b>	<b>465</b>	<b>349</b>	<b>27</b>	<b>1,221</b>
<b>PCSOs</b>					
Opening balance	329				<b>329</b>
Recruitment/					
Leavers	(76)				<b>(76)</b>
	<b>253</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>253</b>
Opening Balance	2,102	972	439	117	<b>3,630</b>
Movement	(163)	(14)	(48)	(9)	<b>(234)</b>
Closing Balance	<b>1,939</b>	<b>958</b>	<b>391</b>	<b>108</b>	<b>3,396</b>





Nottinghamshire

**POLICE & CRIME COMMISSIONER**

**Medium Term Financial Plan**

**2015-16 to 2018-19**

January 2015

# **Commissioners Medium Term Financial Plan**

## **Introduction**

This document is part of the overall financial framework of the Police & Crime Commissioner. It builds on the budget proposed for 2015-16 and incorporates plans to meet changes in available financing with the need to meet current and future commitments.

Within the current economic climate the Government has made significant reductions in public sector finances. The level of cuts that have been made to Government grants are set to continue in the short to medium term.

Within the current Comprehensive Spending Review (CSR) Nottinghamshire has had to deliver £42million in efficiencies in order to balance the budget and improve performance. Early indications are that similar levels of savings/cuts will be required over the next CSR period as the economic recovery will be very slow and prolonged.

This 20% reduction has a significant impact on Nottinghamshire as approximately 72% of budget funding comes from Grant. In 2013-14 Nottinghamshire also lost out on £10.5m in grant. This was due to receiving a flat rate decrease rather than the amount due under the Home Office funding formula. The loss of grant is no longer calculated by the government offices, but with further flat rate decreases on grant Nottinghamshire's loss will remain significant and at the £10m level. The funding formula itself is under review.

The remaining 28% of funding comes from precept (Council Tax). The referendum limit is subject to review annually and has been set at 2% for 2015-16. This together with no indicative budget figures for 2016-17 makes financial planning with any certainty difficult and unpicking decisions to cut service impossible to reverse at a later date.

Despite this the Police & Crime Commissioner has produced a Police & Crime plan, which has been refreshed to include the feedback and comments made by stakeholders, partners and the public over the last 12 months.

The Police & Crime Plan is built upon the following 7 strategic priorities:

- Protect, support and respond to victims, witnesses and vulnerable people.
- Improve the efficiency, accessibility and effectiveness of the criminal justice process.
- Focus on those priority Crime types and local areas that are most affected by crime and anti-social behaviour.
- Reduce the impact of drugs and alcohol on levels of crime and anti-social behaviour.
- Reduce the threat from organised crime.
- Prevention, early intervention and reduction in re-offending.
- Spending your money wisely.

## Funding

This year introduces more changes to funding for policing in Nottinghamshire. These are summarised as follows:

1. The Grant from the Government has been cut by 5.1% in cash terms. This is slightly higher than estimated, but year on year is now very challenging to achieve, whilst retaining a fit for purpose Police Service.
2. The cost pressures that we are also seeing are also having an effect (i.e. pay wards of 1%, the impact of the Winsor review on Police pay and inflationary pressures) especially as the funding available continues to reduce.
3. At the time of writing this report the billing authorities had yet to declare any surplus or deficit on the collection fund accounts.
4. The Commissioner at a local level and regional level continues to bid for additional funding being allocated by the Home Office from the Innovation Fund. We have previously been successful in relation to bidding for this additional funding. It is envisaged that the projects it is funding will deliver significant savings to balance the budget in future years.
5. At the time of writing this report we had not received the settlement figures in relation to grant funding. If these are significantly different to those estimated this could increase our borrowing requirement and have a negative impact on the revenue budget.
6. During 2014-15 the Commissioner became an early adopter for the Commissioning of Victim Services. This service is under review and a new contract with provider(s) is due to be let for 2015-16.

The estimated funding for the Police & Crime Commissioner over the next four years is as follows:

	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m
Police & Crime Grant	126.8	120.3	114.2	108.4
Council Tax Legacy Grant	9.7	9.7	9.7	9.7
Precept	52.4	53.4	54.5	55.6
Collection fund surplus/(deficit)	0.7			
<b>TOTAL</b>	<b>189.6</b>	<b>183.4</b>	<b>178.4</b>	<b>173.7</b>

## Investment

The Police & Crime Commissioner has made a promise to increase frontline policing. This budget is based upon a third year of recruitment to maintain the number of police officers, despite the significantly large number of leavers. Continued recruitment becomes ever more difficult as further cuts are made to funding.

The Commissioner has been investing in “Delivering the Future” a development programme within the force aimed at identifying how the service will be have to be delivered beyond 2020 with fewer resources available.

Investment is also being made at a regional level and collaboration is well established within the East Midlands. Many specialist policing services such as major crime, roads policing and serious and organised crime are provided through regional teams. Support services such as finance and human resources are also being developed for regional delivery.

At a local level investment is being made in working closer with partners (e.g. triage assessment at the first point of contact, making sure the right service is provided by the police or one of its partners – e.g. Mental Health).

The Commissioner has reduced the size of the police estate and invested in IT to ensure officers are out within our communities for longer.

Under the Commissioners wider remit of “and Crime” and Victims Services the Commissioner is investing in new ways of service delivery and crime prevention.

## Savings and efficiencies

Over the current CSR efficiencies totalling £42m will be delivered. Early indications are that the next CSR will seek further cuts at similar levels (over 20%). All of this is becoming harder to achieve whilst maintaining the current level and quality of service.

The table below summarises the savings plans currently in place for the next two years:

<b>Efficiencies</b>	<b>2015-16 £m</b>	<b>2016-17 £m</b>
Collaboration	1.3	
Procurement	0.8	0.3
Estates	0.3	
Corporate Services	1.9	4.0
Transport	0.8	
Operational Efficiencies	1.4	
Income Generation	0.4	
<b>Corporate Efficiencies</b>	<b>6.9</b>	<b>4.3</b>

In addition to these efficiencies it is anticipated that the development programme and region will deliver the following savings:

<b>Further Savings</b>	<b>2015-16 £m</b>	<b>2016-17 £m</b>
Collaboration	0.5	
Estates	0.1	
Corporate Services	0.8	
Operational Efficiencies	1.9	
Local policing		5.0
Specialist Services		2.2
Commissioners Office	0.1	
Other	0.7	
<b>Total Savings</b>	<b>4.1</b>	<b>7.2</b>

<b>Total Efficiencies and Savings</b>	<b>11.0</b>	<b>11.5</b>
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The Commissioner is conscious of the risks associated should the efficiencies and savings identified not be achieved in the year that they are required and that achieving them will be a challenge.

The Commissioner is mindful that should there be some slippage in implementing these efficiencies then some limited use of reserves may be required to smooth the implementation, but it envisaged that these would be repaid over the medium term.

## Collaboration

The East Midlands region incorporates the policing areas of Derbyshire, Leicestershire, Lincolnshire and Northamptonshire with Nottinghamshire. This is a large region which has been collaborating for several years. Regional Collaboration has been developing and the Police & Crime Commissioners are keen for it to deliver more both financially and in performance terms.

Recently the region has made bids to the Home Office Innovation Fund some of which have been successful. This will ensure that the collaboration between Nottinghamshire, Northamptonshire and Lincolnshire will be able to pick up pace and will establish a joint business support unit and IT strategy, which achieve a convergence and investment in new IT systems. Some additional funding may be required from reserves.

Collaboration at a local level is also being developed this includes local authorities and other emergency services.



## Expenditure

Traditionally expenditure budgets are incrementally changed from the previous year's net expenditure to allow for inflation and savings. During 2013-14 the Commissioner had an independent review of the base budget undertaken. This review identified some areas where further efficiencies might be delivered and provided assurance on the areas that the force was already reviewing.

The expenditure requirements of the Force and the Office of the Police & Crime Commissioner are continuously reviewed and monitored to ensure value for money. The role and responsibility of the Commissioner is to set a balanced budget assured that the force has robust systems in place for producing a full budget.

Officers, staff and PCSO's account for almost 85% of budgeted net expenditure and as such are a major asset for the organisation. The pace at which police officers, PCSO's and staff leave the organisation can fluctuate year on year, but this is budgeted for. Savings arise as officers retire at the top of the grade are replaced with new recruits on lower grades. The revenue budget report details the assumptions made for budgeting purposes.

Inflation and pay awards provide a significant cost pressure. This is constantly reviewed for accuracy.

Total Net Expenditure requirements are provided below:

	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m
Previous year net expenditure	193.8	188.2	183.4	178.4
Net changes for pressures	8.4	10.9	3.7	1.8
<b>Net expenditure requirement</b>	<b>202.2</b>	<b>199.1</b>	<b>187.1</b>	<b>180.2</b>

## Summary

In conclusion there are robust plans in place to deliver savings both locally and regionally.

There is still work to do to achieve the required savings plans through to 2020, but the work started on transformation should enable balanced budgets to be set.

There is still risk in relation to future grant settlements and a possibility that these may be cut by more than has been estimated.

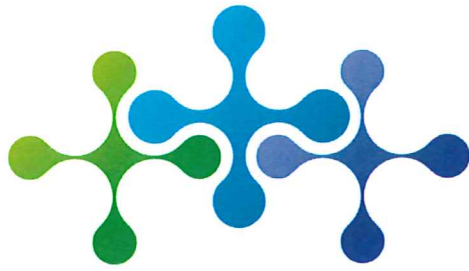
The summary financial position is as detailed below:

	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m
<b><u>Policing element</u></b>				
Net Expenditure	197.7	194.6	182.6	175.7
Savings efficiencies & reserves	(10.9)	(11.4)	(6.0)	(2.7)
<b>sub-total</b>	<b>186.8</b>	<b>183.2</b>	<b>176.6</b>	<b>173.0</b>
<b><u>Grants &amp; Commissioning</u></b>				
Net Expenditure	4.5	4.5	4.5	4.5
Savings efficiencies & reserves	(0.1)	(0.1)	(0.1)	(0.1)
<b>sub-total</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>
<b>Total net expenditure</b>	<b>191.2</b>	<b>187.6</b>	<b>181.0</b>	<b>177.4</b>
<b><u>Financing available</u></b>				
Grants	136.5	130.0	123.9	118.1
Precept	52.4	53.4	54.5	55.6
<b>Total Financing</b>	<b>189.6</b>	<b>183.4</b>	<b>178.4</b>	<b>173.7</b>
Contribution (from)/to Reserves incl above	(1.6)*	(1.0)		
Further (savings) required		(3.2)	(2.4)	(3.6)

\* The additional £1.4m from precept and surplus will be transferred to reserves. £3m has been approved to balance the budget

The Commissioner is of the view that achieving the levels of efficiencies shown above will be challenging. He has mapped out a programme of work and monitoring with the Force. If these targets are not met the Commissioner has made it clear that the pace of recruitment will be slowed or stopped. Any slippage in the achievement of the efficiencies may result in the limited use of reserves. Where reserves are used it is expected that these would be repaid over the medium term.





Nottinghamshire

**POLICE & CRIME COMMISSIONER**

**Reserves Strategy 2015-16**

# Reserves Strategy 2015-16

## Background

1. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Act require precepting authorities (and billing authorities) in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
2. In England and Wales, earmarked reserves remain legally part of the General Reserve, although they are accounted for separately.
3. There are other safeguards in place that help to prevent Police & Crime Commissioners over-committing themselves financially. These include:
  - The balanced budget requirement (Local Government Act 1992 s32 and s43).
  - Chief Finance Officers duty to report on the robustness of estimates and adequacy of reserves (Local Government Act 2003 s25) when the Police & Crime Commissioner is considering the budget requirement.
  - Legislative requirement for each Police & Crime Commissioner to make arrangements for the proper administration of their financial affairs and that the Chief Finance Officer has responsibility for the administration of those affairs (section 151 of the Local Government Act 1972).
  - The requirements of the Prudential Code
  - Auditors will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.
4. These requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Chief Finance Officer to report to the Police & Crime Commissioner if there is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the Commissioner will not have the resources to meet its expenditure in a particular financial year. The issue of a section 114 notice cannot be taken lightly and has serious operational implications. Indeed, the Police & Crime Commissioner must consider the s114 notice within 21 days and during that period the Force is prohibited from entering into new agreements involving the incurring of expenditure

5. Whilst it is primarily the responsibility of the Police & Crime Commissioner and its Chief Finance Officer to maintain a sound financial position, external auditors will, as part of their wider responsibilities, consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual Police and Crime Commissioners or authorities in general.
6. CIPFA's Prudential Code requires the Chief Finance Officers to have full regard to affordability when making recommendations about the Commissioners future capital programme. Such consideration includes the level of long-term revenue commitments. Indeed, in considering the affordability of its capital plans, the Commissioner is required to consider all of the resources available to it/estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years. There is a requirement for three-year revenue forecasts across the public sector and this is achieved through the Medium Term Financial Plan (MTFP). The Comprehensive Spending Review (CSR) has provided the Commissioner with details of proposed revenue grant for one year and capital grant settlement has yet to be announced. This provides limited ability to focus on the levels of reserves and application of balances and reserves.
7. CIPFA and the Local Authority Accounting Panel do not accept that there is a case for introducing a generally acceptable minimum level of reserves. Commissioners on the advice of their Chief Finance Officers should make their own judgements on such matters taking into account all relevant local circumstances. Such circumstances will vary between local policing areas. A well-managed organisation, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, a well-managed organisation will ensure that the reserves are not only adequate, but also are necessary.
8. Section 26 of the Local Government Act 2003 gives Ministers in England and Wales a general power to set a minimum level of reserves for authorities. However, the government has undertaken to apply this only to individual authorities in the circumstances where the authority does not act prudently, disregards the advice of its Chief Finance Officer and is heading for serious financial difficulty. This would also apply to Police & Crime Commissioners. This accords with CIPFA's view that a generally applicable minimum level is appropriate, as a minimum level of reserve will be imposed where an authority is not following best financial practice.

## **Current Financial Climate**

9. The pressures on public finances currently and for the medium term are intense. Therefore, the ability to retain reserves for unforeseen events and circumstances becomes not only difficult, but something that requires careful consideration.
10. Over the past few years the total amount held in reserves has increased due to year on year underspends. The amount now held in reserves is comparable with the national average. During 2014-15 an estimated £2m will be used from reserves in line with approvals made by the Commissioner during the year; with a further estimated £1m being required in to meet the shortfall in required efficiencies in year. It is currently anticipated that £3.0m will be required to set a balanced budget for 2015-16. There will be a contribution of £1.4m into reserves from the collection fund surplus and tax base change to precept.
11. The Medium Term Financial Plan identifies risks in achieving the required savings to ensure balanced budgets over future years. Specifically there are early indications that the next CSR will require managing the finances with a further 20% reduction in grant funding this will probably see the need for reserves to be used and managed effectively.

## **Types of Reserve**

12. When reviewing the medium term financial plans and preparing the annual budgets the Commissioner should consider the establishment and maintenance of reserves. These can be held for four main purposes:
  - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves.
  - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves.
  - A means of building up funds often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately, but remain legally part of the general reserve.
  - The economic climate and the safety of the Commissioner's financial assets. This would link closely with the Treasury Management and Prudential Code Strategy.
13. The Commissioner also holds other reserves that arise out of the interaction of legislation and proper accounting practice. These reserves are not resource-backed and cannot be used for any other purpose, are described below:

- The Pensions Reserve – this is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes.
  - The Revaluation Reserve – this is a reserve that records unrealised gains in the value of fixed assets. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated or revalued downwards or disposed of.
  - The Capital Adjustment Account – this is a specific accounting mechanism used to reconcile the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system.
  - The Available-for-Sale Financial Instruments Reserve – this is a reserve that records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets.
  - The Financial Instruments Adjustment Reserve – this is a specific accounting mechanism used to reconcile the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund.
  - The Unequal Pay Back Pay Account – this is a specific accounting mechanism used to reconcile the different rates at which payments in relation to compensation for previous unequal pay are recognised under proper accounting practice and are required by statute to be met from the general fund.
  - Collection Fund Adjustment account – this is specific to the changes in accounting entries relating to the Collection Fund Accounts held by the Billing Authorities.
  - Accumulated Absences Account – this account came into being with the implementation of IFRS and represents the value of outstanding annual leave and time off in lieu as at 31<sup>st</sup> March.
14. Other such reserves may be created in future where developments in local authority accounting result in timing differences between the recognition of income and expenditure under proper accounting practice and under statute or regulation, such as the Capital Grants Unapplied.



15. In addition the Commissioner will hold a Capital Receipts Reserve. This reserve holds the proceeds from the sale of assets, and can only be used for capital purposes in accordance with the regulations.
16. For each earmarked reserve held by the Commissioner there should be a clear protocol setting out:
  - The reason for/purpose of the reserve
  - How and when the reserve can be used
  - Procedures for the reserves management and control
  - A process and timescale for review of the reserve to ensure continuing relevance and adequacy
17. When establishing reserves, The Commissioner needs to ensure compliance with the Code of Practice on Local Authority Accounting and in particular the need to distinguish between reserves and provisions.

## **Nottinghamshire Police & Crime Commissioner's Reserves**

18. This document aims to provide an over-arching strategy that defines the boundaries within which the approved budget and Medium Term Financial Plan (MTFP) operate.

### **The General Reserve**

19. It has previously been established that General Reserves will be maintained at a level above the minimum of 2.0% of the total net budget.
20. The purpose of this reserve is to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and resulting from an extraordinary event.
21. Similarly the General Reserve should be set at a prudent and not excessive level, as holding high level of reserves can impact on resources and performance. As such the maximum level of General Reserves is 5.0% of the total net budget.
22. Authorisation to finance such expenditure must be obtained in advance from the Commissioners Chief Finance Officer, in accordance with the scheme of delegation and the protocol between the Chief Constable and the Chief Finance Officer. Where time permits the request should be supported by a business case.

23. As the net budget position changes the level of General Reserve must be monitored to ensure the minimum level is maintained.
24. **Appendix A** details the elements that make up the current General Reserves balance and the levels of risk attached to each of these elements. These are indicative and may not be exhaustive as new risks emerge. This does not include the Jointly Controlled Operations general reserve of £0.074m.

### **Earmarked Reserves**

25. Unlike General Reserves earmarked reserves have been identified for specific areas of expenditure where there are anticipated costs that can only be estimated. It is therefore prudent for the Commissioner to identify such areas of expenditure and set aside amounts that limit future risk exposure (e.g. balancing budget shortfalls in the MTFP).
26. Such expenditure usually arises out of changes in policy or where the organisation is working in collaboration with other forces to provide a specific service (for example Public Finance Initiative (pfi)).
27. Expenditure relating to earmarked reserves has to specifically relate to the purpose of the reserve.
28. **Appendix B** details for each of the earmarked reserves that existed at the start of the 2014-15 financial year and their estimated balance by 31<sup>st</sup> March 2015.

Details of those available for use in 2015-16 are given below:

### **Medium Term Financial Plan (MTFP) Reserve**

29. The medium term financial plan of the Commissioner is under constant review and changes as new and reliable information becomes available.
30. The original purpose of this reserve is to alleviate financial pressure on the budgets in future years.
31. The support from this reserve is only one-off support and as such cannot be used to finance ongoing commitments.
32. The previously agreed strategy for utilising this reserve has been reviewed in light of the Comprehensive Spending Review and as such this reserve will

now be utilised to finance the cost of organisational changes and as an investment to facilitate new savings. In addition to this the reserve will also be utilised smooth budget pressures as they arise.

33. The Precept and Budget Reports that will be approved in February 2015 show a predicted under funding against budget of £0.9m in 2014-15 and a potential over funding against estimate of £0.7m in 2015-16. It is agreed that the MTFP reserve would meet the additional expenditure in 2014-15 and that the additional funding in 2015-16 will be transferred to reserves. All reserves will be utilised with the agreement of the Police & Crime Commissioner in the ways identified in this strategy and supported by a detailed business case.
34. The Medium Term Financial Plan has a risk assessment in relation to achieving the efficiencies identified. As such this reserve may be used for balancing the accounts should the efficiencies not be realised. Before considering the use of reserves recruitment will need to be slowed down or stopped.
35. **Appendix C** shows how the remainder of this reserve has been initially allocated over the next four years. It should be noted that there is a shortfall between budget and funds available in 2016-17, 2017-18 and 2018-19, which may require the use of reserves to finance all or part of the shortfall, depending on the level of further savings that can be achieved. No estimate has been included at this stage.

### **PCC Transition**

36. Initially this was set up as a prudent measure to cover the costs known and unknown associated with the transition from Police Authority governance to governance by the Police & Crime Commissioner. The costs were kept to a minimum and totalled £54k.
37. Subsequently, this reserve is being used for Stage 2 transition costs. These are currently estimated to be £50k approximately.

### **Grants & Commissioning Reserve**

38. It is intended that underspends on the OPCC budget and the Grants and Commissioning budget are swept into here to provide for future needs in this growing area of work.

### **Public Finance Initiative (PFI) Reserve**

39. This is a reserve for the possibility of an extraordinary event relating to this significant contract. This is a prudent reserve to maintain.

### **Jointly Controlled Operations (Regional Collaboration) Reserve**

40. There are a growing number of areas where collaborative working is undertaken with other Regional Policing areas. EMSOU is providing collaboration for specialised policing services, such as Major Crime and Forensics. Collaboration has also extended beyond Police Operation Services to include areas such as Legal Services, Procurement and Learning and Development.
41. The Police & Crime Commissioners meet to make decisions and agree further areas of collaboration. They would also approve the use of this reserve for regional activity.
42. The reserve exists to finance activities of regional collaboration above those identified within the annual budget.

### **Property Act Fund Reserve**

43. This reserve relates to the value of property sold where the Commissioner can retain the income for use in accordance with the Property Act.

### **Drug Fund**

44. This reserve relates to a historical balance in the accounts and is money for initiatives that reduce drug related crime.

### **Revenue Grants**

45. This reserve combines the small amounts of grant income on completed projects where the grant conditions do not require repayment. Cumulatively they create a sizeable reserve. The use of this reserve will be subject to evaluation of any risk of repayment and the submission of a business case.

### **Animal Welfare Reserve**

46. This reserve was established to support the policy for the welfare of animals specifically police dogs on retirement as working animals. There is a panel which meet with representatives from the Vets and the Force and to approve any claims against this fund. Any approved expenditure relating to ongoing welfare as a result of work related injuries can then be paid from this fund.

### **Tax Base & Transition**

47. The timing of data for the production of the Police & Crime budget and precept is such that estimated tax base data will have to be used for the budget and precept report. Actual data from billing authorities is not required to be provided until 31<sup>st</sup> January. As a result the estimated precept to be collected may vary once the actual data is shown and use of this reserve negates the need to revise the budget breakdown.
48. Despite the recent local reforms to the tax base collection rates have remained high.
49. This reserve will also be used to finance the OPCC's contribution to Single Person Discount Reviews. These reviews are undertaken once every 3-4 years. Where the reviewer successfully identifies that the Single Person Discount is not applicable and the record remains unchanged for 6 months a fee is due to the reviewing company. No fee is paid for unchanged details or where there is a new application within 6 months at that property. This is a jointly commissioned piece of work between Billing Authorities and Precepting Authorities. The benefit is achieved in a higher tax base for the following year and this usually is far more substantial than the initial costs to cover the fees.

### **Procedure for Use of Reserves**

50. The use of reserves requires approval of the Chief Finance Officer to the Commissioner and the Commissioner.
51. All requests should be supported by a business case unless there is an approved process for use, such as the Animal Welfare Reserve.

52. On occasion where an urgent request is being made this should comply with the protocol between the Chief Constable and the Chief Finance Officer to the Commissioner.

### **Monitoring**

53. The level of Reserves is kept under continuous review. The Commissioner receives reports on the levels of reserves as part of the Medium Term Financial Plan updates together with the Annual strategy in January and the out-turn position in June each year.

### **Risk Analysis**

54. Any recommendations that change the planned use of Reserves reported within the Annual Budget and Precept Reports will take account of the need for operational policing balanced against the need to retain prudent levels of Reserves.
55. However, there are significant risks, which affect the level of reserves to be maintained, and it is for this reason that a minimum level of 2% (with a maximum level of 5%) of total net budget has been set for the General Reserve.
56. The significant risks that have been considered, but which will also be kept under review are:
- Current Employment Tribunals relating to A19.
  - The budget monitoring report highlights potential risks in being able to achieve the required efficiencies and savings during 2014-15. This may need to be supplemented by the use of reserves to smooth budget pressure whilst transformational change delivers the savings.
  - The ability to seek financial assistance from the Home Office for major incidents has been diminished and can no longer be relied upon.
  - The need to finance organisational change and redundancies will have an impact on the use of reserves, although this is also reducing in value and risk.
  - The ability to recover significant overspends by divisions and departments would be very difficult in the current financial climate.
  - The instability of the Financial Markets means that the investments we make with balances are currently exposed to greater risk. This is negated by the Treasury Management Strategy, but returns on investment have reduced significantly.

- The grant settlement within the current CSR has been extremely curtailed. There is also an indication of further significant cuts within the next CSR. There remains a gap in funding for the next 3 years and potentially beyond this.
- Should the Commissioner and Force be faced with two or more of the above issues at the same time then the reserves may be needed in full.
- Once utilised there is very little opportunity for reimbursing the level of reserves through precept due to referendum limits or grant, due to the impact it would have operationally.

### **CFO Opinion**

It is my opinion that the current level of reserves whilst healthy are not excessive especially when compared with the averages level of reserves held within all local authorities and within the police and crime sector.

The CLG has published local authority data on levels of reserves as part of the LA Revenue Expenditure and Financing England series. This is shown below and compared with Police & Crime Reserves and Nottinghamshire Police & Crime Reserves.

Type	Highest		NOPCC 2015-16
General Reserves	Met 6%	Average all types of LA 5%	3.7%
Earmarked Reserves	Average all types of LA 16%	Shire OPCC 11%	8.8%

The reserves have grown within the past few years as the force went through a process of change during which time underspends against budget resulted. Tighter budget management means that underspends of this level are not likely; indeed the possibility of over spends against budget becomes a greater risk. This reflected by a reduction in the percentage of reserves held (9.3% previous year).

It will be probable that small levels of overspend will need to use of reserves to finance them. But this is not sustainable and the force will need to work hard to deliver against the programme of efficiencies.

## **STRATEGY REVIEW**

This strategy will be reviewed annually and the Police & Crime Commissioners approval sought.

During the year changes may occur in the MTFP, which affect this strategy. Such changes will be monitored by the Chief Finance Officer and reported to the Commissioner for approval.

**Charlotte Radford (CPFA)**  
**Chief Finance Officer**



**Appendix A****Reserves Risk Assessment**  
**2015-16****GENERAL RESERVE**

<b>RISK</b>	<b>IMPACT</b>	<b>PROBABILITY</b>	<b>Min £m</b>	<b>Max £m</b>	<b>Proposed for 2015-16 £m</b>
Major Incident(s) Unbudgeted expenditure	Any amount under 1% of net budget is to be funded by the authority. Amounts over 1% of net budget are subject to Home Office application approval	Single Incident amounting to less than 1% of net budget. <b>Medium</b> Multiple incidents amounting to over 1% of net budget. <b>Medium</b> Single incident amounting to over 1% of net budget. <b>Low</b>	2.1	4.2	4.2
Major Disaster (e.g. natural)	Operation policing affected and resources diverted. (e.g. through building being inaccessible and disaster recovery plan being auctioned)	<b>LOW</b>	0.5	1.0	0.5
Partnership Support	Funding for posts and PCSO's withdrawn. This has also been risk assessed as part of the budget assumptions.	<b>Medium to HIGH</b>	0.5	4.6	1.2
Counterparty failure	If invested balances were tied up in a process to recovery there would be an immediate impact on the revenue budget (possibly short term).	<b>LOW</b>	0.5	5.0	0.5
Employment Tribunals and other litigation	Direct impact on revenue budgets	<b>LOW</b> (A19 will be met from the MTFP Reserve)	0.1	0.5	0.1
Insurance	Emerging Risks and late reported claims	To date no claims of this type have affected the accounts. <b>Low to MEDIUM</b>	0.3	0.7	0.5
<b>TOTAL</b>					<b>7.0</b>

**Earmarked Reserves Assessment**

<b>RISK/RESERVE</b>	<b>PURPOSE</b>	<b>HOW AND WHEN IT WILL BE USED</b>	<b>Management and control</b>	<b>Review</b>	<b>Estimated Balance at 31.03.15 £m</b>
Medium Term Financial Plan (MTFP)	To provide against financial shortfalls identified within the MTFP	Smoothing peaks and troughs in financing the MTFP	Chief Finance Officer & Commissioner	Minimum twice annually	11.184
PCC Transition	To cover cost associated with PCC transition and Stage 2 transition	During the year cost will be charged to a separate cost centre and will be charged to the reserve at year end.	Chief Finance Officer	Ongoing	0.405
Grants & Commissioning	To collate small balances within revenue accounts to provide funding for this growing area of work.	To meet specific requirements relating to Grants and Commissioning.	Chief Finance Officer	Ongoing	0.283
PFI reserve	To fund PFI related expenditure	Extraordinary event relating to the contract	Chief Finance Officer	Annually	0.258
JCO – Jointly Controlled Operations	To provide for unexpected expenditure relating to regional collaboration.	Decisions relating to the use of this fund follow the regional governance arrangements.	EM meeting of the PCC's.	Annually	0.948

Property Act Fund	Income from the sale of property act confiscations	To be determined by the Police & Crime Commissioner	PCC and CFO	Annually	0.106
Drug Fund	For use in reducing drug related crime	To be determined by the Police & Crime Commissioner	PCC and CFO	Annually	0.064
Revenue Grants	Balances on grants not required to be repaid	To be determined by the Police & Crime Commissioner	PCC and CFO	Annually	2.954
Animal Welfare	To set up a scheme for animal welfare on retirement as working animals	Scheme to be established in 2013-14	Set up November 2012.	During the year	0.020
Tax Base	To iron out fluctuations caused between estimated and actual tax base data. Also to assist with risk relating to the removal of redistributed business rates in future years.	Annually to balance the budget. Every 3-4 years to finance Single Person Discount Review	Chief Finance Officer	Annually	1.630  <b>TBC</b>
<b>TOTAL</b>					<b>17.852</b>

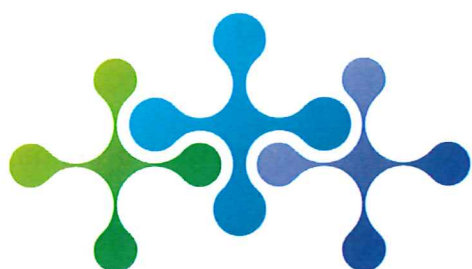
Tables to show the use of General Reserves

	2015-16			2016-17			2017-18			2018-19		
	01.04.15 balance £m	Use in year £m	01.04.16 balance £m	01.04.16 balance £m	Use in year £m	01.04.17 balance £m	01.04.17 balance £m	Use in year £m	01.04.18 balance £m	01.04.18 balance £m	Use in year £m	01.04.19 balance £m
<b>General Reserve</b>	<b>7.000</b>	<b>0</b>	<b>7.000</b>	<b>7.000</b>	<b>0</b>	<b>7.000</b>	<b>7.000</b>	<b>0</b>	<b>7.000</b>	<b>7.000</b>	<b>0</b>	<b>7.000</b>
<b>EMSOU general reserve</b>	0.074		0.074	0.074		0.074	0.074		0.074	0.074		0.074
<i>% of net budget</i>	3.7%			3.8%			3.9%			4.0%		

Tables to show the use of Earmarked Reserves

	2015-16			2016-17			2017-18			2018-19		
<b><u>Earmarked Reserves</u></b>	01.04.15 balance £m	Use in year £m	01.04.16 balance £m	01.04.16 balance £m	Use in year £m	01.04.17 balance £m	01.04.17 balance £m	Use in year £m	01.04.18 balance £m	01.04.18 balance £m	Use in year £m	01.04.19 balance £m
MTFP	11.184	(3.000) +3.000	11.184	11.184	(1.000) +3.000	13.184	13.184	(0.002) +1.000	14.182	14.182	TBC	14.182
PCC Transition	0.405	(0.405)	0									
Grants & Commissioning	0.283	(0.043)	0.240	0.240		0.240	0.240		0.240	0.240		0.240
PFI	0.258	0.036	0.294	0.294	0.036	0.330	0.330	0.036	0.366	0.366	0.036	0.402
JCO	0.948		0.948	0.948		0.948	0.948		0.948	0.948		0.948
Property Act Fund	0.106		0.106	0.106		0.106	0.106		0.106	0.106		0.106
Drug Fund	0.064		0.064	0.064		0.064	0.064		0.064	0.064		0.064
Revenue Grants	2.954		2.954	2.954		2.954	2.954		2.954	2.954		2.954
Animal welfare	0.020	(0.001)	0.019	0.019	(0.001)	0.018	0.018	0.002	0.020	0.020	(0.001)	0.019
Tax Base	1.630		1.630	1.630		1.630	1.630		1.630	1.630		1.630
<b>TOTAL</b>	<b>17.852</b>	<b>(0.413)</b>	<b>17.439</b>	<b>17.439</b>	<b>2.035</b>	<b>19.474</b>	<b>19.474</b>	<b>1.036</b>	<b>20.510</b>	<b>20.510</b>	<b>0.035</b>	<b>20.645</b>

Please note at the time of this review there were gaps in balancing the budget for 2016-17, 2017-18 and 2018-19. These gaps may require use of the MTFP Reserve in order to set a balanced budget.



Nottinghamshire

**POLICE & CRIME COMMISSIONER**

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**4 Year Capital Programme**  
**2015-2019**

## **1. Introduction**

The Commissioner is supportive of capital expenditure which improves the efficiency and effectiveness of the service provided to the public of Nottinghamshire.

The majority of capital expenditure relates to the buildings and IT systems.

There is however, recognition that better purchasing power and consistency of capital purchases can be achieved through regional collaboration. Over the past few years this is one area that has developed. This has been supported by the Home Office with capital and revenue funding being made available through the Innovation Fund.

### **Estates**

The money spent on estates is spent to maintain and refurbish the buildings that the Commissioner will be retaining. Over the past few years the number of properties owned has been reduced to reflect need and to generate valuable revenue savings, which will be used to provide local policing.

Some of the savings made from the reduction in the estate have been used to provide other solutions to maintain a police presence within the communities we serve. This includes better mobile IT equipment.

Closure does not always mean a reduction in access to service or police visibility. Wherever, possible local solutions such as co-location are sought and this has resulted in bases in local authority buildings and shops. This is something that will continue to be explored. .

### **ICT**

Investment in IT solutions is key to ensuring officers remain out in the neighbourhoods and not stuck behind desks within stations. Investment in software and hardware that facilitates the efficiency and effectiveness of the service is also a key reason to collaborate across forces. Common IT systems will enable crime investigations to be more effective back office services to be more efficient.

The discussion with Northamptonshire (and Lincolnshire) Police and Crime Commissioners is at an advanced state. A joint business support unit should be operational by October 2015 and is supported through an IT strategy, which will achieve a convergence and investment in new IT systems.

### **Other Capital Expenditure**

Smaller items of expenditure include Body Armour, storage for evidence and firearms. It is essential that during times of change we continue to invest in essential items for continued service delivery.

### **Regional capital Expenditure**

There are several regional programmes in place of which 5 currently have capital implications. There is grant funding available for some of these projects through the Innovation Fund. Where Nottinghamshire is the lead on a project there will be a timing issue from the end of the financial year where the full cost of capital will be shown in the accounts until the grant is received.

## **2. Capital Programme 2015-16**

The Capital budget for 2015-16 builds upon the existing 4 years capital programme and considers new business cases for proposed business cases. Slippage from the 2014-15 capital programme is currently estimated at £6,625k into 2015-16. The slippage will be subject to change by the end of the year.

The proposed programme can be summarised as follows is provided in **Appendix A**.

## **3. 4 year Capital Programme**

The proposed programme for the next four years is also provided in **Appendix B**. This is only indicative at this stage and will be subject to detailed business case and affordability.

## **4. Financing**

Capital expenditure is financed from capital grant, capital receipts, internal and external borrowing.

In general terms we receive approximately £1.4million in capital grant allocations each year. Capital receipts fluctuate depending on which property is up for sale and how desirable the building is. Capital receipts are utilised to reduce MRP charges to the revenue account so are offset against short life



assets in the year after receipt. Capital grant and capital receipts can only be used for capital expenditure purposes.

Borrowing makes up the majority of financing and some of our historical expenditure is financed internally from balances (eg reserves and provisions), but this is reducing as the economy improves and bank transactions stabilise. External borrowing is taken at the best time to take advantage of the low rates for short to medium term borrowing. It is anticipated that interest rates will start to increase in the Autumn 2015. This is all part of the Treasury Management strategy, which is a separate report on today's agenda.

Capital Expenditure does have revenue implications; generally these have the greatest impact in the year after the capital expenditure has been incurred. These costs reflect a depreciation cost and a cost of borrowing. Currently, the cost of borrowing is interest only, but at some point in the future the capital sum will need to be repaid. Depreciation is allocated over the life of the asset.

**Since approving the capital programme and the Treasury management strategy the notification for the capital grant has been made. This is £400,000 less than anticipated and the force are identifying areas to reduce the programme costs or defer projects into the next financial year.**

## Appendix A

<u>2015-16 Capital Programme</u>	Slippage from 2014- 2015	Revised Budget with slippage 2015- 2016	Total Budget	Project Details
	£000	£000	£000	
<b>ASSETS ORIGINAL SCHEMES</b>				
Access Control Improvement Works	363	363	363	To replace police keys and locks as well as swipe card readers at gates and buildings to ensure adequate security in the estate
Arrow Centre Conversion		80	80	Final payment in the 5 force forensics centre
Biomass Boilers	159	159	159	To install biomass boilers to reduce energy costs
Bircotes Information Centre	12	12	12	Closure of Harworth and move into Bircotes, this is a retention fee for works done.
Bridewell Refurbishment		0	0	Business case is being revised
Broxtowe Refurbishment	230	230	230	Refurb in line with DtF and improving working conditions
Bunkered Fuel Tank Works	225	225	225	To resite and decommission some fuel tanks in line with DtF and the environmental issue
Custody Improvements		25	75	Retainer fees
Cyber Crime Unit		278	278	Moving the Cyber Crime unit to FHQ - Phase 3 rationalisation
Eastwood Police Station Replacement		0	870	Business case is being revised
Energy Initiatives				Separate business cases have been submitted
FHQ Gym & shower improvements	0	0	400	To improve conditions for staff
FHQ Kennels	570	570	570	Business case is being revised to see if costs can be reduced
FHQ Re-surfacing of roads & car parking		100	200	To improve quality of the estate
FHQ Relocation of control Rm/Conf/Stores/Pizza		1,278	2,278	To improve the effectiveness of control room and CRIM in working together
FHQ Relocation of Digital Investigation Unit		142	147	Moving DIU to FHQ - Phase 3 rationalisation

Ollerton House demolition  
Ollerton Police Station Refurb  
Radford Rd Kitchen & rest room  
Radford Rd Toilet & Tea point refurbishment  
Retford Shared Service base  
Sundry minor & emergency works  
West Bridgford 1st floor refurbishment  
Worksop Shared Service Base

20 20  
25 25  
50  
100  
186  
150  
300  
0

20 Health and safety risk as the house is falling down and would cost a significant amount to get fit for purpose and it's not really needed now.  
25 In line with improving the estate  
50 Refurb in line with DtF and improving working conditions  
100 Refurb in line with DtF and improving working conditions  
186 In line with DtF plans  
450 Emergency reactive fund  
300 In line with DtF plans  
0 Plans on hold

**TOTAL**

**1,604**

**4,293**

**7,018**

## ASSETS NEW SCHEME REQUESTS

Access Control Improvement Works

100

100 As above - extra monies requested as costs came in more than initial findings

Ollerton House demolition

10

10 As above - extra monies requested as the electrical work is more complicated than expected

Automatic Gates & Barrier Replacements - various sites

0

200 Some barriers are coming to end of life and require a lot of repairs, this is to address that and the security issue of them not being in operation

Fire Alarm panel replacements

0

45 Parts are becoming obsolete which can leave some stations vulnerable

Fixed Electrical works - various sites

0

40 Parts are becoming obsolete which can leave some stations vulnerable

Forensic Drying Cabinets - various sites

0

20 Regulation changes in the requirements coming into affect

Generators & associated equipment to be replaced

0

15 Parts are becoming obsolete which can leave some stations vulnerable in business continuity

HQ Replacement of external street lighting

0

160 Replace faulty lighting and wiring, with LED lighting which will save costs in electric but have not yet been identified how much will be saved per annum

Bulwell Police Station - Refurb

150

150 Refurb in line with DtF and improving working conditions

Oxclose Lane - Refurb		450	850	Refurb in line with DtF and improving working conditions
Sir John Robinson House		0	0	Council have pulled out of the project
Carlton - EMAS Community station		100	100	Accommodation share with EMAS, save on running costs
Newark - Create Open Plan Space		0	600	In line with improving the estate
M/Woodhouse Air handling Replacement		0	45	Faulty parts
Mansfield - Create Open Plan Space		0	1,800	In line with improving the estate
Lift Replacement - Manfield & Radford rd		0	110	Faulty parts
Byron House - Central Relocation		980	980	In line with DtF plans and phase 3 rationalisation
Building management system replacement (BMS)		0	370	Replace BMS controls to increase energy efficiency, there will be savings but these haven't yet been quantified
<b>New Scheme Total</b>	<b>0</b>	<b>1,790</b>	<b>5,595</b>	
<b>Assets Revised Total</b>	<b>1,604</b>	<b>6,083</b>	<b>12,613</b>	
<b>IS ORIGINAL SCHEMES</b>				
Command & Control Replacement		0	150	To upgrade system
Control Room Move (as per business case agreed)	678	678	678	as per estates rationalisation and improvements
Desktop Virtualisation	300	300	300	slipped from 2012/13 due to resources
Essential Infrastructure Upgrades	40	40	40	To enable change
ICCS Replacement		0	500	
Improvements to Digital Investigation Storage	564	564	564	Improving storage capabilities for DIU
Mobile Data - Consolidated F145,F122,F160,F120, F070 & F151	1,267	1,267	1,267	Mobile data project incorporating DtF and agile working practices
Network Infrastructure Improvements		0	350	To enable change
Regional ANPR	0	0	99	Traffic storage and enabling connectivity
Regional Desktop Email	75	75	75	Regional access to desktop - agile working
Regional LANDESK Merger	0	0	258	
Regional Project Storage (DIR) - Project slipped not cancelled as at 06/11/14	120	120	120	Increase storage capacity
Ring of Steel ANPR Cameras		0	210	Traffic storage and enabling connectivity
SQL Server 2012	107	107	107	Upgrade



Storage Solutions		100	200	Increase storage capacity
Telephony Project	1,090	1,090	1,090	Refresh and upgrade telephony systems as current system at end of life and support
Migrate to PSN (public services network)	38	38	38	Moving from PNN to PSN due to national guidelines
<b>IS TOTAL</b>	<b>4,279</b>	<b>4,379</b>	<b>6,046</b>	
<b>IS NEW SCHEME REQUESTS</b>				
Essential Hardware, Software Refresh & Repairs		400	1,600	Renew and repair faulty hardware to continue working effectively
Enabling Change		400	1,300	To enable IS to respond quickly to initiatives, projects and operational needs that haven't been identified from the outset, such as DtF, SSL Laptops, Op Xeres
Migrate to PSN (public services network) - Extra funds required		110	110	Moving from PNN to PSN due to national guidelines
Data Domain Backup System		0	108	Backups for all force systems and disaster recovery
Intrusion - monitor & heal software		0	60	to block intrusions when ePortal comes into life
Cloud Networking Migration		0	300	Notts & Northants to share a MPCS system to help reduce costs approx £120k pa
Upgrade Audio Visual Equipment		0	50	To ensure equipment can support paperless meetings and agile working
Upgrade Control Room SICCS (Integrated communications)		0	290	Critical for Windows 7
Workstations		0		
System Centre Operation Manager		0	70	monitor current estate for issue to alert IS before a system breakdown
Sharepoint Portal		0	250	To enhance intranet collaboration and documentation
<b>IS New Scheme Total</b>	<b>0</b>	<b>910</b>	<b>4,138</b>	
<b>Total IS Spend</b>	<b>4,279</b>	<b>5,289</b>	<b>10,184</b>	

<b>OTHER ORIGINAL SCHEMES</b>				
Body armour		0	100	
COT team vehicles		0	50	
Non-driver slot vehicles	0	100	450	To purchase vehicles outside of the Vensons agreement
Equipment Contingency		0	60	
Evidence Storage - A & E	100	100	100	
Firearms Cabinets & Access Storage	50	50	100	
Northern Property Store Increased Storage	100	100	200	
<b>OTHER TOTAL</b>	<b>250</b>	<b>350</b>	<b>1,060</b>	
<b>LOCAL CAPITAL TOTAL SPEND</b>	<b>6,133</b>	<b>11,722</b>	<b>23,857</b>	
<b>REGIONAL ORIGINAL SCHEMES</b>				
Body Worn Video	492	492	492	
Niche	0	1,542	1,542	
MAIT		550	550	
EMOpSS		1,499	1,499	
PBS	0	382	382	
<b>Regional Total</b>	<b>492</b>	<b>4,465</b>	<b>4,465</b>	
<b>TOTAL CAPITAL PROGRAMME</b>	<b>6,625</b>	<b>16,187</b>	<b>28,322</b>	

Being reduced by £400,000 in 2015-16 reflecting the reduction in capital grant funding.

## Appendix B

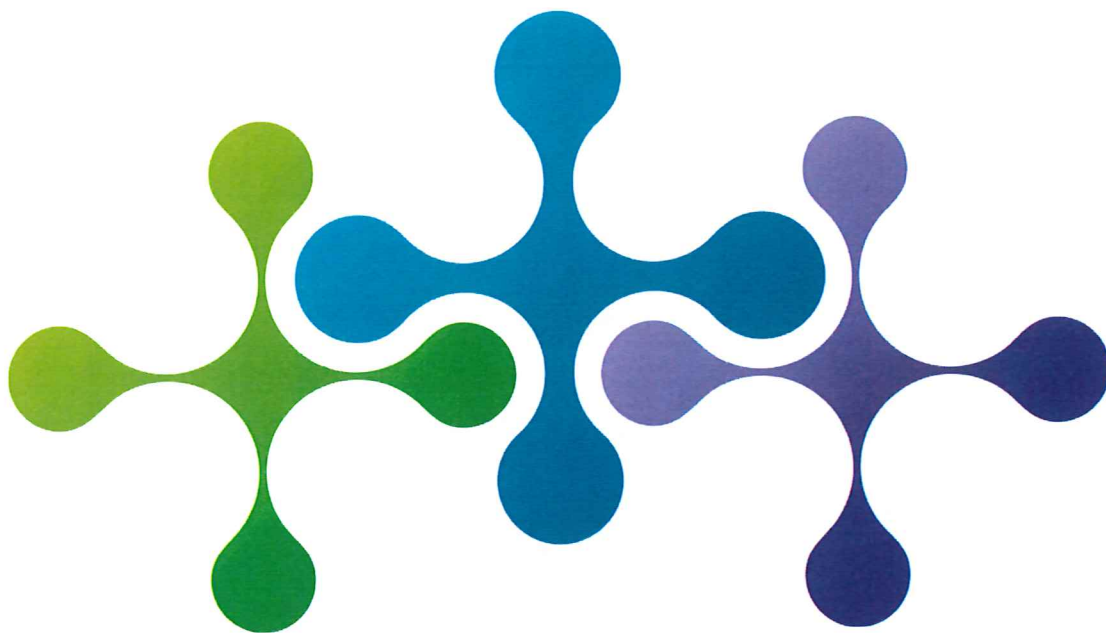
<b>Capital Programme 2015-2019</b>	<b>Revised Budget with slippage</b>					<b>Total Budget</b>
	<b>2015-2016 £000</b>	<b>2016-2017 £000</b>	<b>2017-2018 £000</b>	<b>2018-2019 £000</b>		<b>£000</b>
<b>ASSETS ORIGINAL SCHEMES</b>						
Access Control Improvement Works	363					363
Arrow Centre Conversion	80					80
Biomass Boilers	159					159
Bircotes Information Centre	12					12
Bridewell Refurbishment	0					0
Broxtowe Refurbishment	230					230
Bunkered Fuel Tank Works	225					225
Custody Improvements	25	25	25			75
Cyber Crime Unit	278					278
Eastwood Police Station Replacement	0	870				870
Energy Initiatives						
FHQ Gym & shower improvements	0	400				400
FHQ Kennels	570					570
FHQ Re-surfacing of roads & car parking	100	50	50			200
FHQ Relocation of control Rm/Conf/Stores/Pizza	1,278	1,000				2,278
FHQ Relocation of Digital Investigation Unit	142	5				147
Ollerton House demolition	20					20
Ollerton Police Station Refurb	25					25
Radford Rd Kitchen & rest room	50					50
Radford Rd Toilet & Tea point refurbishment	100					100
Retford Shared Service base	186					186
Sundry minor & emergency works	150	150	150			450
West Bridgford 1st floor refurbishment	300					300
Worksop Shared Service Base	0					0
<b>TOTAL</b>	<b>4,293</b>	<b>2,500</b>	<b>225</b>	<b>0</b>		<b>7,018</b>
<b>ASSETS NEW SCHEME REQUESTS</b>						
Access Control Improvement Works	100					100
Ollerton House demolition	10					10
Automatic Gates & Barrier Replacements - various sites	0	200				200
Fire Alarm panel replacements	0	45				45
Fixed Electrical works - various sites	0	30	10			40
Forensic Drying Cabinets - various sites	0	20				20
Generators & associated equipment to be replaced	0	15				15
HQ Replacement of external street lighting	0	160				160
Bulwell Police Station - Refurb	150					150
Oxclose Lane - Refurb	450	400				850

Sir John Robinson House	0				0
Carlton - EMAS Community station	100				100
Newark - Create Open Plan Space	0	600			600
M/Woodhouse Air handling Replacement	0	45			45
Mansfield - Create Open Plan Space	0	600	600	600	1,800
Lift Replacement - Manfield & Radford rd	0	110			110
Byron House - Central Relocation	980				980
Building management system replacement (BMS)	0	370			370
<b>New Scheme Total</b>	<b>1,790</b>	<b>2,595</b>	<b>610</b>	<b>600</b>	<b>5,595</b>
<b>Assets Revised Total</b>	<b>6,083</b>	<b>5,095</b>	<b>835</b>	<b>600</b>	<b>12,613</b>
<b>IS ORIGINAL SCHEMES</b>					
Command & Control Replacement	0	150			150
Control Room Move (as per business case agreed)	678				678
Desktop Virtualisation	300				300
Essential Infrastructure Upgrades	40				40
ICCS Replacement	0	500			500
Improvements to Digital Investigation Storage	564				564
Mobile Data - Consolidated F145,F122,F160,F120, F070 & F151	1,267				1,267
Network Infrastructure Improvements	0	350			350
Regional ANPR	0	99			99
Regional Desktop Email	75				75
Regional LANDESK Merger	0	258			258
Regional Project Storage (DIR) - Project slipped not cancelled as at 06/11/14	120	0			120
Ring of Steel ANPR Cameras	0	210			210
SQL Server 2012	107				107
Storage Solutions	100	100			200
Telephony Project	1,090				1,090
Migrate to PSN (public services network)	38				38
<b>IS TOTAL</b>	<b>4,379</b>	<b>1,667</b>	<b>0</b>	<b>0</b>	<b>6,046</b>
<b>IS NEW SCHEME REQUESTS</b>					
Essential Hardware, Software Refresh & Repairs	400	400	400	400	1,600
Enabling Change	400	300	300	300	1,300
Migrate to PSN (public services network) - Extra funds required	110				110
Data Domain Backup System	0	108			108
Intrusion - monitor & heal software	0	60			60
Cloud Networking Migration	0	300			300
Upgrade Audio Visual Equipment	0	50			50
Upgrade Control Room SICCS (Integrated communications)	0				
Workstations	0	290			290
System Centre Operation Manager	0	70			70
Sharepoint Portal	0	200	50		250
<b>IS New Scheme Total</b>	<b>910</b>	<b>1,778</b>	<b>750</b>	<b>700</b>	<b>4,138</b>
<b>Total IS Spend</b>	<b>5,289</b>	<b>3,445</b>	<b>750</b>	<b>700</b>	<b>10,184</b>



<b>OTHER ORIGINAL SCHEMES</b>					
Body armour	0	50	50		100
COT team vehicles	0	50			50
Non-driver slot vehicles	100	200	150		450
Equipment Contingency	0	30	30		60
Evidence Storage - A & E	100				100
Firearms Cabinets & Access Storage	50	50			100
Northern Property Store Increased Storage	100	100			200
<b>OTHER TOTAL</b>	<b>350</b>	<b>480</b>	<b>230</b>	<b>0</b>	<b>1,060</b>
<b>LOCAL CAPITAL TOTAL SPEND</b>	<b>11,722</b>	<b>9,020</b>	<b>1,815</b>	<b>1,300</b>	<b>23,857</b>
<b>REGIONAL ORIGINAL SCHEMES</b>					
Body Worn Video	492				492
Niche	1,542				1,542
MAIT	550				550
EMOpSS	1,499				1,499
PBS	382				382
<b>Regional Total</b>	<b>4,465</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,465</b>
<b>TOTAL CAPITAL PROGRAMME</b>	<b>16,187</b>	<b>9,020</b>	<b>1,815</b>	<b>1,300</b>	<b>28,322</b>

Being reduced by £400,000 in 2015-16 reflecting the reduction in capital grant funding.



**The Nottinghamshire Office of the Police & Crime  
Commissioner**

**Treasury Management Strategy Statement**  
Minimum Revenue Provision Policy Statement and  
Annual Investment Strategy

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2015-16

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# 1. INTRODUCTION

## 1.1 Background

The Nottinghamshire Office of the Police and Crime Commissioner (The Commissioner's Office) is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Police and Crime Commissioner's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Commissioner's capital plans. These capital plans provide a guide to borrowing need, and longer term cash flow planning to ensure that the The Commissioner's Office can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans. If advantageous debt previously borrowed may be restructured to meet The Commissioner's Office risk or cost objectives.

The responsible officer for treasury management is Chief Finance Officer to the Police & Crime Commissioner (CFO).

CIPFA defines treasury management as:

*"The management of the local authority'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 optimum performance consistent with those risks."*

## 1.2 Reporting requirements

The Commissioner is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

**Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report covers:

- the capital plans, prudential indicators and borrowing plans.
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time).

- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators.
- an investment strategy (the parameters for managing investments )

**A mid-year treasury management report** – This will update the Commissioner with the capital position regarding capital, and amend prudential indicators as necessary. It also monitors whether the treasury activity is meeting the strategy and whether any policies require revision.

**An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

### **Scrutiny**

The responsibility for scrutiny lies with the Commissioner supported by the Audit and Scrutiny Panel. The above reports are reviewed at the Strategic Resources and Performance meetings of the Commissioner.

## **1.3 Treasury Management Strategy for 2015-2016**

The strategy for 2014-2016 covers two main areas:

### **Capital issues**

- the capital plans and the prudential indicators.
- the minimum revenue provision (MRP) policy.

### **Treasury management issues**

- the current treasury position.
- treasury indicators which limit the treasury risk and activities of the The Commissioner's Office.
- prospects for interest rates.
- the borrowing strategy.
- policy on borrowing in advance of need.
- debt rescheduling.
- the investment strategy.
- creditworthiness policy.
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance

## **1.4 Training**

The CIPFA Code requires that the responsible officer ensures that relevant personnel receive adequate training in treasury management. This especially applies to the Commissioner who is responsible for scrutiny. Training for the Commissioner was delivered in March 2014 and the Chief financial Officer to the Commissioner (CFO) has attended relevant seminars during the year. The training needs of treasury management officers are periodically reviewed.

## **1.5 Treasury management consultants**

The The Commissioner's Office uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

The The Commissioner's Office recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The CFO will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## 2. THE CAPITAL PRUDENTIAL INDICATORS 2014-15 – 2017-18

The Commissioner's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, to give an overview and confirm capital expenditure plans.

### 2.1 Capital expenditure

This prudential indicator is a summary of the Commissioner's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The Commissioner is asked to approve the capital expenditure forecasts, excluding other long term liabilities, such as Private Finance Initiatives (PFI) and leasing arrangements, which already include borrowing instruments.

The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a net financing need.

Capital Expenditure £m	2013-14 Actual	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
Capital Programme	7.827	14.705	15,787	8,620	7,600	7,600
<b>Financed by:</b>						
Capital receipts	-1.922	-1.552	-3.229	-3.200	0	0
Capital grants	-2.043	-2.618	-1.400	-1.400	-1.400	-1.400
Internal resources	0	0	0	0	0	0
<b>Net financing need</b>	<b>3.862</b>	<b>10.535</b>	<b>11.158</b>	<b>4.020</b>	<b>6.200</b>	<b>6.200</b>

### 2.2 The Commissioners borrowing need (Capital Financing Requirement)

The second prudential indicator is the Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each assets life.



The CFR includes any other long term liabilities (e.g. PFI schemes and finance leases). Whilst these increase the CFR, and therefore the borrowing requirement, these types of scheme include a borrowing facility and so the Commissioner is not required to separately borrow for these schemes.

The Commissioner is asked to approve the CFR projections below:

£m	2013-14 Actual	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
<b>Capital Financing Requirement</b>						
<b>Total CFR</b>	50.100	58.130	65.001	63.184	63.489	63.441
<b>Movement in CFR</b>	-	8.030	6.871	-1.817	0.305	-0.048

<b>Movement in CFR represented by</b>						
£m	2013-14 Actual	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
Net financing need for the year (above)	-	10.535	11.158	4.020	6.200	6.200
Less MRP/VRP and other financing movements	-	-2.505	-4.287	-5.837	-5.895	-6.248
<b>Movement in CFR</b>	-	8.030	6.871	-1.817	0.305	-0.048

N.B. The code does not require the reporting of downward estimated movements to CFR but information is included for completeness.

## 2.3 Minimum Revenue Provision (MRP) policy statement

The The Commissioner's Office is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP). Additional voluntary payments are also allowed. (voluntary revenue provision - VRP).

Communities and Local Government regulations have been issued which require the Commissioner to approve an MRP Statement in advance of each year. A variety of options are available to the Commissioner, as long as there is a prudent provision.

***The Commissioner is recommended to approve the following MRP Statement:***

For capital expenditure incurred before 1 April 2008, the MRP policy will be:

**Based on CFR – MRP will be based on the CFR (option 2);**



This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

**Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (option 3).

This option provides for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI or finance leases are applied as MRP.

## 2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either capital finance or revenue purposes will reduce investments unless replaced by asset sales or revenue underspend. Detailed below are estimates of the year end resource balances and anticipated daily cashflow balances.

	2013-14 Actual	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
Fund balances / reserves	26.563	24.563	24.563	24.563	24.563	24.563
Capital receipts	1.553	3.229	3.200	-	-	-
Provisions	3.596	3.596	3.596	3.596	3.596	3.596
Other	-4.841	-4.956	-4.956	-4.956	-4.956	-4.956
<b>Total core funds</b>	<b>26.871</b>	<b>26.432</b>	<b>26.403</b>	<b>23.203</b>	<b>23.203</b>	<b>23.203</b>
<b>Working capital*</b>	<b>3.935</b>	<b>18.360</b>	<b>8.350</b>	<b>8.326</b>	<b>5.092</b>	<b>-0.997</b>
<b>Under/over borrowing</b>	<b>-15.204</b>	<b>-22.370</b>	<b>-18.331</b>	<b>-15.107</b>	<b>-11.873</b>	<b>-5.784</b>
<b>Expected investments</b>	<b>15.602</b>	<b>22.422</b>	<b>16.422</b>	<b>16.422</b>	<b>16.422</b>	<b>16.422</b>

\*Working capital balances shown are estimated year end; these may be higher mid -year

## 2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Commissioners overall finances.

***The Commissioner is requested to approve the following indicators:***

## **2.6 Ratio of financing costs to net revenue stream**

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

<b>%</b>	<b>2013-14 Actual</b>	<b>2014-15 Estimate</b>	<b>2015-16 Estimate</b>	<b>2016-17 Estimate</b>	<b>2017-18 Estimate</b>	<b>2018-19 Estimate</b>
Ratio	1.6	1.8	2.9	3.8	3.9	4.2

The estimates of financing costs include commitments and a reasonable assessment of forthcoming capital proposals.

## **2.7 Incremental impact of capital investment decisions on council tax**

This indicator identifies the revenue costs associated with a reasonable assessment of forthcoming capital proposals, compared to the Commissioners existing approved commitments and current plans. The assumptions are based on current plans, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

**Incremental impact of capital investment decisions on the band D council tax**

<b>£</b>	<b>2014-15 Estimate</b>	<b>2015-16 Estimate</b>	<b>2016-17 Estimate</b>	<b>2017-18 Estimate</b>	<b>2018-19 Estimate</b>
Ratio	0.00	7.08	13.82	15.53	18.51

### 3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity. The treasury management function ensures that the Commissioners cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

£m	2013-14 Actual	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
<b>External Debt</b>						
Debt at 1 April	35.415	31.689	32.553	43.463	44.870	48.409
New Borrowing	2.500	5.000	12.407	5.615	8.020	7.926
Borrowing repaid	-6.226	-4.136	-1.497	-4.208	-4.481	-1.885
Movement in borrowing	-3.726	0.864	10.910	1.407	3.539	6.041
<b>Debt as at 31 March</b>	<b>31.689</b>	<b>32.553</b>	<b>43.463</b>	<b>44.870</b>	<b>48.409</b>	<b>54.450</b>
Capital Financing Requirement	50.100	58.130	65.001	63.184	63.489	63.441
Other long-term liabilities (OLTL)	-3.207	-3.207	-3.207	-3.207	-3.207	-3.207
Underlying Borrowing Need	46.893	54.923	61.794	59.977	60.282	60.234
<b>Under / (over) borrowing</b>	<b>15.204</b>	<b>22.370</b>	<b>18.331</b>	<b>15.107</b>	<b>11.873</b>	<b>5.784</b>
<b>Investments</b>						
Investments	15.602	22.422	16.422	16.422	16.422	16.422
Change in Investments	-1.591	6.820	-6.000	-	-	-
<b>Net Debt</b>	<b>16.087</b>	<b>10.131</b>	<b>27.041</b>	<b>28.448</b>	<b>31.987</b>	<b>38.028</b>

### 3.2 Current portfolio position

The Commissioners treasury portfolio position at March 2014, with forward projections is summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

Operational boundary £m	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
Total	60.000	65.000	65.000	65.000	65.000

Within the prudential indicators there are a number of key indicators to ensure that activities operate within well defined limits. One of these is that the Commissioner needs to ensure that its gross debt does not (except in the short term), exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015-2016 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The CFO reports that this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### 3.3 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR.

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Commissioner. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

***The Commissioner is requested to approve the following authorised limit:***

Authorised limit £m	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
Total	70.000	75.000	75.000	75.000	75.000

### 3.4 Prospects for interest rates

The Commissioner's Office has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Commissioner to formulate a view on interest rates. The table below gives Capita's view (December 2014).

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2014	0.50	2.50	3.90	3.90
Mar 2015	0.50	2.70	4.00	4.00
Jun 2015	0.75	2.70	4.10	4.10
Sep 2015	0.75	2.80	4.30	4.30
Dec 2015	1.00	2.90	4.40	4.40
Mar 2016	1.00	3.00	4.50	4.50
Jun 2016	1.25	3.10	4.60	4.60
Sep 2016	1.25	3.20	4.70	4.70
Dec 2016	1.50	3.30	4.70	4.70
Mar 2017	1.50	3.40	4.80	4.80
Jun 2017	1.75	3.50	4.80	4.80
Sep 2017	2.00	3.50	4.90	4.90
Dec 2017	2.25	3.50	4.90	4.90
Mar 2018	2.50	3.50	5.00	5.00

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has increased during 2013 and especially during 2014, to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are currently indicating that growth prospects are strong for 2015, particularly in the services and construction sectors. However, growth in the manufacturing sector and in exports has weakened during 2014 due to poor growth in the Eurozone. There does need to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this initial stage in the recovery to become more firmly established. A downside to the economy is that wage inflation has been lower than CPI inflation which has eroded disposable income and living standards, although income tax cuts have ameliorated this to some extent. To improve this situation, labour productivity must improve significantly to warrant increases in pay rates. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases. However the current view is that there is hidden slack in the labour market which needs to be taken up first. The counter side to this the CPI inflation is currently benefitting from downward pressure from falling crude oil prices. Although to an extent this is beneficial, negative inflation can slow economic recovery as sales are delayed in anticipation of lower prices.

The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

The Eurozone causes concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and a triple dip recession since 2008. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

Investment returns are likely to remain relatively low during 2015-2016 and beyond;

Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. During July to October 2014, a building accumulation of negative news has led to an overall trend of falling rates. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

There will remain carrying cost for new borrowing which causes an increase in investments due to the differential in interest rates available.

#### Borrowing Strategy

The Commissioner's Office is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2015-2016 treasury operations. The CFO will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

Any decisions will be reported to the Commissioner at the next available opportunity.

### **Treasury Management limits on activity**

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance.

The indicators are:

Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments

Upper limits on fixed interest rate exposure. This gives a maximum limit on fixed interest rates;

Maturity structure of borrowing. These gross limits are sets a limit to reduce the exposure to large fixed rate sums falling due for refinancing, for both upper and lower limits.

***The Commissioner is requested to approve the following treasury indicators and limits:***

£m	2015-16	2016-17	2017-18	2018-19
<b>Interest rate exposures</b>				
	Upper	Upper	Upper	Upper
<b>Limits on fixed interest rates based on net debt</b>	100%	100%	100%	100%
<b>Limits on variable interest rates based on net debt</b>	100%	100%	100%	100%
<b>Limits on fixed interest rates:</b>				
• Debt only	100%	100%	100%	100%
• Investments only	100%	100%	100%	100%
<b>Limits on variable interest rates</b>				

• Debt only	50%	50%	50%	50%
• Investments only	100%	100%	100%	100%
<b>Maturity structure of fixed interest rate borrowing 2015-2016</b>				
	<b>Lower</b>		<b>Upper</b>	
Under 12 months	0%		30%	
12 months to 2 years	0%		40%	
2 years to 5 years	0%		50%	
5 years to 10 years	0%		70%	
10 years and above	0%		100%	

### 3.5 Policy on borrowing in advance of need

The Commissioner's Office will not borrow more than, or in advance of its needs purely in order to profit from the investment of extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Commissioner can ensure the security of such funds.

Borrowing in advance will be made within the following constraints:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 18 months in advance of need.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### 3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).



Consideration will also be given to identify if there is any potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Commissioner at the earliest opportunity.

### **3.7 Municipal Bond Agency**

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to Local Authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Commissioner intends to make use of this new source of borrowing as and when appropriate.

## **4. ANNUAL INVESTMENT STRATEGY**

### **4.1 Investment Policy**

The Commissioners investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Commissioners investment priorities will be security first, liquidity second and then return.

In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the The Commissioner's Office has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using our ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014-2015 and / or 2015-2016. The actual timing of the changes is still subject to discussion, but changes in the applied creditworthiness methodology were applied from the mid Year Treasury Management Review 2014-2015. Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail.

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as “A bank for which there is a possibility of external support, but it cannot be relied upon.” With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor’s that we have always taken, but a change to the use of Fitch and Moody’s ratings

Furthermore, it is recognised that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the CFO will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

## **4.2 Creditworthiness policy**

The primary principle governing the Commissioner’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 Commissioner will ensure that:

- 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; and
- 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 the prudential indicators covering the maximum principal sums invested.

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The CFO will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Commissioner for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the the Commissioner may use, rather than defining what types of investment instruments are to be used.

The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Commissioners 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 Commissioners criteria, the other does not, and the institution will fall outside the lending criteria. Credit rating information is supplied by Capita Asset Services 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 Commissioner criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Commissioner will only use banks which:
  - i. are UK banks; and/or
  - ii. and have as a minimum the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
    - i. Short term – F1
    - ii. Long term – A-
- Banks 2 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

- Banks 3 – The Commissioners own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation -. The Commissioner will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

**The above are limited to £5m for up to 3 months under current market conditions. Where the financial markets start to make an improvement the duration of the investment can be increased with the CFO's prior approval, under delegated powers, to no more than 12 months.**

**Where the Bank is A rated (long term) (lowest common denominator) this is limited to £2m for up to 100 days.**

- Building societies will be used if it meets the ratings for banks outlined above.
- Money market funds with instant access – Limited to £7m in any one MMF, with delegated authority for the CFO to approve temporary increase to £10m.
- Enhanced money market funds with up to 7 day notice access - Limited to £3m in any one MMF, with delegated Authority for the CFO to approve temporary increase to £5m.
- UK Government (including gilts and the DMADF) - up to a limit of £10m up to 12 months.
- Local authorities, parish councils, other Police & Crime Commissioners etc - Limited to £5m with each for up to 2 years. The CFO under delegated authority can extend either the duration or the financial limit in specific cases.

**Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the Commissioners investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:

- no more than 25%/£5m will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

**Use of additional information other than credit ratings.** Additional requirements under the Code require the Commissioner 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.

**Time and monetary limits applying to all investments.** The time and monetary limits for institutions on the Commissioners counterparty list are as follows .

	Fitch Long term Rating (or equivalent)	Money and/or % Limit	Time Limit
Banks 1 higher quality	AAA	£5m	1 yr
Banks 1 medium quality	AA-	£5m	1 yr
Banks 1 medium/lower quality	A	£4m	6 month
Banks 1 Lower quality	A-	£3m	100 days
Banks 2 – part nationalised	N/A	£5m	1yr
Banks 3 category – Commissioners banker (not meeting Banks 1)	AA	£5m	1 day
UK Govt - DMADF	AAA	Unlimited	6 months
Local authorities	N/A	£5m	2 yr
Enhanced money market funds with instant access	AAA	£5-10m	liquid
Enhanced money market funds with notice	AAA	£3-5m	liquid

#### 4.3 Country Limits

The Commissioner has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

## Approved countries for investments -

*Based on lowest available rating*

AAA	AA	A	AA-
Australia Canada Denmark Germany Luxembourg Norway Singapore Sweden Switzerland	Finland Hong Kong Netherlands U.K. U.S.A.	Abu Dhabi (UAE) France Qatar	Belgium Saudi Arabia

### 4.4 Investment Strategy

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

**Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2015-2016 1.00%
- 2016-2017 1.50%
- 2017-2018 2.50%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

- 2015-2016 0.90%
- 2016-2017 1.50%
- 2017-2018 2.00%
- 2018-2019 2.50%

**Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

***The Commissioner is requested to approve the treasury indicator and limit:***

Maximum principal sums invested > 364 days				
£m	2014-2015	2015-2016	2016-2017	2017-2018
Principal sums invested > 364 days	5.000	5.000	5.000	5.000

For its cash flow generated balances, the The Commissioner's Office will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

#### **4.5 Investment Risk Benchmarking**

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

**Security** - The Commissioners maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.06% historic risk of default when compared to the whole portfolio.

**Liquidity** – in respect of this area the Commissioner seeks to maintain:

- Bank overdraft - £0.5m maximum
- Liquid short term deposits of at least £2.0m available on instant access.
- Weighted average life benchmark is expected to be 1 month, with a maximum of 6 months.

**Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

#### **4.6 End of year investment report**

At the end of the financial year, the CFO will report on the investment activity as part of its Annual Treasury Report.



## **5. THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER**

The S151 (responsible) officer is the Chief Financial Officer to the Commissioner. ( CFO ) is responsible for the following:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.