Public Information

# Nottinghamshire Police and Crime Commissioner
# Notice of Decision

Nottinghamshire
POLICE & CRIME COMMISSIONER

| | |
|---|---|
| **Author:** | Chief Finance Officer |
| **For Decision or Information** | Decision |
| **Date received*:** | 9th February 2017 |
| **Ref*:** | 2017.006 |

## Precept, Budgets and Supporting Reports 2017-18

**EXECUTIVE SUMMARY:**
The Police and Crime Panel met on 6th February to consider the budget and supporting reports and confirm their support for a precept increase of 1.95%.

Attached to this decision record are the reports that the Panel considered.

**INFORMATION IN SUPPORT OF DECISION: (e.g report or business case)**
The attached reports are:

- Precept Report 2017-18
- Budget Report 2017-18
- Medium Term Financial Strategy (MTFS) 2017- 18 to 2020-21
- Reserves Strategy
- Capital Programme 2017-18 to 2020-21
- Treasury Management Strategy

**FINANCIAL INFORMATION**

The financial information within the attached reports details the financial plans for 2017-18 and outlines the Revenue and Capital Strategies for 2018-19 to 2020-21. There have been no changes to the reports provided to the Police & Crime Panel and no change to the Final Grant Settlement announced by the Home Office.

Signature: [redacted]
**Chief Finance Officer**

Date: 14th February 2017

| **Is any of the supporting information classified as non public or confidential information**?** | Yes | | No | ✓ |
|---|---|---|---|---|
| If yes, please state under which category number from the guidance** | | | | |

**DECISION:**
**The Commissioner is requested to:**

- **Formalise the decision to increase the precept by 1.95%**
- **Approve the revenue and capital budgets for 2017-18**
- **Approve the MTFS and its indicative revenue expenditure plans**
- **Approve the Reserves Strategy**
- **Approve the indicative capital expenditure plans**
- **Approve the Treasury Management Strategy**

# Nottinghamshire Police and Crime Commissioner
# Notice of Decision

**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: Ken Dennis Date: 14/2/17

**Chief Executive**

**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: Date: 14/2/17

**Nottinghamshire Police and Crime Commissioner**

FINAL MTFS 2017-18 to 2020-21.docx

FINAL Precept Report 2017-18.doc

FINAL Budget Report 2017-18.doc

FINAL 4 Year Capital Programme 2017-202

Final Appendix A and B - 5 year capital plar

Final Treasury management strateg

FINAL Reserves Strategy 2017-18.do

Nottinghamshire

POLICE & CRIME COMMISSIONER

# ***<u>Precept 2017-18</u>***

January 2017

# The Police & Crime Commissioner's

# Precept 2017-18

## Introduction

The Nottinghamshire Police & Crime Commissioner is proposing a precept increase of 1.95% for the 2017-18 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.

## Government Assumptions

In providing the grant settlement figure in December the Government has made certain assumptions in relation to the total funding available for Policing.

Included within the Governments definition of no cuts to total funding in Real Terms the Government has already assumed the following:

- Precept will increase by 2% each year (slightly more for the bottom 10 precepting PCC's)
- The Council Tax base will increase by 0.5% each year

In broad terms this means if our tax base and precept increase following the above assumptions, there would be no cut or increase in our total funding.

However, there will be slight decreases in our actual allocation of main grant as there will be a shift in the proportion available at a national level to reflect the increase in top slicing for NICC, Counter Terrorism and other initiatives ran centrally, some of which can be bid for.

## Future outlook

The current Comprehensive Spending Review (CSR) period has been difficult with major cuts in grant funding, whilst costs continue to increase. Whilst the Government plans over the CSR to 2020 are better than anticipated, we still have a lot to achieve.

Costs continue to increase whilst funding reduces slightly; together with the under delivery against the 2015-16 budget plans, which required a significant use of reserves to balance the budget and the need for significant savings to balance the 2016-17 budget. And for the two years following further efficiencies will be required to reduce base expenditure.

## Tri-Force Collaboration

At a meeting of PCCs and Chief Constables in June 2016, work was agreed to develop Business Cases for specific areas for the three Forces of Leicestershire, Northamptonshire and Nottinghamshire.

These business cases will be available for PCCs and CCs to review in early March 2017 and it is anticipated that this meeting will determine whether these business cases should be progressed, whether further work is required or whether to concentrate on other Collaborative opportunities within the region.

Given these timescales, and that some investment is also funded from Transformation bids, it is not possible to include this information within the three PCC budgets or Precept reports for 2017/18. Therefore, in respect of Nottinghamshire, costs for Tri-Force work if approved will be met from the small revenue budget of £300,000 and through a revised capital programme for any significant costs. It is intended that an update will be provided to a future Police and Crime Panel meeting.

The Panel are advised that the three PCC precept reports across the three Force areas will all include a similar narrative for the Tri-Force collaboration work.

Where possible, the Leicestershire, Northamptonshire and Nottinghamshire continue to work closely and where possible, all three budgets have been prepared on common assumptions for pay awards and inflation, creating a common baseline. Discussions continue nationally with the Home Office, PACCTS, Regional colleagues and the three Forces/PCCs finance teams to determine common grant assumptions.

## Supporting Reports

The Budget Report and the Medium Term Financial Strategy Report on today's agenda details further the plans for 2017-18 and beyond.

The detailed budget for 2017-18, the Medium Term Financial Strategy, the Reserves Strategy, the 4 Year Capital Programme and the Treasury Management Strategy are provided for information purposes to the Police and 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 based upon the actual data provided by the Billing Authorities.**

## Process

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 better than anticipated. However, further efficiencies are required.
- **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 2017-18 and the Medium Term Financial Strategy.
- **The size and adequacy of general and specific earmarked reserves** - the current forecast of the general reserves at 31 March 2017 is £7 million. This 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 now a risk for an organisation of this size. This has been raised as a strategic risk and there are plans for the force to re-imburse the £10m+, which have been used more than resources originally allocated in 2014-15 and 2015-16. These will be met from further efficiency plans. It is noted that Nottinghamshire's reserves are amongst the lowest in the country.
  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 1.95% 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 1.95% is just below the limit set (further detail is provided in **Section 6**).

## 1. COUNCIL TAX BASE

For 2017-18 the Billing Authorities continue with the local Council Tax Support Schemes introduced in 2013-14. There have not been any significant changes affecting the individual schemes, although collection rates continue to be 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. Initial estimates for the tax base show that the Billing Authorities are estimating an average 1.18% increase. This has been included in these assumptions.

The actual tax base has increased by 1.70% overall, slightly less than last year's increase of 1.84%. This information has to be confirmed in writing by 15 January, the statutory deadline.

| **Tax base** | **Band D Properties 2016-17 No** | **Band D Properties 2017-18 No** | **Change %** |
|---|---|---|---|
| Ashfield | 31,936.30 | 32,546.20 | 1.91 |
| Bassetlaw | 33,079.77 | 33,916.77 | 2.53 |
| Broxtowe | 32,806.55 | 33,126.78 | 0.98 |
| Gedling | 36,104.62 | 36,306.09 | 0.56 |
| Mansfield | 28,272.00 | 28,894.98 | 2.20 |
| Newark & Sherwood | 37,378.90 | 37,828.75 | 1.20 |
| Nottingham City | 62,091.00 | 63,368.00 | 2.06 |
| Rushcliffe | 40,959.60 | 41,777.00 | 2.00 |
| **Total** | 302,628.74 | **307,764.57** | **1.70** |

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

## 2. COLLECTION FUND POSITION

Each billing authority uses a Collection Fund to manage the collection of the Council Tax. For 2017-18 the surplus continues to increase as collection rates are better than anticipated. A breakdown is provided in the table below:

| | Collection Fund | |
|---|---|---|
| Surplus/(deficit) | **2016-17** | **2017-18** |
| | **£** | **£** |
| Ashfield | 98,418 | 27,686 |
| Bassetlaw | 142,071 | 140,000 |
| Broxtowe | 82,806 | 82,751 |
| Gedling | 105,007 | 157,500 |
| Mansfield | 69,066 | 280,649 |
| Newark & Sherwood | 28,857 | 73,147 |
| Nottingham City | 420,872 | 442,041 |
| Rushcliffe | 77,506 | 17,381 |
| **Total** | 1,024,603 | **1,221,155** |

It is intended that the surplus will be transferred to balances to contribute towards the reserves.

## 3. COUNCIL TAX LEGACY GRANT

Council Tax Legacy Grant is received by Commissioners for each Policing area.

There is no change in the Legacy Grant for 2017-18 at £9.7m. This grant will be considered as part of the Funding Formula Review.

## 4. CONSULTATION

### APPROACH

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 in 2016-17 in line with the Commissioner's duty to consult local communities on their priorities and perceptions.

**The consultation activities included:**

- The Nottingham City Council and the City's Crime and Drugs Partnership Annual Respect Survey and the Nottinghamshire County Council Annual residents Satisfaction Survey 2016

- The Police and Crime Commissioner's priorities and precept consultation incorporating face-to-face engagement and online questionnaire

- Focus groups commissioned by the Police and Crime Commissioner within each of the four Community Safety partnership areas:- Nottingham City; South Nottinghamshire; Bassetlaw, Newark & Sherwood and; Mansfield and Ashfield

- Additional face-to-face local public and stakeholder engagement activity across Nottingham and Nottinghamshire.

### KEY FINDINGS

Consultation with over 4,700 residents through a range of public consultation and engagement activities in 2016 identified that there is generally an even balance of support for (52%) and against (48%) an increase in the council tax precept for policing when confidence intervals and variations in consultation methods are taken into account.

The proportion of residents supporting a rise in the council tax precept for policing has fallen by around 9% points over the last year, despite a (non-significant) increase in support in the City. This has been largely driven by an increase in residents feeling they cannot afford to pay more or already pay enough.

Respondents were generally supportive of the police, with at least two thirds feeling that more funding was required. Of those that did not support a rise in the precept for policing, around a third felt that more central government funding should be made available.

Around a third did not support a rise in the precept for policing as they felt that it would have no impact on the service they received. This was often expressed amid a perceived lack of visible policing with many stating that they would support a rise in precept they could be assured that visible policing would be protected.

More detailed exploration of the Police's financial position and savings plans as part of the focus groups highlighted surprise among participants as to the scale of the challenge. These participants subsequently showed a greater tendency to support increases in the precept.

## KEY RECOMMENDATIONS

The Police and OPCC should consider:

- Ensuring any proposals to increase the local precept for policing are supplemented with a clearly communicated plan for how the additional revenue would be spent. Public support and confidence appears to remain strongly linked to the force's commitment to ensuring that the service is visible, accessible and responsive to community needs

- Developing a clear strategic communication and engagement plan to demonstrate to local residents and rate payers how policing resources are being deployed and what outcomes are being delivered as a result. This is particularly important as the nature of policing business becomes increasingly concentrated in areas of high impact but often less visible aspects of policing

- Further lobbying of central government for fair and proportionate levels of police funding which takes account of the changing challenges facing the service over the current spending review period. Public support for this approach appears relatively strong.

- Continuing to raise awareness of current and emerging resourcing challenges and efficiency plans for Nottinghamshire and raise further awareness of the statutory role and activities of the Police and Crime Commissioner

- Continuing to explore opportunities to develop organisational efficiencies through greater prioritisation, reducing waste / bureaucracy and making better use of technology – all being areas in which there appears to be strong levels of public support

- Continuing to explore opportunities for more collaborative working with other partner agencies and regional forces, particularly in consolidating support / back office functions, premises and senior leadership and governance functions. The service should also seek to ensure that relevant learning from the private sector is used to inform organisational efficiency plans

- Public and stakeholder consultation on more specific proposals for further Blue Light collaboration in view of what appears to be general public support for this approach

- Further exploring the public / community offer in preventing crime and anti-social behaviour and improving community safety with the support of local service providers. This may include further work to raise awareness of volunteering roles and opportunities

- Further developing the profile of community issues and concerns as part of the new Neighbourhood-level community engagement plans and profiles, particularly in making use of community profiling and segmentation data.

## 6. COUNCIL TAX REFERENDUMS

The Localism Act 2011 requires authorities including Police and 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 2017-18 the principles state that, for Police and Crime Commissioners, an increase of more than 2% in the basic amount of council tax between 2016-17 and 2017-18 is excessive.

For 2017-18 the relevant basic amount is calculated as follows:

Formula:

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

Nottinghamshire 2017-18 estimated calculation:

$$\frac{£56{,}450{,}177.43}{307{,}764.57} = £183.42$$

(1.95%)

With a 2% increase the Band D equivalent charge would be £183.51.

This year the Referendum limit has been announced at the time of settlement notifications. It has been set at 2% for 2017-18.

## 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 2017-18 result in a Police and Crime Precept on the Council Tax of £183.42 for a Band D property, representing an increase of 1.95%.

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

To achieve a balanced budget and having regard for the provisional notification of grant income an increase in the Police & Crime Precept has been required. This is on top of budget reductions and efficiencies to be achieved in year.

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

| | **2016-17 Budget £m** | | **2017-18 Budget £m** | | **Increase/ Decrease £m** | |
|---|---|---|---|---|---|---|
| Budget | 190.2 | | 190.1 | | 0.1 | (-) |
| External Income | 135.8 | (-) | 134.0 | (-) | 1.8 | (+) |
| Collection Surplus | 1.0 | (-) | 1.2 | (-) | 0.2 | (-) |
| Reserves | 1.0 | (+) | 1.5 | (+) | 0.5 | (+) |
| **Precept** | **54.4** | **(-)** | **56.4** | **(-)** | **2.0** | **(-)** |
| Council Tax Base | 302,629 | | 307,765 | | 5,136 | |
| Council Tax Band D | £179.91 | | £183.42 | | £3.51 | |
| Council Tax Band A | £119.94 | | £122.28 | | £2.34 | |

The overall Police and Crime Precept to be collected on behalf of the Police and Crime Commissioner for 2017-18 is:

| | £m | |
|---|---|---|
| Budgeted Expenditure | 190.1 | (+) |
| Less income from: | | |
| Police & Crime Grant | 124.3 | (-) |
| Legacy Council Tax Grant | 9.7 | (-) |
| Collection Fund surplus | 1.2 | (-) |
| Net contribution to/from Balances | 1.5 | (+) |
| Police & Crime Precept on the Council Tax | 56.4 | (-) |

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**

| Band | 2016-17 £ | 2017-18 £ |
|---|---|---|
| A | 119.94 | 122.28 |
| B | 139.93 | 142.66 |
| C | 159.93 | 163.04 |
| **D** | **179.91** | **183.42** |
| E | 219.89 | 224.18 |
| F | 259.87 | 264.94 |
| G | 299.85 | 305.70 |
| H | 359.82 | 366.84 |

**Amounts to be raised from Council Tax in each billing authority area 2017-18:**

| | Precept amount to be collected £ | Collection Fund Surplus/(Deficit) £ | Total amount due £ |
|---|---|---|---|
| Ashfield | 5,969,624.00 | 27,686.00 | 5,997,310.00 |
| Bassetlaw | 6,221,013.95 | 140,000.00 | 6,361,013.95 |
| Broxtowe | 6,076,113.99 | 82,751.00 | 6,158,864.99 |
| Gedling | 6,659,263.03 | 157,500.00 | 6,816,763.03 |
| Mansfield | 5,299,917.23 | 280,649.00 | 5,580,566.23 |
| Newark & Sherwood | 6,938,549.33 | 73,147.00 | 7,011,696.33 |
| Nottingham City | 11,622,958.56 | 442,041.00 | 12,064,999.56 |
| Rushcliffe | 7,662,737.34 | 17,381.00 | 7,680,118.34 |
| **Total** | **56,450,177.43** | **1,221,155.00** | **57,671,332.43** |

**Collection Dates**

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

| | £ |
|---|---|
| **2017** | |
| 20 April | 5,767,133.00 |
| 26 May | 5,767,133.00 |
| 03 July | 5,767,133.00 |
| 07 August | 5,767,133.00 |
| 12 September | 5,767,133.00 |
| 17 October | 5,767,133.00 |
| 21 November | 5,767,133.00 |
| **2018** | |
| 02 January | 5,767,133.00 |
| 02 February | 5,767,133.00 |
| 09 March | 5,767,135.43 |
| | **57,671,332.43** |

## 8. ROBUSTNESS OF THE ESTIMATES

The Chief Finance Officer to the Police and Crime Commissioner has worked closely with Director of Finance (Tri-Force Collaboration) and Head of Finance (Nottinghamshire Police) to obtain assurance on the accuracy of the estimates provided. There have been weekly meetings between the Commissioner, Chief Constable and their professional officers.

The impact of the difficult year of 2015-16 continues to affect our levels of reserves and therefore financial resilience. The recruitment of a Head of Finance has improved the financial control within the force and ensures that previous budgeting errors will not be replicated. This is supported through regular meetings and budget monitoring improvements.

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 this will be monitored monthly, with alternative savings needing to be identified if the initial plans cannot be delivered.

The balanced budget is based upon the recommended 1.95% increase in Council Tax for 2017-18.

Nottinghamshire
POLICE & CRIME COMMISSIONER

# *Budget 2017-18*

NOTTINGHAMSHIRE
POLICE
PROUD TO SERVE

January 2017

# INTRODUCTION

Since setting his first budget for 2013-14, which was itself challenging, the pressure on the Commissioner's budget has increased substantially. Over the last five years efficiency savings of £54.6m have been needed to deliver annual balanced budgets.

In 2012-13 and 2013-14 achieving efficiencies was comparatively easy and underspends in other areas also developed. But 2014-15 saw the start of it becoming increasingly difficult to achieve the required savings programme and an additional £2m was used from reserves (total over £4m) to balance the budget by the end of the year.

2015-16 has proved to be the toughest year to date. Efficiency programmes were not been delivered in full and in addition to this errors in the budget were identified during the year. This resulted in £9.3m being required from reserves to balance the budget.

2016-17 was always going to be a challenging year, with the need to deliver £12m of efficiency savings – the largest in year target to date, and increasing core costs (e.g. pay awards and price inflation), we were also faced an estimated £3.5m cost pressure from the change in National Insurance contributions. In creating the budget for 2016-17 additional cost pressures of £11m were identified.

Despite this much has been achieved and continues to be delivered:

- 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 violence with injury, ASB, drug related offenses, 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
- 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 Tri-Force collaboration with Leicestershire and Northamptonshire
- Additional Innovation and Transformation funding has resulted in five key projects being successful in securing funding in 2016. These include the Tri-Force alliance; National Business Crime hub; Public Private Partnership Intelligence collaboration; Agile working; and body worn video
- 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 2016-17 the PCC co-commissioned new contracts:
    - The new domestic and sexual abuse support services co-commissioned by the PCC, City Council and Nottingham Clinical Group have begun, providing much more holistic and joined up services for survivors which make more effective use of PCC funding
    - The PCC commissioned an independent review of other victim support services. The review recommended a new delivery model which would allow more victims, particularly those with protected characteristics who do not report crime to be supported, as well as making more efficient use of his victims' funding
    - The PCC has begun work with the County Council and clinical commissioning groups in the county to co-commission a new support service which will be operational from April 2018

- A focus on early intervention and crime prevention is designed to see demand for services reduced

- Rural crime continues to be a priority for the Commissioner and a proactive Rural Crime Team of Special Constables has been established and trained in specialist knowledge on how to tackle wildlife and rural crime issues. The Community Road Safety Programme has been extended to rural areas to tackle speeding problems and Automatic Number Plate Recognition (ANPR) cameras installed in Ashfield and Bassetlaw. The Commissioner has also developed a dedicated rural crime web site to help people who live in rural crime areas. Operations Traverse and Nebraska 3 are dedicated operations to tackling rural crime issues. Furthermore, the Commissioner has introduced rural crime performance measures and police response times so that he can be assured that residents living in rural communities are not disproportionately affected by any changes to police operating response models

- 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. Detainees under the Mental Health Act detained in custody suites is down 94% compared to 2015-16

- Almost two thirds (60%) 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 improves working practices

Throughout the year the Commissioner has 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 Commissioner has specifically requested that budget funding is provided in the following areas:

- GPS tagging extend to target knife crime offenders
- Funding to work in Partnership with The Consent Collective in relation to Sexual Violence media campaigns
- Specific work on preventing demand, which the Commissioner and new Chief Constable will co-commission

In 2017-18 a balanced budget is being delivered through over £1.3m in efficiencies identified by the force, which also include savings from regional collaboration, and the transformational change programme 'Delivering the Future'. Improved financial management and reporting confirms that the Force will not only deliver its £12m efficiency target but is likely to be slightly underspent against the 2016-17 budget, and this is despite absorbing additional policing pressures like Operation Kinic and additional payroll projects costs from the MFSS.

# 1. BUDGET 2017-18

The Commissioner welcomed the news that Government is maintaining police spending as set out in the Comprehensive Spending Review 2015 for the duration of this parliament. Following the Provisional Settlement announcement the protection being given to policing by the Chancellor in the Settlement meant that the previously anticipated cuts in funding of 25-40% have not emerged.

However, there is still much to do. A standstill in funding means that savings are required to meet day to day increases in demand and to afford continued investment in assets and technology in order to maintain an effective Nottinghamshire Police Force.

## 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.

| **Funding 2017-18** | **2017-18 £m** |
|---|---|
| **Core grants & funding** | |
| Police & Crime grant | (124.2) |
| Council Tax legacy grant | (9.7) |
| **Sub-total core grants** | **(133.9)** |
| **Precept** | **(56.4)** |
| Transfer to reserves | 0.3 |
| **Total funding available** | **(190.1)** |

Final confirmation of grant settlement will be laid before Parliament in February 2017.

The Referendum Limit was announced at the same time as the provisional settlement and is set at **2.0**% for 2017-18.

No estimate for the use of reserves has been planned for 2017-18, and Collection fund surplus/deficits have yet to be declared by Billing Authorities – it is anticipated than any declared surpluses will be used to increase reserves, reflecting the fact that these were reduced by £9.3m in support of overspends in 2015-16. The PCC requires that the spending plans of the Force need to provide for the addition of £10.1m to reserves over the medium to long term to replace what has been used in recent years; reflecting the level of reserves used to support expenditure during the current austerity period. The tax base used to calculate the precept amount is based upon December estimates which may vary.

The precept figure above assumes that the Police and Crime Panel support the Commissioners decision to increase precept by 1.95%. The Home Office has assumed that there will be a 0.5% increase in the tax base and a 2.0% increase in the precept in calculating the grant amount.

The Home Office has indicated that further detail on the split between main grant for policing and top slicing will be made available for future years. This will assist greatly in planning further ahead. The Commissioner has led on making representations for multi-year settlements.

The Commissioner is heavily involved in the Home Office review of the Police Funding Formula. The plan is to consult on proposals later this year with the aim of introducing a new formula from April 2018.

### 1.2 Summary expenditure

The Commissioner is required to set a balanced budget each year, with a reduction in grant income and increased pressures from inflation, pay awards and new demands this inevitable means efficiencies have to be identified and delivered in order to balance the budget.

| **Expenditure 2017-18** | **2017-18 £m** |
|---|---|
| Previous expenditure | 189.6 |
| In year increases | 1.8 |
| **Sub-total expenditure** | **191.4** |
| Efficiencies | **(1.3)** |
| Use of reserves | 0.0 |
| **Total net expenditure** | **190.1** |

The recruitment of Police Investigations Officers (PIO) account for and inflation increases account for 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.

# 2. 2017-18 Budget breakdown

Annex 1 details the proposed expenditure budget for 2017-18. The proposed revenue budget is £190.0m.

| Net expenditure budget | 2017-18 £m | Note |
|---|---|---|
| Employee | 150.4 | 2.1 |
| Premises | 6.0 | 2.2 |
| Transport | 5.7 | 2.3 |
| Supplies & services | 16.1 | 2.4 |
| Agency & contract services | 16.9 | 2.5 |
| Pensions | 4.9 | 2.6 |
| Capital financing | 4.8 | 2.7 |
| Income | (13.5) | 2.9 |
| Efficiencies | (1.3) | 3.2 |
| Net use of reserves | 0.0 | 2.8 |
| **Total net expenditure** | **190.1** | **Annex 1** |

An alternative thematic view of the 2017-18 budget is also detailed at Annex 5.

### 2.1 Employee related expenditure

2016-17 saw the Force end its two year recruitment freeze for police officers and the 2017-18 budget provides for continued officer and staff recruitment in order to maintain and effective service. Overall however the implementation of the change programme "Delivering the Future" does see a net reduction in the number of police officers employed in next and future years. This programme becomes key to the way in which we work and in the way in which we will deliver a police service that remains financially stable during the current period of austerity in public sector spending.

A pay award has been included in the budget at 1.0% payable from 1st 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 2017-18. Annex 3 details the budgeted police officer, police staff and PCSO numbers for 2017-18.

## 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 2017-18 inflation for gas and electricity has been budgeted at nil and 2.0% respectively.

## 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. This continues to be monitored and efficiencies delivered.

## 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. Notification from the Home Office sees the total cost of these systems continuing to increase substantially above the rate of inflation and 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 2017-18, unless there was specific contracted inflation.

## 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:

| **Analysis of Agency & contracted services** | **2017-18 £m** |
|---|---|
| Agency costs | 0.1 |
| Collaboration contributions | 9.8 |
| Community safety grant | 4.7 |
| Other partnership costs | 2.2 |
| **Total** | **16.9** |

The costs associated with the use of agency staff have been much reduced and there use is carefully managed to ensure this represents good value for money.

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 £9.8m for 2017-18. No savings have been assumed within this budget for collaboration or Innovation projects.

The most significant area of transformation is the tri-force collaboration. This started initially as a transformation for business services with Northamptonshire and has expanded to include all parts of the service not currently within a collaboration arrangement and now includes Leicestershire.

### 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 budgeting for medical retirements remains an issue with the number of medical retirements and the associated costs increasing significantly above the original budget in 2016-17 and for 2017-18 the budget has been increased by £0.4m (after adjusting for the £0.5m efficiency challenge) reflecting the current trend.

Employer contributions in respect of the LGPS scheme are reviewed by the Actuaries on a tri-annual basis and annual contributions are then adjusted. The next revaluation takes place in 2017 and any changes will impact on the

2018-19 budget. Indications are that the employer contributions will increase in future years.

## 2.7 Capital financing

This relates directly to the value of the capital expenditure requiring loan funding in previous years. The proposed capital programme for 2017-18 has been limited and the 2016-17 programme reduced in year. Priority has been given to projects where collaborative commitment has been made (e.g. Transformation funded 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. Our advisors predict a stable base rate of 0.25% in 2017-18, in line with the Treasury strategy individual borrowing decisions will be made with the view to minimising future borrowing costs.

In 2015-16 we undertook a review of the methodology for calculating MRP charges and this resulted in a significant savings in future years this impact is included within the base budgets, with further efficiencies identified due to anticipated slippage in the overall capital programme.

## 2.8 Use of reserves

There are no plans to use reserves in 2017-18 and if opportunity exists from the declaration of Council tax collection surpluses then a contribution to reserves will be considered. Strategically it is anticipated that £10.1m will be returned to reserves over the medium to long term.

## 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.

## 2.10 Variation to 2016-17 budget

A variation of budgets between years arises as a result of a variety of changes e.g. inflationary pressures, efficiency reductions and service demands. Annex 4 details a high level summary of reasons for variations between the original budgets for 2016-17 and 2017-18.

# 3. Efficiencies

During the last CSR period the force needed to deliver £42.6m in efficiencies. It is estimated that by the end of this financial year £44.7m will have been achieved. As reserves are now significantly low for an organisation of our size it is essential that efficiency targets continue to be achieved.

### 3.1 2016-17 Efficiencies

As part of the 2016-17 budget the following efficiencies were required in order to set a balanced budget.

| **Efficiencies 2016-17** | **£m** |
|---|---|
| MRP | 1.0 |
| Reduction of officers and staff | 5.0 |
| Non Pay savings | 1.7 |
| Overtime reduction | 0.3 |
| Reduction of Acting Up | 0.5 |
| VR, DTF and shift review | 3.5 |
| **Total** | **12.0** |

**3.2** The Commissioner is of the view that continuingly achieving efficiencies is challenging and following underperformance in 2014-15 and 2015-16 he has mapped out a programme of work and monitoring with the Force, current indications at the time of producing this report is the Force will achieve its efficiency targets and is likely to underspend against the 2016-17 budget. Any underspend will be used to increase reserves.

**3.3** If these targets are not met the Commissioner will require the force to provide alternative in year savings plans.

### 3.4 2017-18 Efficiencies

As part of the 2017-18 budget the following efficiencies are required in order to set a balanced budget.

| Efficiencies 2017-18 | £m |
|---|---|
| Procurement | 0.3 |
| Medical retirements | 0.5 |
| Tri-Force costs savings | 0.2 |
| MRP | 0.3 |
| **Total** | **1.3** |
| Ongoing pay savings | 4.2 |
| **Total** | **5.5** |

**3.5** As in the previous year if these targets are not met the Commissioner will require the force to provide alternative in year savings plans. If this is required it is likely that the force will respond by delaying its in-year recruitment plans.

## 4. External Funding

There is an assessment of the financial risk in respect of external funding currently provided. In 2017-18, 22 officers and 56 staff FTE's are funded externally and are added within the expenditure and workforce plans. This could be an additional pressure in future years as funding pressures mount for partners.

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

In addition to these we have 47 police officers and 7 staff FTE's seconded out of the organisation in 2017-18. This compares with 51 officers and 7 staff FTE's seconded in 2016-17.

**Annex 1**

# 2017-18 Commissioner's Total Budget (£m)

| | Total Budget 2017-18 £m |
|---|---|
| **Payroll** | |
| Police pay & allowances | 97.8 |
| Police overtime | 3.2 |
| Police staff pay & allowances | 40.4 |
| Police staff overtime | 0.6 |
| PCSO pay & allowances | 6.7 |
| PCSO overtime | 0.1 |
| Other employee expenses | 1.7 |
| | **150.4** |
| **Other operating expenses** | |
| Premises related | 6.0 |
| Transport | 5.7 |
| Communications & computing | 8.2 |
| Clothing & uniforms | 0.5 |
| Office equipment & materials | 0.4 |
| Other supplies & services | 8.2 |
| Custody costs | 0.1 |
| Police doctors & surgeons | 1.2 |
| Forensic costs | 1.6 |
| Interpreters & translators | 0.5 |
| Investigative expenses | 0.1 |
| Partnership payments | 2.2 |
| Collaboration contributions | 9.8 |
| Other third party payments | 0.1 |
| Private sector contracts | 0.0 |
| Medical retirements | 4.9 |
| Capital financing | 4.8 |
| | **54.4** |
| **Total expenditure** | **204.8** |
| **Income** | |
| Seconded officers & staff income | (3.5) |
| Externally funded projects income | (3.6) |
| PFI grant | (1.9) |
| OPCC | (1.3) |

| | Total Budget 2017-18 £m |
|---|---|
| EMSCU | (0.7) |
| Police special services | (0.2) |
| Investment interest | (0.1) |
| Fees, reports & charges | (0.3) |
| Other income | (1.9) |
| | **(13.5)** |
| **Efficiencies** | **(1.3)** |
| **Net use of reserves** | **0.0** |
| **Total** | **190.1** |
| **Memo: includes the OPCC expenditure of** | **4.8** |

**Annex 2**

# Workforce Movements 2016-17 Estimated Outturn v 2017-18 Budget

| | 2016-17 Estimated Outturn* FTE's | 2017-18 Budgeted Total FTE's | Movements FTE's |
|---|---|---|---|
| **Core Funded** | | | |
| **Police Officers** | | | |
| Operational | 904 | 896 | (8) |
| Intelligence & Investigations | 550 | 526 | (24) |
| Operational Collaborations | 271 | 254 | (17) |
| Corporate Services | 47 | 43 | (4) |
| | **1,772** | **1,719** | **(53)** |
| **Police Staff** | | | |
| Staff | 1,044 | 1,113 | 69 |
| PCSO | 184 | 200 | 16 |
| | **1,228** | **1,313** | **85** |
| | **3,000** | **3,032** | **32** |
| **Group Total** | | | |
| Core | 3,000 | 3,032 | 32 |
| Seconded | 58 | 54 | (4) |
| Externally Funded | 80 | 79 | (1) |
| **Force Total** | **3,137** | **3,164** | **27** |
| **OPCC** | **12** | **12** | **-** |
| | **3,149** | **3,176** | **27** |

***** The estimated outturn as at 31st March 2017.

**Annex 3(i)**

# Workforce Plan FTE's

| | 2017-18 | | | | |
|---|---|---|---|---|---|
| | **Operational FTE's** | **Intelligence & Investigations FTE's** | **Operational Collaborations FTE's** | **Corporate Services FTE's** | **Core Funded FTE's** |
| **Police Officers** | | | | | |
| Opening balance* | 904 | 550 | 271 | 47 | **1,772** |
| Leavers / restructure | (54) | - | - | - | **(54)** |
| Retirement | (18) | (24) | (17) | (4) | **(63)** |
| Recruitment | 64 | - | - | - | **64** |
| | **896** | **526** | **254** | **43** | **1,719** |
| **Police Staff** | | | | | |
| Opening balance* | 301 | 227 | 217 | 300 | **1,044** |
| Leavers / restructure | - | (1) | - | - | **(1)** |
| Recruitment | - | 64 | - | 6 | **70** |
| | **301** | **290** | **217** | **306** | **1,113** |
| **PCSOs** | | | | | |
| Opening balance* | 182 | 2 | - | - | **184** |
| Leavers / restructure | - | - | - | - | **-** |
| Recruitment | 16 | - | - | - | **16** |
| | **198** | **2** | **-** | **-** | **200** |
| Opening Balance* | 1,387 | 779 | 488 | 347 | **3,000** |
| Movement | 8 | 39 | (17) | 2 | **32** |
| **Closing Balance** | **1,395** | **818** | **471** | **349** | **3,032** |

***** Opening balance is the estimated outturn as at 31st March 2017.

At the 31st March 2017 it is estimated that there will be 36 Police Investigations Officers (PIO's) FTE's with the planned recruitment of 64 in 2017-18.

**Annex 3(ii)**

# Workforce Plan FTE's

| | 2017-18 | | | | | |
|---|---|---|---|---|---|---|
| | **Core Funded FTE's** | **Seconded FTE's** | **Externally Funded FTE's** | **Force Total FTE's** | **OPCC FTE's** | **Total FTE's** |
| **Police Officers** | | | | | | |
| Opening balance* | **1,772** | 51 | 23 | **1,846** | - | **1,846** |
| Leavers / restructure | **(54)** | - | - | **(54)** | - | **(54)** |
| Retirement | **(63)** | (4) | (1) | **(68)** | - | **(68)** |
| Recruitment | **64** | - | - | **64** | - | **64** |
| | **1,719** | **47** | **22** | **1,788** | **-** | **1,788** |
| **Police Staff** | | | | | | |
| Opening balance* | **1,044** | 7 | 56 | **1,107** | 12 | **1,119** |
| Leavers / restructure | **(1)** | - | - | **(1)** | - | **(1)** |
| Recruitment | **70** | - | - | **70** | - | **70** |
| | **1,113** | **7** | **56** | **1,176** | **12** | **1,188** |
| **PCSOs** | | | | | | |
| Opening balance* | **184** | - | - | **184** | - | **184** |
| Leavers / restructure | **-** | - | - | **-** | - | **-** |
| Recruitment | **16** | - | - | **16** | - | **16** |
| | **200** | **-** | **-** | **200** | **-** | **200** |
| Opening Balance* | **3,000** | 58 | 80 | **3,137** | 12 | **3,149** |
| Movement | **32** | (4) | (1) | **27** | - | **27** |
| **Closing Balance** | **3,032** | **54** | **79** | **3,164** | **12** | **3,176** |

***** Opening balance is the estimated outturn as at 31st March 2017.

**Annex 4**

## Variation to the 2016-17 Budget

### Police pay & allowances

The £(5.2)m reduction from the 2016-17 budget is largely due to the increased number of natural leavers that has been occurred during 2016-17 and the full year impact into 2017-18; combined with natural leavers at 54 FTE’s and 30 year leavers at 68 FTE's included in the 2017-18 budget. This has been partly offset by the recruitment of 64 FTE’s during 2017-18.

### Police overtime

The £(0.2)m reduction from the 2016-17 budget is largely due to the targeted reduction for 2017-18.

### Police staff pay & allowances

The £1.9m increase from the 2016-17 budget is largely due to the recruitment of 16 Police Investigation Officers (PIO) in the latter quarter of 2016-17, which was not in the original budget and 64 during 2017-18 at a cost of c£1.8m (£0.5m full year impact of 2016-17 recruitment and £1.3m for 2017-18 recruitment); with the remainder being pay awards and increments.

### PCSO pay & allowances

The £(1.0)m reduction from the 2016-17 budget largely reflects the restructure programme implemented during 2016-17, combined with an increased level of natural leavers.

### Other employee expenses

The £0.7m increase from the 2016-17 budget is largely due to the apprenticeship levy at £0.6m introduced for 2017-18 and is 0.5% of the pay costs liable to National Insurance.

### Transport

The £(0.8)m reduction from the 2016-17 budget is largely due to the continued work to reduce the fleet vehicles provided under the Vensons contract of £0.4m and the realignment of insurance costs of £0.4m to Other supplies & services.

### Communications & Computing

The £0.6m increase from the 2016-17 budget is largely due to costs relating to Agile working.

### Other supplies & services

The £3.2m increase from the 2016-17 budget is largely due to latest insurance estimates of £0.4m and transfer of insurance costs of £0.4m from transport; as a result of grossing up budgets there is now £1.3m of victims & witnesses costs in the OPCC which are offset within income from a Ministry of Justice (MOJ) grant; £0.3m of professional and consultancy fees; £0.1m of legal fees;

licences fees of £0.1m within Externally Funded projects (EF) which is offset within income; and £0.5m due to the central efficiency challenge included within the 2016-17 budget the £3.3m increase from the 2016-17 budget is largely due to latest insurance estimates of £0.4m and transfer of insurance costs of £0.4m from transport; as a result of grossing up budgets there is now £1.3m of victims & witnesses costs in the OPCC which are offset within income from a Ministry of Justice (MOJ) grant; £0.3m of professional and consultancy fees; £0.1m of legal fees; licences fees of £0.1m within Externally Funded projects (EF) which is offset within income; and £0.5m due to the central efficiency challenge included within the 2016-17 budget.

**Forensics costs**

The £(0.5)m reduction from the 2016-17 budget is largely due to reduced costs for the interrogation of electronic devices such as mobile phones; and DNA/sampling costs.

**Partnership payments**

The £1.5m increase from the 2016-17 budget is largely due to central costs and command fees for EMOpSS of £0.3m and EMCJS of £0.3m; a contingency for costs relating to Tri-Force collaboration of £0.5m; and £0.3m of EF projects which is offset within income. To deliver efficiencies the contingency for Tri-Force activity has been reduced to £0.3m.

**Collaboration contributions**

The £1.1m increase from the 2016-17 budget is largely due to the increased costs for the payroll project and latest information from Multi Force Shared Service (MFSS) which includes £0.6m as a one-off cost for the Oracle Fusion investment; and Forensics.

**Medical retirements**

The £0.9m increase from the 2016-17 budget is largely due to the increased number of budgeted retirements. On average it costs the Force c£75k for every Constable medically retired. The efficiency reduction removes some of this increase, but carries a risk of a budget overspend.

**Capital financing**

The £0.2m increase from the 2016-17 budget is largely reflects the latest borrowing position and MRP. To achieve efficiencies slippage in the 2017-18 capital programme has been assumed based upon past performance.

**Income**

The £1.1m increase from the 2016-17 budget is largely reflects the grossing up of budgets where a £1.3m MOJ grant within the OPCC offsets against costs in Other supplies & services; increased income in prosecutions of £0.2m; Contact Management £0.1m. This has been partly offset by the reduced combined income from EF projects and seconded officers/staff of £0.5m; this reduction in income is due to lower costs across a number of expenditure lines and does not increase the overall budget.

Annex 5

# 2017-18 Commissioner's Total Budget – Thematic View (£m)

| | 2017-18 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Operational £m** | **Intelligence & Investigations £m** | **Operational Collaborations £m** | **Corporate Services £m** | **Seconded £m** | **Externally Funded £m** | **Force Total £m** | **OPCC £m** | **Total £m** |
| **Payroll** | | | | | | | | | |
| Police pay & allowances | 46.0 | 29.4 | 15.0 | 3.1 | 3.2 | 1.1 | **97.8** | - | **97.8** |
| Police overtime | 1.1 | 1.2 | 0.8 | 0.1 | - | 0.0 | **3.2** | - | **3.2** |
| Police staff pay & allowances | 10.7 | 9.0 | 6.9 | 11.5 | 0.3 | 1.5 | **39.7** | 0.7 | **40.4** |
| Police staff overtime | 0.2 | 0.1 | 0.2 | 0.1 | - | - | **0.6** | 0.0 | **0.6** |
| PCSO pay & allowances | 6.5 | 0.2 | - | 0.0 | - | - | **6.7** | - | **6.7** |
| PCSO overtime | 0.1 | - | - | - | - | - | **0.1** | - | **0.1** |
| Other employee expenses | 0.0 | 0.0 | 0.0 | 1.7 | - | - | **1.7** | 0.0 | **1.7** |
| | **64.5** | **39.8** | **22.8** | **16.4** | **3.5** | **2.6** | **149.7** | **0.7** | **150.4** |
| **Other operating expenses** | | | | | | | | | |
| Premises related | - | - | 0.0 | 5.8 | - | 0.1 | **6.0** | 0.0 | **6.0** |
| Transport | - | - | 1.0 | 4.6 | - | 0.0 | **5.6** | 0.0 | **5.7** |
| Communications & computing | - | - | 0.0 | 8.0 | - | 0.2 | **8.1** | 0.0 | **8.2** |
| Clothing & uniforms | - | - | 0.0 | 0.5 | - | 0.0 | **0.5** | 0.0 | **0.5** |
| Office equipment & materials | - | - | 0.0 | 0.4 | - | 0.0 | **0.4** | 0.0 | **0.4** |
| Other supplies & services | 0.3 | 0.3 | 0.3 | 2.2 | - | 0.2 | **3.2** | 5.0 | **8.2** |
| Custody costs | - | - | 0.1 | - | - | - | **0.1** | - | **0.1** |
| Police doctors & surgeons | - | - | 1.2 | 0.0 | - | - | **1.2** | - | **1.2** |
| Forensic costs | - | 0.3 | 1.3 | 0.0 | - | - | **1.6** | - | **1.6** |
| Interpreters & translators | - | - | 0.1 | 0.4 | - | - | **0.5** | - | **0.5** |
| Investigative expenses | 0.0 | 0.1 | - | - | - | - | **0.1** | - | **0.1** |
| Partnership payments | 0.2 | 0.2 | 0.6 | 0.5 | - | 0.4 | **1.9** | 0.3 | **2.2** |
| Collaboration contributions | - | - | 5.5 | 4.3 | - | - | **9.8** | - | **9.8** |
| Other third party payments | - | - | - | 0.1 | - | 0.0 | **0.1** | - | **0.1** |

| | 2017-18 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Operational £m** | **Intelligence & Investigations £m** | **Operational Collaborations £m** | **Corporate Services £m** | **Seconded £m** | **Externally Funded £m** | **Force Total £m** | **OPCC £m** | **Total £m** |
| Private sector contracts | - | - | - | 0.0 | - | - | **0.0** | - | **0.0** |
| Medical retirements | - | - | - | 4.9 | - | - | **4.9** | - | **4.9** |
| Capital financing | - | - | - | 4.8 | - | - | **4.8** | - | **4.8** |
| | **0.5** | **0.8** | **10.0** | **36.7** | **-** | **0.9** | **49.0** | **5.4** | **54.4** |
| **Total expenditure** | **65.0** | **40.7** | **32.9** | **53.1** | **3.5** | **3.6** | **198.7** | **6.1** | **204.8** |
| **Income** | **(0.6)** | **(0.1)** | **(1.0)** | **(3.3)** | **(3.5)** | **(3.6)** | **(12.2)** | **(1.3)** | **(13.5)** |
| **Efficiencies** | | | | | | | | | |
| Procurement | - | - | - | (0.3) | - | - | **(0.3)** | - | **(0.3)** |
| Medical retirements | - | - | - | (0.5) | - | - | **(0.5)** | - | **(0.5)** |
| Tri-Force cost savings | - | - | - | (0.2) | - | - | **(0.2)** | - | **(0.2)** |
| MRP | - | - | - | (0.3) | - | - | **(0.3)** | - | **(0.3)** |
| | **-** | **-** | **-** | **(1.3)** | **-** | **-** | **(1.3)** | **-** | **(1.3)** |
| **Net use of reserves** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **64.3** | **40.6** | **31.9** | **48.5** | **-** | **-** | **185.3** | **4.8** | **190.1** |

Nottinghamshire
POLICE & CRIME COMMISSIONER

# *Medium Term Financial Strategy*

# *2017-18 to 2020-21*

**January 2017**

# ***Commissioners***

# ***Medium Term Financial Strategy***

## Introduction

This document is part of the overall financial framework of the Police and Crime Commissioner. It builds on the budget proposed for 2017-18 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 previous Comprehensive Spending Review (CSR) Nottinghamshire needed to deliver £42million in efficiencies in order to balance the budget and improve performance. Continuous achievement of these substantial cuts is proved to be more difficult as time progresses and 2014-15 and 2015-16 resulted in the efficiency targets not being achieved. The latest CSR announcement is better than had been anticipated, but still leaves much to be done to continue delivering a service within a balanced budget.

Whilst the cuts to grant funding are relatively small, costs continue to increase and with salary increases the pressure to deliver savings continues. For 2017-18 Nottinghamshire faces some significant pressures from changes in employer contributions for National Insurance and making up the budget gap from 2015-16, where reserves were used to bridge a significant gap in achieving a balanced budget.

The settlement announcement covering next year and indicating funding over this CSR, includes assumptions in relation to precept increases and council tax base increases. The amounts that these increase by will be mirrored by a reduction in main grant. This is defined as being no reduction in real terms. However, in cash terms grant will reduce as the total amount available for main police grant is being reduced to finance Top Sliced expenditure (e.g. NPAS, NICC and Counter Terrorism) and Home Office new funding initiatives such as Police Transformation Fund.

A funding formula review had been started with the intention to bring a simplified approach to police funding in place for April 2016. However, this has now been delayed and will not be in place before April 2018.

Under the existing funding formula Nottinghamshire continues to lose over £10m per year. As the formula itself has never been fully implemented. Over the past 10 years this amounts to over £100m+ that the Home Office formula calculates should have come to Nottinghamshire, but to protect those that would lose significantly has been used to protect over funded forces from significant loss. Therefore, any new formula needs to be clear from the onset as to when it would be fully implemented and all forces work towards what the formula indicates as being appropriate level of funding for the police area.

The latest settlement announcement assumes that Council Tax Precept will increase by 2% per annum and that the Tax Base itself will also increase by 0.5% per annum over the CSR period.

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 remains a challenge to funding for policing in Nottinghamshire. These are summarised as follows:

1. The amount of grant funding is reduced by £1.8m.
2. The Home Office assumptions include for a 2% precept increase and 0.5% tax base increase. The estimates within the precept report show that the tax base increase is just over 1.70% resulting in total funding available of £190.4m.
3. However, the cost pressures that we are also seeing are also having an adverse effect (i.e. pay wards of 1%, inflation at just over 1% and the impact of national insurance changes for the state pension) especially as the funding available continues to reduce.
4. The level of reserves is such that there are necessary plans to replenish the reserves used in recent years. This will be phased in over the medium to long term.
5. The Commissioner at a local level and regional level continues to bid for additional funding being allocated by the Home Office from the Transformation Fund. We have previously been successful in relation to bidding for additional funding. The criterion for such funding continues to tighten.
6. A Police Funding Formula Review is underway and the results of this will be incorporated from 2018-19 onwards.

The estimated funding for the Police & Crime Commissioner over the next four years (and compared with this year) is as follows:

| **Funding Available** | 2016-17 £m | 2017-18 £m | 2018-19 £m | 2019-20 £m | 2020-21 £m |
|---|---|---|---|---|---|
| Police & Crime Grant | 126.1 | 124.3 | 122.3 | 120.3 | 118.3 |
| Council Tax Legacy Grant* | 9.7 | 9.7 | 9.7 | 9.7 | 9.7 |
| Precept | 54.4 | 56.4 | 58.2 | 59.9 | 61.7 |
| Collection fund surplus/(deficit) | 1.0 | 1.2 | | | |
| Transfer to reserves | (1.0) | (1.5) | (1.0) | (1.0) | (2.0) |
| **TOTAL** | **190.2** | **190.1** | **189.2** | **188.9** | **187.7** |

*Legacy Grant is subject to review as part of the funding formula review

**The surplus to be received in 2017-18 will be transferred to reserves. The transfer to reserves in later years is part of the reserves strategy.

## Investment

The Police & Crime Commissioner has continued to support investment in many collaborative projects which should deliver significant savings or improve and change the way in which the policing service is provided.

Nottinghamshire is a significant partner in all regional collaborations and collaborations which go outside of the region. More recently the Commissioners of Nottinghamshire, Leicestershire and Northamptonshire have agreed to form a further collaboration across the Tri-Force area for all policing and support functions.

Key to many of the changes has been the need for significant investment in technology. This will ensure an on-going visible presence in neighbourhood policing and provide the training and equipment to meet the needs for all cyber related crime detection.

Investment continues to be 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.

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

The settlement this year and indications for the CSR period is better than anticipated. However, 2017-18 still requires saving of £5.5m to be achieved in order to balance the budget.

The table below summarises the savings plans currently in place for the next financial year:

| **Efficiencies** | **2017-18 £m** |
|---|---:|
| MRP | 0.3 |
| On-going pay savings | 4.2 |
| Procurement | 0.3 |
| Medical Retirements | 0.5 |
| Tri Force Costs (reduction) | 0.2 |
| **Internal Efficiencies** | **5.5** |

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 further savings will need to be identified and delivered in year.

## Risks in the Medium Term

## Collaboration and Innovation

As a region we have been collaborating for a numbers of years. This has provided resilience to teams so small it becomes difficult to deliver and effective service and in later years has delivered significant savings. As we continue to collaborate savings will continue to be generated. The budgeted figures include the costs of collaboration, but do not include and savings currently. This will continue to be monitored and updated as the true level of savings becomes known.

We have also been successful in obtaining Innovation and Transformation Grant Funding to pump prime new areas of collaborations and new ways of working that will generate future savings. The risk in relation to this funding is the very short timeframes that we have to complete the projects.

## Tri Force Collaboration

The Commissioner and Chief Constables across three force areas: Nottinghamshire, Leicestershire and Northamptonshire; has agreed in principle to collaborate further across all of the elements of the service that are not currently within a collaboration agreement.

It is envisaged that this will bring a significant change through standardisation to the way in which Policing is provided across the three counties and deliver the needed savings to balance future year's budgets.

Transformation funding has been obtained for 2016-17 and 2017-18.

## Funding Formula Review

As mentioned previously the current funding formula review has been delayed and will not be in place before April 2018. Consultation on a new formula is expected to start early in 2017-18.

## Ministry of Justice Funding

The allocation of funding for Victims for 2017-18 is £1,318,455 and this is slightly less than the previous year.

## Emergency Services Network

The Home Office has been working on the costs associated with the new network, but there still remains a lack of detail as to what it will mean at an individual force area. However, indicative costs have been included based upon Home Office estimates within our revenue and capital budgets.

## Capital Grant

Capital Grant allocations have not been provided to date. This grant is gradually being phased out.

## 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. During 2015 this review has been revisited and further recommendations have been made. If the settlement had been as estimated we would have had to see a significant reduction in staff and officers in order to balance the budget.

The expenditure requirements of the Force and the Office of the Police and 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.

During 2015-16 it became apparent that the force was not going to deliver a balanced budget and there would be a need for significant additional use of reserves at year end. This was the second year that the force had difficulty in achieving required savings. Since then changes in monitoring processes and the appointment of a Head of Finance has resulted in improved controls and budget management.

Officers, staff and PCSO’s account for almost 80% 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.

The improved financial management linked with an improved workforce plan has meant that some recruitment has started to take place in a structured manner.

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

## 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 2021, but the work started on transformation should enable balanced budgets to be set.

There is still a lack of clarity in relation to future budgets and the amount that would be top sliced before allocation to the individual forces. This is increasing each year by significant amounts.

The budgeted summary financial position is as detailed below:

| | 2016-17 £m | 2017-18 £m | 2018-19 £m | 2019-20 £m | 2020-21 £m |
|---|---|---|---|---|---|
| **Policing element** | | | | | |
| Net Expenditure | 197.6 | 190.9 | 184.6 | 185.9 | 185.3 |
| Savings efficiencies & reserves | (12.0) | (5.5) | (0.1) | (1.7) | (2.3) |
| **sub-total** | **185.6** | **185.4** | **184.5** | **184.2** | **183.0** |
| | | | | | |
| **Grants and Commissioning** | | | | | |
| Net Expenditure | 4.6 | 4.7 | 4.7 | 4.7 | 4.7 |
| Savings efficiencies & reserves | | | | | |
| **sub-total** | **4.6** | **4.7** | **4.7** | **4.7** | **4.7** |
| **Total net expenditure** | **190.2** | **190.1** | **189.2** | **188.9** | **187.7** |
| | | | | | |
| **Total Funding Available** | **190.2** | **190.1** | **189.2** | **188.9** | **187.7** |
| | | | | | |
| Contribution to reserves* | 1.0 | 1.5 | 1.0 | 1.0 | 2.0 |
| Further savings required | | | (0.1) | (1.7) | (2.3) |

'* Contributions to reserves from 2018-19 represent the planned replenishment of reserves used in recent years. The amounts shown in 2016-17 and 2017-18 are the surplus on collection fund amounts.

## Opinion

The Commissioner is of the view that achieving the levels of efficiencies shown above will continue to be challenging, but acknowledges the hard work undertaken to reach this better financial position, including the planned replenishment of reserves over the medium to long term.

Nottinghamshire
POLICE & CRIME COMMISSIONER

# ***Reserves Strategy 2017-18***

January 2017

# Reserves Strategy 2017-18

## 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 and 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 and 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 and 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 Strategy (MTFS). 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 and Crime Commissioners. This is in accord with CIPFA's view on the process of setting reserves. 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 are currently forecast as improving. However, at the local level reducing expenditure to an affordable base whilst maintaining service at an acceptable level remains a challenge. Therefore, the ability to retain reserves for unforeseen events and circumstances becomes not only difficult, but something that requires careful consideration.

10. Whilst plans to reduce the base expenditure in line with the reduced income were initiated from 2008 the use of and level of reserves have fluctuated. The reserves increased when savings plans were being delivered ahead of the plan and recently have decreased as the need to use them to balance the budget has increased. Since 2014-15 the pressure to deliver the efficiencies required has increased and resulted in additional reserves being needed to balance the budget by the end of the financial year. In 2014-15 a further £2m was required and for 2015-16 a further £9.3m was also needed to balance the budget of which £1.6m had been planned.

11. Nottinghamshire currently has one of the lowest levels of reserves for policing in England and Wales. Nottinghamshire has never been cash rich, especially as in excess of £10m per annum is being withheld in the funding formula floors mechanism.

12. The Medium Term Financial Plan identifies risks in achieving the required savings to ensure balanced budgets over future years.

## Types of Reserve

13. 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 - this also forms part of general reserves.

14. 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. Currently none.

- 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. Currently none.

- 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. Currently none.

- 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 represents the value of outstanding annual leave and time off in lieu as at 31st March each year.

15. 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.

16. 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.

17. 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

18. 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 and Crime Commissioner's Reserves

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

### The General Reserve

20. 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**.

21. 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.

22. 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.**

23. 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.

24. As the net budget position changes the level of General Reserve must be monitored to ensure the minimum level is maintained.

25. **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 £0.075m.

## Earmarked Reserves

26. 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 MTFS).

27. 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 Private Finance Initiative (PFI)).

28. Expenditure relating to earmarked reserves has to specifically relate to the purpose of the reserve.

29. **Appendix B** details for each of the earmarked reserves that existed at the start of the 2016-17 financial year and their estimated balance by 31st March 2017.

    Details of those available for use in 2017-18 are given below:

### Medium Term Financial Plan (MTFP) Reserve

30. The medium term financial strategy of the Commissioner is under constant review and changes as new and reliable information becomes available.

31. The original purpose of this reserve was to alleviate financial pressure on the budgets in future years.

32. The support from this reserve is only one-off support and as such cannot be used to finance on-going commitments.

33. The use of this reserve has been reviewed and will continue to 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. Any costs associated with A19 will also be met from this reserve.

34. The Medium Term Financial Strategy 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.

35. 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.

36. The current level of reserves is now very low and if called upon will impact negatively on the financial viability of the force. **This is a significant risk.**

37. It is expected that the use of reserves will be paid back over the medium to long term, although until now this has proved difficult to achieve. Plans have estimated that payback of reserves will commence in 2018-19 at £1m per annum (with £1m in 2019-20, £2m in 2020-21 and £3m in the following two years)

**Private Finance Initiative (PFI) Reserve**

38. This is a reserve for the equalisation of expenditure over the life of the contract. This is a statutory reserve to maintain.

**PCC Reserve**

39. This reserve has now been earmarked for any cost associated with the PCC elections and any costs arising from Devolution over the next 4 years.

**Grants & Commissioning Reserve**

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

### Drug Fund

41. This minor reserve is received from court awards in drugs cases and is only used for initiatives that reduce drug related crime.

### Jointly Controlled Operations (Regional Collaboration) Reserve

42. 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.

43. 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.

44. The reserve exists to finance activities of regional collaboration above those identified within the annual budget.

### Property Act Fund Reserve

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

### 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 on-going welfare as a result of work related injuries can then be paid from this fund. This reserve is for the Animal Welfare Retired Dogs Scheme and is for costs associated with the running of that scheme

### Tax Base Reserve

47. Due to the timing differences between the PCC’s budget being approved and the deadline for the Billing Authorities to notify us of the final tax base and any Collection Fund surplus or deficit this fund has been created.

48. This reserve will be utilised where the tax base reduces from the estimated figures provided by Billing Authorities to the declaration of the actual tax base, as this would create a shortfall in overall total funding.

49. This reserve will also be used to cover the PCC's portion of costs associated with the Single Occupier Discount Reviews undertaken periodically across the City and the County.

**Revenue Grants**

50. This reserve combines the small amounts of grant income on completed projects where the grant conditions do not require repayment of any balances. 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.

51. This reserve is also used for on-going projects such as the Camera Safety Partnership Project.

**VAT Reserve**

52. This reserve was for a potential VAT liability in relation to a premises transaction. This reserve is no longer required and the balance will be transferred back to the MTFP reserve.

**Night Time Levy**

53. 2015-16 saw the first amount of income from this levy being received. The Commissioner will use this funding to contribute towards projects that ensure the City Night Time economy runs smoothly and safely (eg the work of the Street Pastors/additional policing when required).

**Joint Operations Capital Reserve**

54. The region currently maintains a capital reserve of £0.247m. This cannot be used for revenue purposes.

## Procedure for Use of Reserves

55. The use of reserves requires approval of the Chief Finance Officer to the Commissioner and the Commissioner.

56. All requests should be supported by a business case unless there is an approved process for use, such as the Animal Welfare Reserve.

57. 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

58. 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 Strategy updates together with the Annual strategy in January and the out-turn position in June each year.

## Risk Analysis

59. 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.

60. 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.

61. The significant risks that have been considered, but which will also be kept under review are:

    - Potential costs for Employment Tribunals relating to A19.
    - The budget monitoring report highlights potential risks in being able to achieve the required efficiencies and savings during the year.
    - 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.
- 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 is very low. Over recent years our need to use these when savings have not been achieved or other unplanned expenditure has arisen has resulted in this low position. Other forces are facing similar issues. The latest information on where reserves balances are nationally has yet to be collated and published.

This strategy now requires repayment of reserves from 2018-19 onwards.

Once the total of earmarked reserves have been utilised the financial stability of the force becomes a significant risk.

## STRATEGY REVIEW

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

During the year changes may occur in the MTFS, 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
# 2016-17

## GENERAL RESERVE

| RISK | IMPACT | PROBABILITY | Min £m | Max £m | Proposed for 2017-18 £m |
|---|---|---|---|---|---|
| Major Incident(s) Unbudgeted expenditure | Any amount under 1% of net budget is to be funded by the authority.<br>Amounts over 1% of net budget are subject to Home Office application approval. | Single Incident amounting to less than 1% of net budget. **Medium**<br>Multiple incidents amounting to over 1% of net budget. **Medium**<br>Single incident amounting to over 1% of net budget. **Low** | 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). | **LOW** | 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. | **Medium to HIGH** | 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). | **LOW** | 0.5 | 5.0 | 0.5 |
| Employment Tribunals and other litigation | Direct impact on revenue budgets. | **LOW** (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. **Low to MEDIUM** | 0.3 | 0.7 | 0.5 |
| **TOTAL** | | | | | **7.0** |

**Appendix B**

## Earmarked Reserves Assessment

| RISK/RESERVE | PURPOSE | HOW AND WHEN IT WILL BE USED | Management and control | Review | Estimated Balance at 31.03.17 £m |
|---|---|---|---|---|---|
| Medium Term Financial Plan (MTFP) | To provide against financial shortfalls identified within the MTFS. | Smoothing peaks and troughs in financing the MTFS. | Chief Finance Officer & Commissioner | Minimum twice annually | 1.566 |
| PCC Reserve | Underspends on PCC budgets are transferred here, to meet future needs. | To be utilised to meet unforeseen expenditure. | Chie Finance Officer | On-going | 0.595 |
| 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 | On-going | 1.899 |
| PFI reserve | To fund PFI related expenditure. | Life cycle equalisation. | Chief Finance Officer | Annually | 0.332 |
| 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 | 1.211 |
| Property Act Fund | Income from the sale of property act confiscations. | To be determined by the Police & Crime Commissioner. | PCC and CFO | Annually | 0.130 |

| | | | | | |
|---|---|---|---|---|---|
| Drug Fund | For use in reducing drug related crime. | To be determined by the Police & Crime Commissioner and CC. | PCC and CFO | Annually | 0.074 |
| Revenue Grants | Balances on grants not required to be repaid. Use needs to be risk assessed. | To be determined by the Police & Crime Commissioner. | PCC and CFO | Annually | 2.513 |
| Animal Welfare | To set up a scheme for animal welfare on retirement as working animals. | Scheme established. | Chief Finance Officer | During the year | 0.019 |
| 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.<br>Every 3-4 years to finance Single Person Discount Review. | Chief Finance Officer | Annually | 1.248 |
| VAT | For a potential VAT liability now passed. | Returned to the MTFP Reserve. | Chief Finance Officer | Annually | 0.000 |
| Night Time Levy | To be utilised to address Night Time economy issues of crime and safety. | To be determined by the Police & Crime Commissioner. | PCC and CFO | Annually | 0.161 |
| **TOTAL** | | | | | **9.748** |

**Appendix C (i)**

# Tables to show the use of General Reserves

| | 2017-18 | | | 2018-19 | | | 2019-20 | | | 2020-21 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 01.04.19 balance £m | Use in year £m | 01.04.20 balance £m | 01.04.20 balance £m | Use in year £m | 01.04.21 balance £m |
| **General Reserve** | **7.000** | **0** | **7.000** | **7.000** | **0** | **7.000** | **7.000** | **0** | **7.000** | **7.000** | **0** | **7.000** |
| **EMSOU general reserve** | 0.075 | | 0.075 | 0.075 | | 0.075 | 0.075 | | 0.075 | 0.075 | | 0.075 |
| *% of net budget* | *3.7%* | | | *3.7%* | | | *3.7%* | | | *3.7%* | | |

**Appendix C (ii)**

# Tables to show the estimated use of Earmarked Reserves

| | 2017-18 | | | 2018-19 | | | 2019-20 | | | 2020-21 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Earmarked Reserves** | 01.04.17 balance £m | Use in year £m | 31.03.18 balance £m | 01.04.18 balance £m | Use in year £m | 31.03.19 balance £m | 01.04.19 balance £m | Use in year £m | 31.03.20 balance £m | 01.04.20 balance £m | Use in year £m | 31.03.21 balance £m |
| MTFP | 1.566 | | 1.566 | 1.566 | 1.000 | 2.566 | 2.566 | 1.000 | 3.566 | 3.566 | 2.000<br>(0.003) | 5.563 |
| PCC Reserve | 0.595 | | 0.595 | 0.595 | | 0.595 | 0.595 | | 0.595 | 0.595 | | 0.595 |
| Grants & Commissioning | 1.899 | | 1.899 | 1.899 | | 1.899 | 1.899 | | 1.899 | 1.899 | | 1.899 |
| PFI | 0.332 | | 0.332 | 0.332 | | 0.332 | 0.332 | | 0.332 | 0.332 | | 0.332 |
| JCO | 1.211 | | 1.211 | 1.211 | | 1.211 | 1.211 | | 1.211 | 1.211 | | 1.211 |
| Property Act Fund | 0.130 | | 0.130 | 0.130 | | 0.130 | 0.130 | | 0.130 | 0.130 | | 0.130 |
| Drug Fund | 0.074 | | 0.074 | 0.074 | | 0.074 | 0.074 | | 0.074 | 0.074 | | 0.074 |
| Revenue Grants | 2.513 | | 2.513 | 2.513 | | 2.513 | 2.513 | | 2.513 | 2.513 | | 2.513 |
| Animal welfare | 0.019 | (0.001) | 0.018 | 0.018 | (0.001) | 0.017 | 0.017 | (0.001) | 0.016 | 0.016 | 0.003 | 0.019 |
| Tax Base | 1.248 | 1.000 | 2.248 | 2.248 | | 2.248 | 2.248 | | 2.248 | 2.248 | | 2.248 |
| Night Time Levy | 0.161 | | 0.161 | 0.161 | | 0.161 | 0.161 | | 0.161 | 0.161 | | 0.161 |
| **TOTAL** | **9.748** | **0.999** | **10.747** | **10.747** | **0.999** | **11.746** | **11.746** | **0.999** | **12.745** | **12.745** | **2.000** | **14.745** |

Nottinghamshire

POLICE & CRIME COMMISSIONER

# *4 Year Capital Programme 2017-2021*

January 2017

# 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 and more latterly the Transformation Fund.

**Tri Force Collaboration**

The Capital Programme provided for 2017-18, whilst more detailed than the following years, is subject to change once the final business case is known and priority is given to the Tri Force Strategic Plan.

The costs of the Tri Force have only been included in the programme attached where known.

## 2. Capital Programme 2017-18

This programme is built upon the current priorities within the Force. Ensuring premises and equipment are fit for purpose, appropriately maintained and replaced at the end of their useful life.

It is currently estimated that there will be approximately £3.8million slippage from 2016-17 capital programme into 2017-18 and 2018-19.

The proposed programme for 2017-18 is provided in **Appendix A**.

## 3. 4 Year Capital Programme

It is normal practice to provide an indication of the capital programme for 2017-18 to 2020-21. With the understanding that this part of the programme will be subject to change following a detailed business case and affordability assessment.

A proposed programme for the 4 years is provided in **Appendix A**.

## 4. Financing

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

Capital grant continues to be reduced and it is estimated that this will be phased out completely over the next few years.

Capital receipts fluctuate depending on which property is for sale and how desirable the building is. Capital receipts are utilised to reduce MRP charges to the revenue account, therefore are offset against shortfall assets in the year after receipt.

Borrowing makes up the majority of capital financing. Some of this borrowing is “internal” from balances (eg reserves and provisions), but this is reducing as a greater demand is made to use reserves to meet revenue expenditure requirements.

External borrowing is taken at the best time to take advantage of low interest rates and based upon advice of our Treasury Management advisors. It is currently anticipated that rates will remain the same for the next couple of years. This is included in the Treasury Management Strategy, which is provided as a separate report on today’s agenda.

**Appendix B** details the planned financing and revenue consequences of the proposed programme.

## 5. Revenue Implications

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. The mix of loans is currently being reviewed.

The Revenue budget for 2017-18 includes the estimated Minimum Revenue Provisions (MRP) based on expenditure prior to 1st April 2017, including an estimated cost of borrowing for existing borrowing and new borrowing planned in 2017-18.

The MTFP makes adjustments for significant changes in MRP and interest costs.

**Capital 4 Year Plan** **APPENDIX A**

## 2017-18 to 2020-21

| | 2016-17 Requested slippage | 2017-18 New Request | 2017-18 Proposed Budget | 2016-17 Requested slippage | 2018-19 New Request | 2018-19 Proposed Budget | 2019-20 Proposed Budget | 2020-21 Proposed Budget | Total Project Cost (inc prior years) |
|---|---|---|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Estates Projects** | | | | | | | | | |
| Access Control Improvement works | 82 | | 82 | | | 0 | | | 625 |
| Bridewell - Custody Improvements - Retention | | 25 | 25 | | | 0 | | | 33 |
| Bridewell Custody Suite - replace with a new build | 588 | 162 | 750 | | 7,980 | 7,980 | 7,980 | 400 | 17,110 |
| Eastwood Police Station | 100 | | 100 | | | 0 | | | 140 |
| FHQ - Conversion of part of Printing and Stores | | | 0 | | 650 | 650 | | | 650 |
| FHQ - Kennels | 36 | | 36 | | | 0 | | | 693 |
| FHQ - New Locker & Gym | | 125 | 125 | | 275 | 275 | | | 400 |
| FHQ - New perimeter fence - Enhanced metal fence | | 160 | 160 | | | 0 | | | 160 |
| FHQ - New surfacing for drive/paths | | 25 | 25 | | | 0 | | | 228 |
| FHQ - Street Lighting - Retention | 5 | | 5 | | | 0 | | | 160 |
| Hucknall EMAS - Extension | | 235 | 235 | | 315 | 315 | | | 550 |
| Mansfield - Create open plan space | 700 | | 700 | | | 0 | | | 750 |
| Mansfield - Lift Replacement | 55 | | 55 | | | 0 | | | 55 |
| Mansfield - replace Tea Points and Showers on all floors | | 150 | 150 | | | 0 | | | 150 |
| Oxclose Lane - Lift Replacement | | | 0 | | 60 | 60 | | | 60 |
| Oxclose Lane - Refurbishment | | | 0 | 225 | 75 | 300 | | | 925 |
| Ranby - Response Hub | | | 0 | 219 | | 219 | | | 220 |
| Various - Automatic Gates/Barriers | 100 | | 100 | 100 | | 100 | | | 200 |
| Various - Building Condition Investment | | | 0 | | | 0 | 1,500 | 1,500 | 3,000 |
| Various - Building Management System - Boiler Controls | 50 | 50 | 100 | 298 | 141 | 439 | | | 561 |
| Various - Bunkered Fuel Tank Works | 160 | | 160 | | | 0 | | | 160 |
| Various - Custody Improvements | | 170 | 170 | | 330 | 330 | 150 | 150 | 2,263 |
| Various - Energy Improvements | | | 0 | | 100 | 100 | 100 | 100 | 974 |
| Various - Fire Alarm panel replacements | | 45 | 45 | | | 0 | | | 45 |
| Various - Fixed Electrical works | | 30 | 30 | | 10 | 10 | | | 40 |
| Various - Generator and associated replacements | | 20 | 20 | | | 0 | | | 20 |
| Various - Mechanical Engineering and Boiler Replacements | | | 0 | | 650 | 650 | 650 | 650 | 1,950 |
| Watnall Road - Response Hub | 30 | | 30 | | | 0 | | | 82 |
| West Bridgford - 1st floor refurbishment | 290 | | 290 | | | 0 | | | 301 |
| Worksop - New Tri Services Collaboration | | | 0 | | | 0 | 1,500 | 500 | 2,000 |
| | 2,196 | 1,197 | 3,393 | 842 | 10,586 | 11,428 | 11,880 | 3,300 | 34,505 |

| | 2016-17 Requested slippage | 2017-18 New Request | 2017-18 Proposed Budget | 2016-17 Requested slippage | 2018-19 New Request | 2018-19 Proposed Budget | 2019-20 Proposed Budget | 2020-21 Proposed Budget | Total Project Cost (inc prior years) |
|---|---|---|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **IS Projects** | | | | | | | | | |
| Airwave Device Replacement | 22 | | 22 | | | 0 | | | 1,250 |
| ANPR Camera Replacement | | 100 | 100 | | 60 | 60 | 60 | 60 | 490 |
| Confidential Network Hardware Refresh | | 160 | 160 | | | 0 | | | 160 |
| ESN | | 830 | 830 | | 1,484 | 1,484 | | 4 | 2,318 |
| Improvements to Digital Investigation Storage | 190 | | 190 | | | 0 | | | 486 |
| IVR Replacement | | 50 | 50 | | | 0 | | | 50 |
| Juniper gateway replacement | | 160 | 160 | | | 0 | | | 160 |
| Laptops for CID | | 225 | 225 | | | 0 | | | 225 |
| Notts Private cloud expansion | | 80 | 80 | | | 0 | | | 80 |
| SEIU Storage | | 250 | 250 | | | 0 | | | 250 |
| Sharepoint Portal (Regional Intranet) | 100 | 50 | 150 | | | 0 | | | 250 |
| SourceOne Centera Hardware Replacement | | 60 | 60 | | | 0 | | | 60 |
| Team Foundation Server & Visual Studio upgrade | | 30 | 30 | | | 0 | | | 30 |
| Technology Services Refresh and Upgrades | | 470 | 470 | | 450 | 450 | 450 | 450 | 1,820 |
| Upgrade Control Room SICCS Workstations | 100 | | 100 | | | 0 | | | 790 |
| | 412 | 2,465 | 2,877 | 0 | 1,994 | 1,994 | 510 | 514 | 8,419 |

| | 2016-17 Requested slippage | 2017-18 New Request | 2017-18 Proposed Budget | 2016-17 Requested slippage | 2018-19 New Request | 2018-19 Proposed Budget | 2019-20 Proposed Budget | 2020-21 Proposed Budget | Total Project Cost (inc prior years) |
|---|---|---|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Other Projects** | | | | | | | | | |
| Fitment of Secure Cabinets/Improved Security to A&E Vehicle Fleet | 20 | | 20 | | | | | | 90 |
| Networked locks for 34 Cash & Drugs Safes Forcewide | 22 | 2 | 24 | | | | | | 24 |
| Non-Slot vehicle replacement | | 507 | 507 | | 436 | 436 | 40 | 114 | 1,097 |
| Northern Property Store Increased Storage - Fire Suppression System | 120 | | 120 | | | | | | 120 |
| Northern Property Store Increased Storage - Racking | 80 | | 80 | | | | | | 195 |
| Safety Equipment for staff working at height. | 13 | | 13 | | | | | | 13 |
| Tri-Force collaboration | | 2,998 | 2,998 | | | | | | 2,998 |
| Upgrade of Firearms Cabinets at Stations | 80 | | 80 | | | | | | 80 |
| | 335 | 3,507 | 3,842 | 0 | 436 | 436 | 40 | 114 | 4,617 |
| **Total Programme** | **2,943** | **7,169** | **10,112** | **842** | **13,016** | **13,858** | **12,430** | **3,928** | **47,541** |

Nottinghamshire

POLICE & CRIME COMMISSIONER

## The Nottinghamshire Office of the Police & Crime Commissioner

# Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and
Annual Investment Strategy

2017-18

# Contents

# 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 polices, 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.

The values within the strategy have been rounded appropriately, and the extent of rounding is clearly labelled. This rounding will in some cases cause a note to be apparently mathematically incorrect.

## 1.3 Treasury Management Strategy for 2017-18

The strategy 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 treasury management officers also receive training from Capita Asset Services.

## 1.5 Treasury management consultants

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

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 2016-17 – 2019-20

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 | 2015-16 Actual | 2016-17 Estimate | 2017-18 Estimate | 2018-19 Estimate | 2019-20 Estimate | 2020-21 Estimate |
|---|---|---|---|---|---|---|
| Capital Programme | 8.825 | 8.667 | 10.112 | 13.858 | 12.430 | 3.928 |
| **Financed by:** | | | | | | |
| Capital receipts | -1.369 | -0.548 | -2.828 | -3.010 | -2.595 | 0.000 |
| Capital grants & contributions | -3.333 | -1.465 | -2.793 | -0.631 | -0.536 | -0.456 |
| Internal resources | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **Net financing need** | **4.123** | **6.654** | **4.491** | **10.217** | **9.299** | **3.472** |

### 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 | 2015-16 Actual | 2016-17 Estimate | 2017-18 Estimate | 2018-19 Estimate | 2019-20 Estimate | 2020-21 Estimate |
|---|---|---|---|---|---|---|
| **Capital Financing Requirement** | | | | | | |
| **Total CFR** | 53.762 | 58.143 | 59.775 | 66.898 | 72.633 | 72.115 |
| **Movement in CFR** | **-** | **4.381** | **1.632** | **7.124** | **5.735** | **-0.518** |

| **Movement in CFR represented by** | | | | | | |
|---|---|---|---|---|---|---|
| **£m** | **2015-16 Actual** | **2016-17 Estimate** | **2017-18 Estimate** | **2018-19 Estimate** | **2019-20 Estimate** | **2020-21 Estimate** |
| Net financing need for the year (above) | - | 6.654 | 4.491 | 10.217 | 9.299 | 3.472 |
| Less MRP/VRP and other financing movements | - | -2.273 | -2.859 | -3.093 | -3.564 | -3.990 |
| **Movement in CFR** | **-** | **4.381** | **1.632** | **7.124** | **5.735** | **-0.518** |

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

## 2.3 Minimum Revenue Provision (MRP) policy statement

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. No change is proposed from last year.

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

The Commissioner will set aside an amount for MRP each year, which is deemed to be both prudent and affordable. This will be after considering statutory requirements and relevant guidance from the DCLG.
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.

| | **2015-16 Actual** | **2016-17 Estimate** | **2017-18 Estimate** | **2018-19 Estimate** | **2019-20 Estimate** | **2020-21 Estimate** |
|---|---|---|---|---|---|---|
| Fund balances / reserves | 15.298 | 12.796 | 13.795 | 14.794 | 15.793 | 17.793 |
| Capital receipts | 0.548 | 2.828 | 3.010 | 2.595 | 0.000 | 0.000 |
| Provisions | 3.592 | 3.592 | 3.592 | 3.592 | 3.592 | 3.592 |
| Other | -1.994 | -2.369 | -2.369 | -2.369 | -2.369 | -2.369 |
| **Total core funds** | **17.444** | **16.847** | **18.028** | **18.612** | **17.016** | **19.016** |
| **Working capital*** | **-1.235** | **-4.357** | **-7.573** | **-12.873** | **-14.739** | **-18.185** |
| **(Under)/over borrowing** | **-7.011** | **-10.490** | **-8.455** | **-3.739** | **-0.277** | **1.169** |
| **Expected investments** | **9.198** | **2.000** | **2.000** | **2.000** | **2.000** | **2.000** |

*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.

| Ratio | 2015-16 Actual | 2016-17 Estimate | 2017-18 Estimate | 2018-19 Estimate | 2019-20 Estimate | 2020-21 Estimate |
|---|---|---|---|---|---|---|
| % | 1.7 | 1.8 | 2.1 | 2.3 | 2.7 | 3.0 |

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

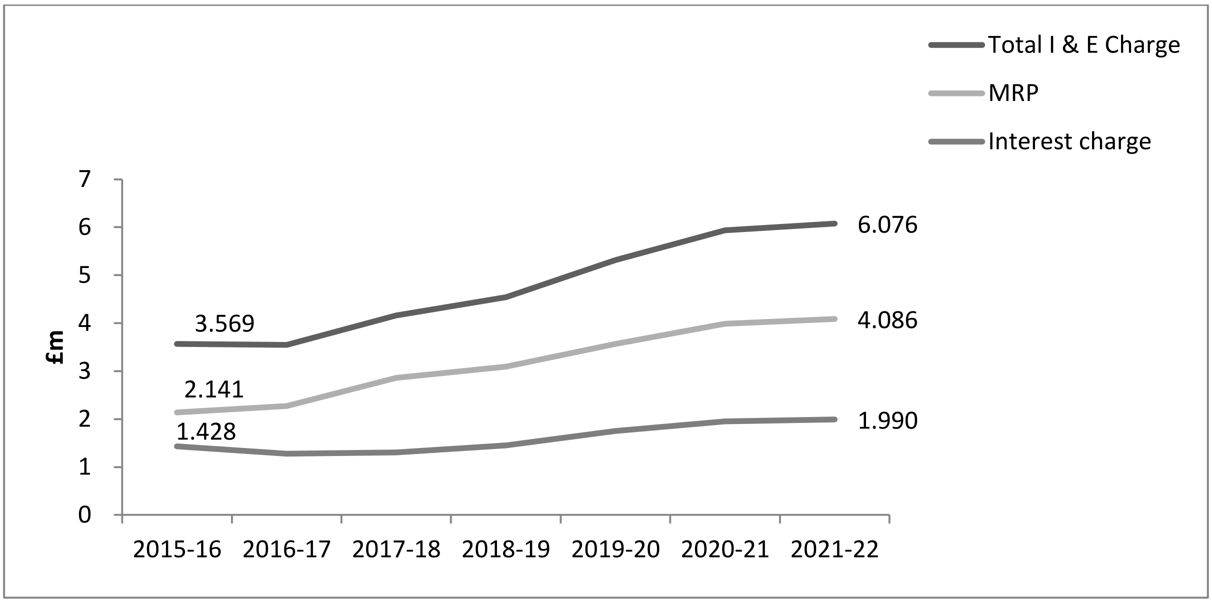
## 2.7 Incremental impact of capital investment decisions on council tax

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 is not published over a three year period.

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

| Ratio | 2016-17 Estimate | 2017-18 Estimate | 2018-19 Estimate | 2019-20 Estimate | 2020-21 Estimate |
|---|---|---|---|---|---|
| £ | 0.00 | 0.35 | 1.33 | 2.47 | 6.33 |

The table below shows the financial impact of capital expenditure and borrowing on the Revenue Account.



# 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 approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

## 3.1 Current portfolio position

The Commissioners treasury portfolio position at March 2017, 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.

| £m | 2015-16 Actual | 2016-17 Estimate | 2017-18 Estimate | 2018-19 Estimate | 2019-20 Estimate | 2020-21 Estimate |
|---|---|---|---|---|---|---|
| **External Debt** | | | | | | |
| Debt at 1 April | 39.732 | 44.496 | 45.397 | 49.064 | 60.903 | 70.100 |
| New Borrowing | 29.000 | 2.000 | 7.340 | 12.798 | 10.173 | 4.381 |
| Borrowing repaid | -24.236 | -1.099 | -3.673 | -0.959 | -0.976 | -3.453 |
| Movement in borrowing | 4.764 | 0.901 | 3.667 | 11.839 | 9.197 | 0.928 |
| **Debt as at 31 March** | **44.496** | **45.397** | **49.064** | **60.903** | **70.100** | **71.028** |
| Capital Financing Requirement | 53.762 | 58.143 | 59.775 | 66.898 | 72.633 | 72.115 |
| Other long-term liabilities (OLTL) | -2.256 | -2.256 | -2.256 | -2.256 | -2.256 | -2.256 |
| Underlying Borrowing Need | 51.506 | 55.887 | 57.519 | 64.642 | 70.377 | 69.859 |
| **Under / (over) borrowing** | **7.010** | **10.490** | **8.455** | **3.739** | **0.277** | **-1.169** |
| | | | | | | |
| **Investments** | | | | | | |
| Investments | 9.198 | 2.000 | 2.000 | 2.000 | 2.000 | 2.000 |
| Change in Investments | -3.131 | -7.198 | 0.000 | 0.000 | 0.000 | 0.000 |
| | | | | | | |
| **Net Debt** | **35.298** | **43.397** | **47.064** | **58.903** | **68.100** | **69.028** |

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 2016-17 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.

### 3.2 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.

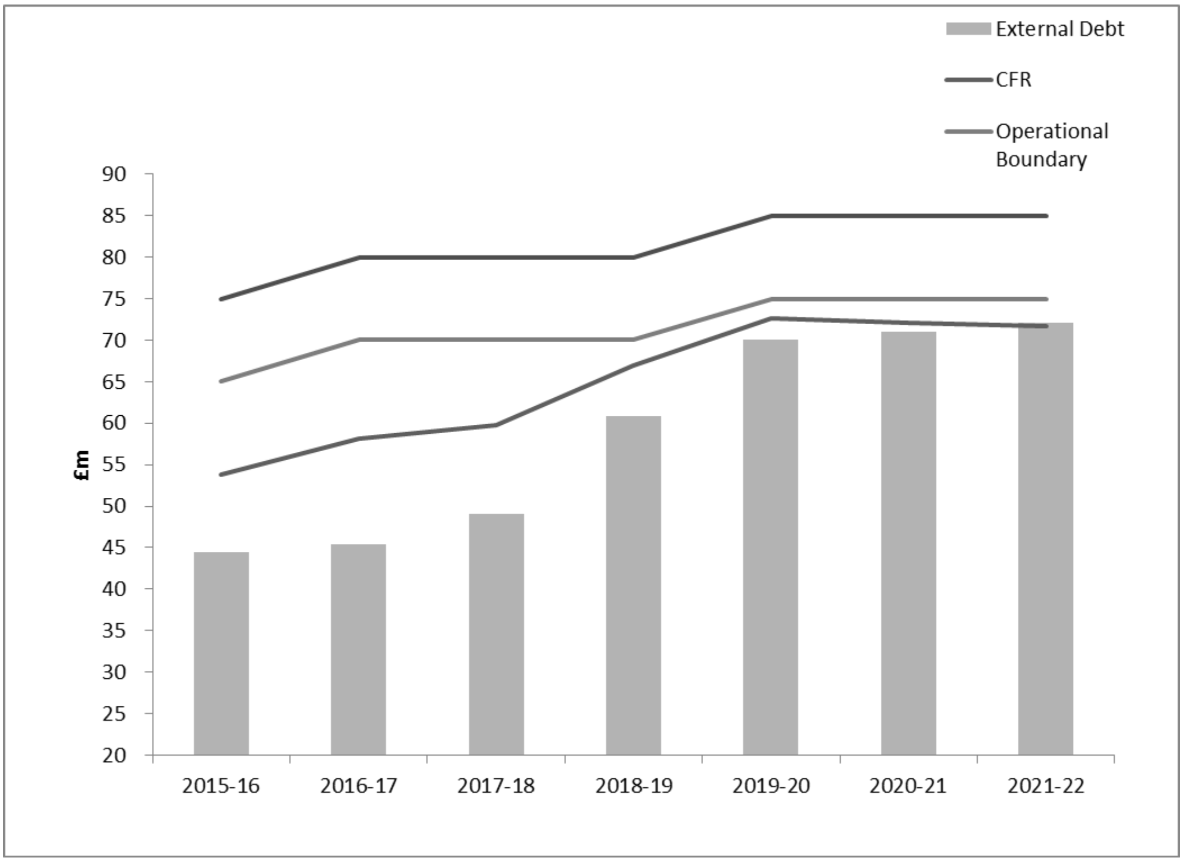
| Operational boundary £m | 2016-17 Estimate | 2017-18 Estimate | 2018-19 Estimate | 2019-20 Estimate | 2020-21 Estimate |
|---|---|---|---|---|---|
| Total | 70.000 | 70.000 | 70.000 | 75.000 | 75.000 |

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.

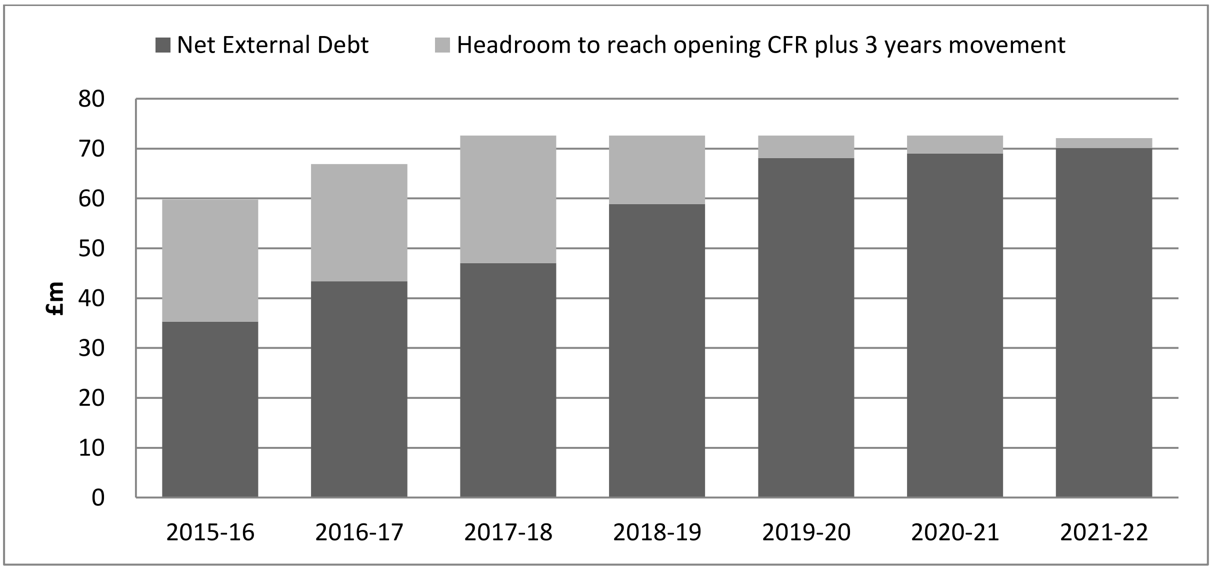
***The Commissioner is requested to approve the following authorised limit:***

| Authorised limit £m | 2016-17 Estimate | 2017-18 Estimate | 2018-19 Estimate | 2019-20 Estimate | 2020-21 Estimate |
|---|---|---|---|---|---|
| Total | 80.000 | 80.000 | 80.000 | 85.000 | 85.000 |

The table below shows CFR figures from paragraph 2.2 compared with relevant borrowing limits.




The table below shows the headroom available before CFR is breached.



### 3.3 Prospects for interest rates and economic background

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 (January 2017).

| | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank rate | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 0.50% | 0.75% | 0.75% |
| 5yr PWLB rate | 1.60% | 1.60% | 1.60% | 1.60% | 1.60% | 1.70% | 1.70% | 1.70% | 1.80% | 1.80% | 1.90% | 1.90% | 2.00% | 2.00% |
| 10yr PWLB rate | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.40% | 2.40% | 2.40% | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% |
| 25yr PWLB rate | 2.90% | 2.90% | 2.90% | 2.90% | 3.00% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% |
| 50yr PWLB rate | 2.70% | 2.70% | 2.70% | 2.70% | 2.80% | 2.80% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% |

The Bank Rate was cut from 0.50% to 0.25% on 4th August in response to a forecast of a sharp slowdown in growth. It was also indicated that a further cut may be necessary. However, economic data since August has indicated a much stronger growth forecast. Also, inflation forecasts have risen substantially as a result of a persisting fall in the value of sterling. These 2 factors make a further cut in bank rate to be unlikely. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is unlikely that the MPC will do anything to dampen growth prospects, such as raising the bank rate. Therefore the first predicted rise in base rate is at the end of this period in September 2019. Substantial growth from wage increases within the UK), could bring this forward. Extended Brexit negotiations could delay this..

The overall longer future trend is for gilt yields and PWLB rates to rise steadily. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. Quantitative easing as a response to the financial crash of 2008, has exacerbated the trend. The expected rise in the US Fed. rate is likely to increase the US bond yield and may influence bond yields internationally,.over the next few years. The level of domestic quantitative easing will have a large impact.

PWLB rates and gilt yields have been extremely volatile. This has been because of geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility will continue to occur for the foreseeable future. Downside risks include:

- Major economies failing to stimulate growth by monetary and fiscal policies
- European and worldwide political instability
- Continuing weakness in some European banks

The upside risks include:

- UK inflation rising strongly compared to other major economies
- Higher than anticpated increases in the US bank rate
- A downward grading to the UK's sovereign credit rating, undermining investor confidence in holding sovereign debt (gilts).

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

The policy of avoiding new borrowing by utilising cash balances, has served well over the last few years. However, the Chief Financial Officer will keep this situation under careful review to avoid incurring higher borrowing costs in future years when borrowing for capital purposes is essential.

Investment returns are likely to remain low during 2017-18 and beyond. There will therefore remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will incur a revenue cost – the difference between borrowing costs and investment returns.

**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 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|
| **Interest rate exposures** | | | | |
| | Upper | Upper | Upper | Upper |
| **Limits on fixed interest rates based on net debt** | 100% | 100% | 100% | 100% |

| | | | | |
|---|---|---|---|---|
| **Limits on variable interest rates based on net debt** | 100% | 100% | 100% | 100% |
| **Limits on fixed interest rates:**<br>• **Debt only**<br>• **Investments only** | <br>100%<br>100% | <br>100%<br>100% | <br>100%<br>100% | <br>100%<br>100% |
| **Limits on variable interest rates**<br>• **Debt only**<br>• **Investments only** | <br>50%<br>100% | <br>50%<br>100% | <br>50%<br>100% | <br>50%<br>100% |

| **Maturity structure of fixed interest rate borrowing 2017-2018** | | |
|---|---|---|
| | **Lower** | **Upper** |
| 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% |

### 3.4 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 security of such funds is considered.

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.

### 3.5 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.

### 3.6 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 evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, organisations typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While the Chief Financial Officer understands the changes that have taken place, the strategy will continue to specify a minimum sovereign rating of AA-. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the viability of a financial institution.

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. Thus providing 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.

The Chief Financial Officer will maintain a counterparty list in compliance with the following considerations and will keep the criteria under review. It provides an overall pool of counterparties considered high quality which the Commissioner may use, rather than defining what types of investment instruments are to be used.

The lowest credit rating from the main agencies is used when considering counterparties. It is considered that this does not significantly increase risk but may widen the pool of available counter parties. 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.

**Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the Commissioners investments. In addition to the considerations already outlined the limits in place will apply to a group of companies and 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: No changes are proposed.

| | 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 | 3 months |
| Banks 2 – part nationalised | N/A | £5m | 1yr |
| Additional criteria for non UK Banks | | | |
| Sovereign | AA- | | |
| Country | | 25%/£5m | |
| Banks 3 category – Commissioners banker (not meeting Banks 1) | N/A | £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 | £10-15m | 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 kept up to in accordance with this policy. For information the UK has maintained an AA rating.

**Approved Non UK countries for investments as at 16/12/2016-**

*Based on lowest available rating*

| AAA | AA+ | AA | AA- |
|---|---|---|---|
| Australia<br>Canada<br>Denmark<br>Germany<br>Luxembourg<br>Netherlands | Finland<br>Hong Kong<br>U.S.A. | Abu Dhabi<br>France<br>Qatar | Belgium |

| | | | |
|---|---|---|---|
| Norway<br>Singapore<br>Sweden<br>Switzerland | | | |

### 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 stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

2016/17 0.25%
2017/18 0.25%
2018/19 0.25%
2019/20 0.50%

There are downward and upward risks to these forecasts in view of the level of uncertainty it is not recommended that the interest levels be relied upon because of the uncertainty and in reality most investments are instant access, which attracts a lower interest rate and a lower rate incorporated in the budget.

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

| | |
|---|---|
| 2016-17 | 0.25% |
| 2017-18 | 0.25% |
| 2018-19 | 0.25% |
| 2019-20 | 0.50% |
| 2020-21 | 0.75% |
| 2021-22 | 1.00% |
| 2022-23 | 1.50% |
| 2023-24 | 1.75% |
| Later years | 2.75% |

This is substantially lower than previously forecast.

**Investment treasury indicator and limit -** total principal funds invested for greater than 364 days are limited with regard to liquidity requirements and to reduce the need for early redemption.

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

| **Maximum principal sums invested > 364 days** | | | | |
|---|---|---|---|---|
| **£m** | **2016-17** | **2017-2018** | **2018-2019** | **2019-2020** |
| 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. SECTION 151 OFFICER ROLE

## 5.1 The Treasury Management Role of the Section 151 officer

The S151 (responsible) officer is the Chief Financial Officer to the Commissioner 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.