Public Information

Nottinghamshire Police and Crime Commissioner
Notice of Decision

Nottinghamshire POLICE & CRIME COMMISSIONER

Author:	Charlotte Radford
For Decision or Information	Decision
Date received*:	09.02.18
Ref*:	2018.008

*to be inserted by Office of PCC

TITLE: Precept and Budget 2018-19

EXECUTIVE SUMMARY:
The Police and Crime Panel met on the 7th February to consider the proposed precept for 2018-19. To support them in this they were provided with budget reports and financial strategies that provided detail on how the precept and government grant would be utilised in 2018-19.

The precept increase proposed was approved by the panel.

INFORMATION IN SUPPORT OF DECISION: (e.g report or business case)
Precept and Budget reports included at the end of this record.

FINANCIAL INFORMATION
These reports set the financial picture and budgets for the force for 2018-19 with strategies for the medium term of 5 years also being provided.

Signature: [redacted] Date: 9th January 2018
Chief Finance Officer

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 £11.97 on a Band D property
- Approve the revenue and capital budgets for 2018-19
- Approve the MTFS and its indicative revenue expenditure plans
- Approve the Reserves Strategy
- Approve the Capital expenditure plans
- Approve the Treasury Management Strategy

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: Kevin Dennis Date: 12/2/18
Chief Executive

Public Information

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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: 13/2/18
Nottinghamshire Police and Crime Commissioner

Nottinghamshire

POLICE & CRIME COMMISSIONER

Precept 2018-19

January 2018

The Police & Crime Commissioner's

Precept 2018-19

Letter from the Minister

In announcing the Provisional Settlement figures for Police Grant the Minister has made the following comments:

- The total increase to Police funding will be up to £450m.
- The Flat Cash settlement of the last two years would not continue. Forces would receive the same amount of grant in 2018-19 as it received in 2017-18. The Flat cash settlement would have seen a reduction in Police grant of £60m nationally.
- Precept flexibility has been provided and therefore Commissioners will be able to increase their council tax precept levels by £12, before the need to call a referendum. This gives Commissioners flexibility for their area to protect the front line. If all Commissioners use this flexibility there will be a total increase in funding of £270m.
- Increased investment will be made in national priorities, such as police technology and Special Grant, increasing by £130m compared with 2017-18, and an increase to Counter Terrorism of £50m.
- The protection offered by this settlement must be matched by a serious commitment from Commissioners and Chief Constables to reform and improve productivity and efficiency.

Introduction

In light of the assumptions and opportunity made available by the Minister the Nottinghamshire Police & Crime Commissioner is proposing a precept increase of £11.97 for the 2018-19 financial year.

This increase in the precept supports the budget report and Commissioners commitment to increase in police officer numbers and a further commitment to Rural and Knife Crime initiatives and Victims Services. Further priorities include crime prevention and partnership working, all vital to community safety.

This budget supports fully the Police & Crime Plan for 2018-19.

Government Assumptions

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

Previous reductions to grant reflecting potential precept are no longer continuing. This ensures that resources raised locally will remain local. Grant will remain at the same level for the next two financial years.

The Government has also announced a relaxation in the precept cap and Commissioners have the opportunity to increase precept by up to £12 on a Band D property. The indication is that this relaxation will continue into 2019-20.

This is better news than originally forecast for Nottinghamshire.

Future outlook

The Government settlement will allow for operational plans to increase police numbers and capabilities in new crime areas to take place. However, there needs to be careful consideration of the effect of recruiting significant numbers of police officers and the impact of incremental progression that will occur assuming precept is capped at the current rate of 2% from 2020-21 onwards.

Early in the New Year the Minister will be issuing targets for each force relating to efficiency and productivity. The Commissioner has been discussing these targets directly with the Home Office. The force will have to report regularly on activity in achieving these targets.

Supporting Reports

The Budget Report and the Medium Term Financial Strategy Report on today's agenda details further the plans for 2018-19 and beyond.

The detailed budget for 2018-19, 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 is currently out for consultation.

This report is based upon actual information 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 Strategy, 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 2018-19 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, remain a risk for an organisation of this size, although the risk is now lower as the Force have made additional contributions to reserves within 2016-17. This will continue into the medium term. 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 £11.97 increase in the Police & Crime Precept on the Council Tax Band D.
- **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 £12 increase on the precept for all Police and Crime Commissioners. The proposed increase of £11.97 is in line with this years change (further detail is provided in **Section 6**).

1. COUNCIL TAX BASE

For 2018-19 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. The actual tax base has increased by 1.60% overall, slightly less than last year's increase of 1.70%.

Tax base	Band D Properties 2017-18 No	Band D Properties 2018-19 No (act.)	Change %
Ashfield	32,546.20	33,140.50	1.83
Bassetlaw	33,916.77	34,231.95	0.93
Broxtowe	33,126.78	33,448.29	0.97
Gedling	36,306.09	36,637.56	0.91
Mansfield	28,894.98	28,905.50	0.04
Newark & Sherwood	37,828.75	38,320.19	1.30
Nottingham City	63,368.00	65,389.00	3.19
Rushcliffe	41,777.00	42,610.10	1.99
Total	307,764.57	**312,683.09**	**1.60**

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 2018-19 the surplus continues to be created as collection rates are better than anticipated. A breakdown is provided in the table below:

	Collection Fund	
Surplus/(deficit)	**2017-18**	**2018-19**
	£	**£**
Ashfield	27,686	32,202
Bassetlaw	140,000	nil
Broxtowe	82,751	42,810
Gedling	(157,500)	nil
Mansfield	280,649	nil
Newark & Sherwood	73,147	59,043
Nottingham City	442,041	370,813
Rushcliffe	17,381	(35,499)
Total	906,155	**469,369**

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 2018-19 at £9.7m. This grant will be considered as part of the Funding Formula Review.

4. CONSULTATION

APPROACH

The Nottinghamshire Police and Crime Commissioner (PCC) has a statutory duty under the Police Reform and Social Responsibility Act 2011 to obtain the views of local people and ratepayers' on budget and precept proposals; consult with local people on policing and engage with local people in setting police and crime objectives.

In fulfilling these duties, Nottinghamshire OPCC directly engaged with over 3,000 residents during 2017 in addition to supporting local authority consultation with a further 3,750 residents. The PCC's newly commissioned Police and Crime Survey was central to this approach and is now providing a more robust and representative sample of public opinion than has ever been achieved previously.

KEY FINDINGS

Findings from the Police and Crime Survey 2017 indicate that there is, on balance, strong and increasing support for an increase in the council tax precept for policing among local residents.

Around 59% of residents support an increase in the council tax precept for policing when those that are unsure are omitted from the profile. This represents a 7% point increase when compared to results obtained in 2016.

The proportion supporting an increase within the limits of the referendum threshold increased by around 8% points to 40% in the last year while the proportion supporting a precept rise in excess of the £12 per annum referendum threshold saw a marginal (non-significant) increase of 2% pts to 19%.

Personal economic circumstances remain the most common reason for respondents not supporting a rise in the precept for policing, with previous qualitative research indicating widespread objections to central government cuts to policing more generally. For many, support for an increase in policing precept was offered on the condition that this supported an uplift in visible neighbourhood presence.

While over a third of all respondents (36%) were not aware of the scale of cuts to policing funding since 2010, the areas which had greatest awareness were also more likely to support an increase in the precept for policing.

Just over half of all respondents (52%) felt that funding cuts had affected policing in their area, with the impact most often being reported as a reduction in neighbourhood policing presence. This reflects findings nationally which indicate reductions in perceived officer foot patrols in local areas.

KEY RECOMMENDATIONS

The Police and OPCC may wish to consider:

- Maximising use of the newly commissioned Police and Crime Survey to improve targeted communications and engagement on police spending and priorities – particularly among communities feeling more information was required.

- Providing residents with further information as to how any additional revenue from the precept would be spent and working to ensure public expectations of the service are effectively managed.

- Further proactive communication with local residents and rate payers to demonstrate what is being delivered and achieved by the service - particularly in areas of high impact but often less visible policing.

- Further lobbying of central government for increases in police funding given strong public support for this approach.

- Continuing to drive organisational efficiencies through greater prioritisation, reducing waste / bureaucracy and making better use of technology.

- 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.

- Further exploring the public / community offer in preventing crime and ASB 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. The Secretary of State is required to set out principles annually, determining what increase is excessive. For 2018-19 the principles state that, for Police and Crime Commissioners, an increase of more than £12 in the basic amount of council tax between 2017-18 and 2018-19 is excessive.
For 2018-19 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 2018-19 estimated calculation:

$$\frac{£61,095,148.96}{312,683.09} = £195.39$$

(£11.97)

This year the Referendum limit has been announced at the time of settlement notifications. It has been set at £12 for 2018-19.

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 2018-19 result in a Police and Crime Precept on the Council Tax of £195.39 for a Band D property, representing an increase of £11.97.

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:

	2017-18 Budget £m		**2018-19 Budget £m**		**Increase/ Decrease £m**	
Budget	190.1		193.1		3.0	(+)
External Income	134.0	(-)	133.9	(-)	0.1	(+)
Collection Surplus	0.9	(-)	0.5	(-)	0.4	(+)
Reserves	1.2	(+)	2.4	(+)	1.2	(+)
Precept	**56.4**	**(-)**	**61.1**	**(-)**	**4.7**	**(-)**
Council Tax Base	307,765		312,683		4,918	
Council Tax Band D	£183.42		£195.39		£11.97	
Council Tax Band A	£122.28		£130.26		£7.98	

The overall Police and Crime Precept to be collected on behalf of the Police and Crime Commissioner for 2018-19 is:

	£m	
Budgeted Expenditure	193.1	(+)
Less income from:		
Police & Crime Grant	124.2	(-)
Legacy Council Tax Grant	9.7	(-)
Collection Fund surplus	0.5	(-)
Net contribution to/from Balances	2.4	(+)
Police & Crime Precept on the Council Tax	61.1	(-)

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	**2017-18 £**	**2018-19 £**
A	122.28	130.26
B	142.66	151.97
C	163.04	173.68
D	**183.42**	**195.39**
E	224.18	238.81
F	264.94	282.23
G	305.70	325.65
H	366.84	390.78

Amounts to be raised from Council Tax in each billing authority area 2018-19:

	Precept amount to be collected £	Collection Fund Surplus/(Deficit) £	Total amount due £
Ashfield	6,475,322.30	32,202.00	6,507,524.30
Bassetlaw	6,688,580.71	Nil	6,688,580.71
Broxtowe	6,535,461.38	42,810.00	6,578,271.38
Gedling	7,158,612.85	Nil	7,158,612.85
Mansfield	5,647,845.65	Nil	5,647,845.65
Newark & Sherwood	7,487,381.92	59,043.00	7,546,424.92
Nottingham City	12,776,356.71	370,813.00	13,147,169.71
Rushcliffe	8,325,587.44	(35,499.00)	8,290,088.44
Total	**61,095,148.96**	**469,369.00**	**61,564,517.96**

Collection Dates

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

	£
2018	
20 April	6,156,456.00
29 May	6,156,456.00
03 July	6,156,456.00
07 August	6,156,456.00
12 September	6,156,456.00
17 October	6,156,456.00
21 November	6,156,456.00
2019	
02 January	6,156,456.00
06 February	6,156,456.00
13 March	6,156,413.96
	61,564,517.96

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.

2016-17 was a turnaround year for the Force Finances. The improved internal controls and tighter management has resulted in more of the reserves being replenished earlier than originally estimated. Indications to date are that the force will exceed the level of efficiencies required to balance the budget for 2017-18.

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 £11.97 band D increase in Council Tax for 2018-19.

Nottinghamshire
POLICE & CRIME COMMISSIONER

Budget 2018-19

NOTTINGHAMSHIRE
POLICE
PROUD TO SERVE

January 2018

Since setting his first budget for 2013-14, which was itself challenging, the pressure on the Commissioner's budget has increased substantially. Since 2008-09 efficiency savings have been required to deliver annual balanced budgets, in some years these reductions have proved difficult to deliver resulting on the need to use reserves.

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 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 with a flat cash settlement and increasing core costs (e.g. pay awards and price inflation). We 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. In fact due to a revised policing model and strict monitoring of the efficiencies target a further £1m saving was achieved, creating an underspend in the year meaning that a good start on rebuilding the reserves used in previous years was made.

Additional efficiencies of £5.5m were required in 2017-18, and latest estimates show that this will be achieved, with an additional £2m being made available to repay to reserves due to higher turnover in both staff and officers employed.

In 2018-19 a balanced budget is being delivered, which includes considerable, but very much needed, investment of £3.3m. This will be used to:

- increase the number of front line police officers
- create a Crime Fighting Fund targeting rural and knife crime
- Invest in new purpose built buildings and equipment fit to meet future demands
- Procure a specialist vehicle for rural use

During 2017/8 the PCC commissioned new contracts for the delivery of:

- Independent research (literature review and consultation) into the provision of sexual violence support;
- A Survivor Support Service to provide support for adults who were sexually abused whilst children in institutional care;
- A regional Paediatric Sexual Assault Referral Centre (SARC), in partnership with NHS England and the other East Midlands PCCs. The new service, which was commissioned by NHS England as the lead commissioner, will begin on 1 April 2018;

- Nottinghamshire adult Sexual Assault Referral Centre (SARC) in partnership with NHS England. The new service, which was commissioned by NHS England as the lead commissioner, will begin on 1 April 2018;
- An interim ISVA service, pending publication of an invitation to tender for a bigger service (see below);
- An Independent Sexual Violence Adviser (ISVA) service for adults and children in Nottingham and Nottinghamshire. The new service(s) will begin delivery in July 2018.

This has been done despite considerable budget pressures of over £5.6m, needed to meet growing demands and inflation increases.

To achieve this balanced position the drive for efficiencies continues, with cost reductions of over £5.9m identified in this budget. The maintenance of Central Government Grants is welcomed, although maintaining grants in cash terms is in effect a real term cut as the impact of pay awards and inflation means this insufficient in itself to maintain police officer numbers.

BUDGET 2018-19

With the restraint on Government funding savings are still 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 2018-19	**2018-19 £m**
Core grants & funding	
Police & Crime grant	(124.2)
Council Tax legacy grant	(9.7)
Sub-total core grants	**(133.9)**
Precept	**(61.1)**
Collection fund (surplus)/deficit	(0.5)
Contribution to Reserves	2.4
Total funding available	**(193.1)**

Final confirmation of grant settlement will be laid before Parliament in February 2018.

The Referendum Limit was announced at the same time as the provisional settlement and is set at a maximum increase of £12.00 for a band D property for 2018-19 this equates to a maximum rise of 6.54%. This level of increase has been assumed in the above figures. It has also been announced that a similar level of increase can be expected for 2019-20. Additional funding created as a result of this increase will ensure that officer and staff numbers are not reduced to fund national pay awards. Indeed due to continued efficiencies all additional precept funding (worth £2.8m in 2018-19) is being invested in 80 additional new recruits. With plans being developed to increase the productivity of supervisory, by the end of 2018-19, over 100 additional police officers will be available for deployment in neighbourhoods and local communities.

The PCC also requires that the spending plans of the Force need to provide for the addition to reserves over the medium to long term; reflecting the level of reserves used to support expenditure during the current austerity period; and this requirement remains. However a review of the Reserves Strategy is being undertaken and based upon the continued cash support from central Government, the additional Council Tax freedoms, continued delivery of operational efficiencies and improved budget management plans it is expected that significant reserves will be able to utilised in the future to support capital expenditure plans that will deliver investment in new efficient buildings that will be fit for the future.

The additional precept funding, as well as further operational efficiencies, have been used to invest £3.1m in front line policing, as well as ensuring the required contribution of £2.0m to reserves, in relation to previous years required usage.

This has enabled the Chief Constable to recruit 200 police officers next year. This recruitment will enable to force to grow to a complement of 1,940 police officers an increase of 80 posts.

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.

1.2 Summary expenditure

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

Expenditure 2018-19	**2018-19 £m**
Previous expenditure	190.1
In year inflation increases	5.6
Investment	3.3
Sub-total expenditure	**199.0**
Efficiencies	(5.9)
Total net expenditure	**193.1**

The changes in year shown above are detailed further in the report.

2. 2018-19 Budget breakdown

Annex 1 details the proposed expenditure budget for 2018-19. The proposed revenue budget is £193.1m.

Net expenditure budget	2018-19 £m	Note
Employee	154.2	2.1
Premises	5.9	2.2
Transport	5.4	2.3
Supplies & services	17.2	2.4
Agency & contract services	16.2	2.5
Pensions	4.7	2.6
Capital financing	4.1	2.7
Income	(14.3)	2.9
Efficiencies	(0.3)	3.2
Net use of reserves	0.0	2.8
Total net expenditure	**193.1**	**Annex 1**

An alternative thematic view of the 2018-19 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 recruitment continued throughout 2017-18, the 2018-19 budget provides for continued officer and staff recruitment in order to maintain and effective service. In addition the implementation of the Chief Constables new police officer operating model see police constable numbers rise to 1,940 officers a rise of 80 new front line posts. This is achieved by the continued delivery of efficiencies and the reprioritisation of spend, managed thorough the Annual Departmental Assessments – a business management programme introduced in 2017-18. 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 2.0% payable from 1st September each year, in addition to this the additional 1% bonus payment to officer and staff awarded as part of the 2% award in 2017-18 has been retained in the budget. Employee expenditure accounts for approximately 80% of the total expenditure budget.

Annex 2 details the budgeted staff movement between the current year and 2018-19. Annex 3 details the budgeted police officer, police staff and PCSO numbers for 2018-19.

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. In addition core maintenance budgets have increased for the remaining stock reflecting the age of the buildings but also ensuring that maintenance standards are reflective of the needs of the workforce.

Capital investment in new building is included in the capital programme, the main investment being a replacement custody suite, as the current operation become increasingly less fit for purpose. It is not expected that this new building will become operational during 2018-19 although future operational efficiencies should be delivered as the purpose built building will have latest maintenance/fuel efficiencies built in and should be designed to deliver other operational efficiencies. These will contribute to future efficiency requirements, identified in the Medium Term Plan, but do not affect the 2018-19 budgets.

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 2018-19 inflation for gas and electricity has been budgeted at 2.0%.

2.3 Transport related expenditure

The Force has in place a Public Finance Initiative (PFI) for the provision of police vehicles. This agreement ensures that there is always the required number of vehicles and driver slots. However, this is an expensive agreement and requires careful management to ensure the most advantageous service is obtained from the supplier. This continues to be monitored and efficiencies delivered.

In addition the force has a smaller fleet of owned vehicles, the non-slot fleet, the maintenance these vehicles is also undertaken by the PFI provider, and the capital programme provides for the replacement of these vehicle over the business cycle.

During 2018-19 a new vehicle will be procured with 4x4 off road capabilities to support our investment in rural policing.

2.4 Supplies & services expenditure

This category of expenditure captures most of the remaining items such as insurance, printing, communications, information technology (IT) and equipment. This will provide for the opportunity to react quicker to local issues/hot spots and to provide funding for low value equipment and materials. It is anticipated that this will support initiatives in rural areas as well as offering further support to our innovative knife crime team.

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 2018-19, 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	2018-19 £m
Agency costs	0.1
Collaboration contributions	9.6
Community safety	5.1
Other partnership costs	1.4
Total	**16.2**

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. In year additional agency costs may be incurred as a result of utilising agency staff to cover short term vacancies, especially where departmental restructures are taking place.

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 £9.6m for 2018-19. No savings have been assumed within this budget for collaboration or innovation projects.

Analysis of Collaboration contributions	2018-19 £m
EMSOU	2.9
Major crime	0.3
Tactical surveillance unit	0.6
Forensics	1.3
EMOpSS Air Support	0.5
Learning & development	0.8
Occupational health unit	0.5
Legal	0.4
Multi Force Shared Services (MFSS)	2.3
Total	**9.6**

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.

The budgeting for medical retirements remains an issue with the number of medical retirements and the associated costs increasing significantly over time the 2018-19 the budget has been increased by £0.3m reflecting the current trend. In addition the police pension scheme is currently under review by GAD and there is a potential risk that employer contributions may increase in future years however this is not expected to affect the 2018-19 budget.

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 2019 and any changes will impact on the 2020-21 budget. Indications are that, due to changes within the scheme then the employer contributions will continue at the same level.

2.7 Capital financing

This relates directly to the value of the capital expenditure requiring loan funding in previous years. The proposed capital programmes for 2018-19 has been prioritised to ensure that schemes included are not only reflective of need but also are realistic in deliverability. The Force has a track record of being over ambitious in estimating both its need and in the pace that capital schemes can be developed, resulting in significant spend being carried forward or ultimately not been required. For this year fewer schemes are proposed, they are more appropriately apportioned over several years in some cases, and all have active delivery plans.

Currently, market rates remain favourable and therefore the cost of borrowing is low, although incremental increases are expected over coming years as we move away from the historically low level of interest rates. Our advisors predict a stable base rate of 0.50% in 2018-19, in line with the Treasury strategy, individual borrowing decisions will be made with the view to minimising future borrowing costs.

2.8 Use of reserves

There are no plans to use significant reserves in 2018-19. To provide for the initial provision of a Crime Fighting Budget in 2018-19, £100,000 will be transferred from reserves.

Strategically it is anticipated that £10.1m will be returned to reserves over the medium term. A review of the Reserves Strategy is being undertaken and based upon the continued cash support from central Government, the additional Council tax freedoms, continued delivery of operational efficiencies and improved budget management plans it is expected that significant reserves will be able to utilised in the future to support capital expenditure plans that will deliver investment in new efficient buildings that will be fit for the future.

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 2017-18 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 2017-18 and 2018-19.

3. Efficiencies

3.1 2017-18 Efficiencies

As part of the 2017-18 budget the following efficiencies were 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**

3.2 The Commissioner is of the view that continuingly achieving efficiencies is challenging however current indications at the time of producing this report is the Force will achieve its efficiency targets and is likely to underspend against the 2017-18 budget. Any underspend will be used to increase reserves.

3.4 2018-19 Efficiencies

As part of the 2018-19 budget the following efficiencies are required in order to set a balanced budget.

Efficiencies 2018-19	**£m**
Procurement	0.3
Supplies & Services	0.9
Transport	0.3
Comms & Computing	0.6
Income	0.3
MF Shared Service	0.8
MRP	0.4
Total	**3.6**
Ongoing staff pay savings	2.3
Total	**5.9**

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 2018-19, 22 officers and 68 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 39 police officers and 6 staff FTE's seconded out of the organisation in 2018-19. This compares with 44 officers and 6 staff FTE's seconded in 2017-18.

2018-19 Commissioner's Total Budget (£m)

	Force Budget 2018-19 £m	OPCC Budget 2018-19 £m	Total Budget 2018-19 £m
Pay & allowances			
Officer	100.9	0.0	100.9
Staff	39.8	0.8	40.6
PCSO	6.7	0.0	6.7
	147.4	**0.8**	**148.2**
Overtime			
Officer	3.4	0.0	3.4
Staff	0.6	0.0	0.6
PCSO	0.1	0.0	0.1
	4.1	**0.0**	**4.1**
Other employee expenses	2.0	0.0	2.0
Medical retirements	4.7	0.0	4.7
	158.2	**0.8**	**159.0**
Other operating expenses			
Premises related	5.9	0.0	5.9
Transport	5.4	0.0	5.4
Communications & computing	8.2	0.0	8.2
Clothing & uniforms	0.6	0.0	0.6
Other supplies & services	4.7	0.3	5.0
Custody costs & police doctor	1.4	0.0	1.4
Forensic & investigative costs	2.1	0.0	2.1
Partnership payments & grants to external organisations	1.3	5.1	6.4
Collaboration contributions	9.6	0.0	9.6
Capital financing	4.1	0.0	4.1
	43.3	**5.4**	**48.7**
Total expenditure	**201.5**	**6.2**	**207.7**
Income			
Seconded officers & staff income	(3.2)	0.0	(3.2)
Externally funded projects income	(4.3)	0.0	(4.3)
PFI grant	(1.9)	0.0	(1.9)
Ministry of Justice (MoJ)	0.0	(1.3)	(1.3)
EMSCU	(0.9)	0.0	(0.9)
Investment interest	(0.1)	0.0	(0.1)

	Force Budget 2018-19 £m	PCC Budget 2018-19 £m	Total Budget 2018-19 £m
Other income	(2.7)	0.0	(2.7)
	(13.0)	**(1.3)**	**(14.3)**
Efficiencies – to be realised*			
Procurement	(0.2)	0.0	(0.2)
Forensics	(0.1)	0.0	(0.1)
	(0.3)	**0.0**	**(0.3)**
Net use of reserves	**0.0**	**0.0**	**0.0**
Total	**188.2**	**4.9**	**193.1**

*additional efficiencies as a result of specific plans totalling £5.6m have already been removed from the main budgets.

Annex 2

Workforce Movements 2017-18 Estimated Outturn v 2018-19 Budget

	2017-18 Estimated Outturn* FTE's	2018-19 Budgeted Total FTE's	Movements FTE's
Core Funded			
Police Officers			
Operational	1,044	1,129	85
Intelligence & Investigations	515	495	(20)
Operational Collaborations	259	241	(18)
Corporate Services	39	34	(5)
	1,857	**1,899**	**42**
Police Staff			
Staff	1,151	1,140	(11)
PCSO	199	207	8
	1,350	**1,347**	**(3)**
	3,207	**3,246**	**39**
Group Total			
Core	3,208	3,246	38
Seconded	50	45	(5)
Externally Funded	91	90	(1)
Force Total	**3,349**	**3,381**	**32**
OPCC	**12**	**12**	**-**
	3,361	**3,393**	**32**

***** The estimated outturn as at 31st March 2018.

Annex 3(i)

Workforce Plan FTE’s

	Operational FTE's	Intelligence & Investigations FTE's	Operational Collaborations FTE's	Corporate Services FTE's	Core Funded FTE's
	2018-19				
Police Officers					
Opening balance*	1,044	515	259	39	**1,858**
Leavers / restructure	(90)	-	-	-	**(90)**
Retirement	(23)	(21)	(18)	(5)	**(67)**
Recruitment	198	-	-	-	**198**
	1,129	**494**	**241**	**34**	**1,898**
Police Staff					
Opening balance*	367	249	230	306	**1,151**
Leavers / restructure	-	-	-	(12)	**(12)**
Recruitment	-	-	-	-	**-**
	367	**249**	**230**	**294**	**1,139**
PCSOs					
Opening balance*	197	2	-	-	**199**
Leavers / restructure	(28)	-	-	-	**(28)**
Recruitment	36	-	-	-	**36**
	205	**2**	**-**	**-**	**207**
Opening Balance*	1,608	766	490	344	**3,208**
Movement	93	(21)	(18)	(16)	**38**
Closing Balance	**1,701**	**745**	**472**	**328**	**3,246**

***** Opening balance is the estimated outturn as at 31st March 2018.

Annex 3(ii)

Workforce Plan FTE's

	2018-19					
	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*	**1,858**	44	22	**1,924**	-	**1,924**
Leavers / restructure	**(90)**	-	-	**(90)**	-	**(90)**
Retirement	**(67)**	(5)	-	**(72)**	-	**(72)**
Recruitment	**198**	-	-	**198**	-	**198**
	1,899	**39**	**22**	**1,960**	**-**	**1,960**
Police Staff						
Opening balance*	**1,151**	6	69	**1,226**	12	**1,238**
Leavers / restructure	**(12)**	-	(1)	**(13)**	-	**(13)**
Recruitment	**-**	-	-	**-**	-	**-**
	1,139	**6**	**68**	**1,213**	**12**	**1,225**
PCSOs						
Opening balance*	**199**	-	-	**199**	-	**199**
Leavers / restructure	**(28)**	-	-	**(28)**	-	**(28)**
Recruitment	**36**	-	-	**36**	-	**36**
	207	**-**	**-**	**207**	**-**	**207**
Opening Balance*	**3,208**	50	91	**3,349**	12	**3,361**
Movement	**38**	(5)	(1)	**32**	-	**32**
Closing Balance	**3,245**	**45**	**90**	**3,380**	**12**	**3,392**

***** Opening balance is the estimated outturn as at 31st March 2018.

Annex 4

Variation to the 2018-19 Budget

Police pay & allowances

The £3.0m increase from the 2017-18 budget is largely due to the additional recruits taken into during 2017-18 and the planned recruitment is 198 FTE's in 2018-19 in line with achieving the 1,940 police officer model; pay scale increments; and impact of the 1.0% non-consolidated pay award. This has been partly offset by an increased number of natural leavers that has been occurred during 2017-18 and the full year impact into 2018-19; combined with natural leavers at 90 FTE's and 30 year leavers at 72 FTE's included in the 2017-18 budget.

Police staff pay & allowances

The £0.2m increase from the 2017-18 budget is largely due to the pay awards and increments. This has been partly offset by the impacts to departmental structures following the Annual Departmental Assessments – a business management programme introduced in 2017-18.

PCSO pay & allowances

The £0.1m increase from the 2017-18 budget largely reflects the increased level of natural leavers, either leaving the organisation or seeking to become officers. During 2018-19 there is a planned recruitment of 36 FTE's to offset leavers and achieve the operating model of 200 FTE's.

Overtime

The £0.3m increase from the 2017-18 budget is largely reflective of pay awards.

Other employee expenses

The £0.4m increase from the 2017-18 budget is largely due to increased training fees and recruitment costs for the planned officer recruitment during 2018-19.

Medical retirements

The £0.3m increase from the 2017-18 budget is largely due to the increased number of budgeted retirements. On average it costs the Force c£75k for every Constable medically retired.

Premises related

The £(0.1)m reduction from the 2017-18 budget is largely due to reduction in utility costs.

Transport

The £(0.3)m reduction from the 2017-18 budget is largely due to the continued work to reduce the fleet vehicles provided under the Vensons contract of £0.1m and a reduction in fuel costs £0.2m.

Communications & Computing

The £0.3m increase from the 2017-18 budget is largely due to software licences for Enterprise Service Agreement (ESA).

Other supplies & services

The £1.2m increase from the 2017-18 budget is largely due to latest insurance estimates which indicate an increase of £0.2m. Other changes relate to consultancy fees £0.1m; legal costs £0.1m; operational expenses and consumables £0.3m. However, the year on year movement has been impacted by an efficiency target within suppliers & services which was delivered across other lines of expenditure; licence fees for SAS £0.1m and subsidence £0.1m.

Partnership payments

The £(0.5)m reduction from the 2017-18 budget is largely due to a contingency for costs relating to Tri-Force collaboration no longer being required for 2018-19.

Collaboration contributions

The £(0.2)m reduction from the 2017-18 budget is largely due to reduced payments to the Multi Force Shared Service (MFSS) from reduce operating costs from moving to Oracle Cloud.

Capital financing

The £(0.4)m reduction from the 2017-18 budget largely reflects the latest borrowing position with a reduction in interest payments of £0.1m; and Minimum Revenue Provision (MRP) of £0.3m.

Income

The £0.9m increase from the 2017-18 budget largely reflects increased income property recharges of £0.2m; vehicle recovery of £0.2m; increased combined income from externally funded projects and seconded officers/staff of £0.5m; this increase in income is offset higher costs across a number of expenditure lines and does not increase the overall budget; and police services such as policing football matches and other events of £0.1m.

Annex 5

2018-19 Commissioner's Total Budget – Thematic View (£m)

	2018-19								
	Operational £m	Intelligence & Investigations £m	Operational Collaborations £m	Corporate Services £m	Seconded £m	Externally Funded £m	Force Total £m	OPCC £m	Total £m
Pay & allowances									
Officer	51.1	28.2	14.9	2.8	2.8	1.1	**100.9**	-	**100.9**
Staff	12.2	7.7	7.0	10.7	0.3	1.9	**39.8**	0.8	**40.6**
PCSO	6.6	0.1	-	-	-	-	**6.7**	-	**6.7**
	69.9	**36.0**	**21.9**	**13.5**	**3.1**	**3.0**	**147.4**	**0.8**	**148.2**
Pay & allowances									
Officer	1.1	1.2	1.0	0.1	-	0.0	**3.4**	-	**3.4**
Staff	0.2	0.1	0.2	0.1	-	0.0	**0.6**	0.0	**0.6**
PCSO	0.1	-	-	-	-	-	**0.1**	-	**0.1**
	1.4	**1.3**	**1.2**	**0.2**	**-**	**0.0**	**4.1**	**0.0**	**4.1**
Other employee expenses	0.0	0.0	0.0	2.0	-	0.0	**2.0**	0.0	**2.0**
Medical retirements	-	-	-	4.7	-	-	**4.7**	-	**4.7**
	71.3	**37.3**	**23.1**	**20.4**	**3.1**	**3.0**	**158.2**	**0.8**	**159.0**
Other operating expenses									
Premises related	-	-	0.0	5.7	-	0.2	**5.9**	0.0	**5.9**
Transport	0.2	0.2	1.2	3.6	0.1	0.1	**5.4**	0.0	**5.4**
Communications & computing	-	-	0.0	7.9	-	0.3	**8.2**	0.0	**8.2**
Clothing & uniforms	-	-	0.0	0.6	-	-	**0.6**	0.0	**0.6**
Other supplies & services	0.2	0.5	0.4	3.3	-	0.3	**4.7**	0.3	**5.0**
Custody costs & police doctor	0.0	0.1	1.3	0.0	-	-	**1.4**	-	**1.4**
Forensic & investigative costs	0.0	0.5	1.2	0.4	-	-	**2.1**	-	**2.1**
Partnership payments	0.2	0.2	0.3	0.2	-	0.4	**1.3**	5.1	**6.4**
Collaboration contributions	-	-	5.6	4.0	-	-	**9.6**	-	**9.6**

	2018-19								
	Operational £m	Intelligence & Investigations £m	Operational Collaborations £m	Corporate Services £m	Seconded £m	Externally Funded £m	Force Total £m	OPCC £m	Total £m
Capital financing	-	-	-	4.1	-	-	**4.1**	-	**4.1**
	0.6	**1.5**	**10.0**	**29.8**	**0.1**	**1.3**	**43.3**	**5.4**	**48.7**
Total expenditure	**71.9**	**38.8**	**33.1**	**50.2**	**3.2**	**4.3**	**201.5**	**6.2**	**207.7**
Income	**(0.9)**	**(0.1)**	**(0.8)**	**(3.7)**	**(3.2)**	**(4.3)**	**(13.0)**	**(1.3)**	**(14.3)**
Efficiencies									
Procurement	-	-	-	(0.2)	-	-	**(0.2)**	-	**(0.2)**
Forensics	-	-	-	(0.1)	-	-	**(0.1)**	-	**(0.1)**
	-	**-**	**-**	**(0.3)**	**-**	**-**	**(0.3)**	**-**	**(0.3)**
Net use of reserves	-	-	-	-	-	-	**-**	**-**	**-**
Total	**71.0**	**38.7**	**32.3**	**46.2**	**-**	**-**	**188.2**	**4.9**	**193.1**

Nottinghamshire
POLICE & CRIME COMMISSIONER

Medium Term Financial Strategy

2018-19 to 2022-23

January 2018

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 2018-19 and incorporates plans to meet changes in available financing with the need to meet current and future commitments.

The settlement announced in December was better than originally forecast. Previous reductions to grant that reflected a 2% increase to the precept and 0.5% increase in the tax base this has now ceased, ensuring the benefits of locally generated funding remain local.

In addition to this the precept rules have been relaxed allowing Commissioners to increase the precept by up to £12 on the Band D rate.

And the final piece of positive news is that both of these changes have been confirmed for 2018-19 and indicated for 2019-20. This allows better financial planning over a slightly longer period.

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 further and the revised timetable has been put on hold. Within the statement this year the Minister has indicated that this will be resurrected in 2018.

Under the existing funding formula, put into effect in 2005-06, Nottinghamshire continues to lose over £10m per year. The formula itself has never been fully implemented and therefore, in total this now amounts to over £120m+ that the Home Office formula calculates should have come to Nottinghamshire, but which has been withheld, instead providing protection those that would lose significantly as they are over-funded. The Commissioner continues to make the case for a new formula at a national level, one that can be fully implemented over a short period of time.

The Police & Crime Commissioner has produced a draft 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 4 strategic priorities:

- Protecting people from harm.
- Helping and supporting victims.
- Tackling crime and anti-social behaviour.
- Transforming services and delivering quality policing.

Funding

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

1. The amount of grant funding is to reduce by £100,000 to £133.9m.
2. The Referendum assumptions allow for £12 precept increase.
3. The estimated tax base increase is 1.60% for 2018-19, 1.43% 2019-20, 1.28%, 2020-21 falling to 1.0% in 2021-22.
4. The cost pressures that we are budgeting for have a negative impact (i.e. pay wards of 2%, inflation is over 2% (with interest rates having to increase to put inflation back on track)) especially as the funding available continues to reduce.
5. The longer term impact of incremental progression relating to the 200+ new police officers will create pressures in the medium term plan.
6. 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. Current repayment is expected by 2021-22.

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

Funding Available	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m
Police & Crime Grant	124.2	124.2	124.2	124.2	124.2
Council Tax Legacy Grant*	9.7	9.7	9.7	9.7	9.7
Precept	61.1	65.8	68.0	70.0	71.4
Collection fund surplus/(deficit)	0.5**				
Transfer to reserves ***	(2.4)	(3.0)	(2.0)	(1.0)	
TOTAL	**193.1**	**196.7**	**199.9**	**202.9**	**205.3**

*Legacy Grant is subject to review as part of the funding formula review
**The surplus to be received in 2018-19 will be transferred to reserves less an adjustment for the difference between estimated and actual tax base figures.
***The transfer to reserves shown is part of the reserves strategy.

Investment

This Medium Term Financial Strategy allows the Commissioner to invest in the front line delivery of service by increasing the number of officers being recruited. There will be 80 more officers recruited in 2018-19 taking the total to 1940 FTE. The current settlement also enables further investment in priorities such as Knife Crime and Rural Crime.

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. 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.

Key to many of the changes has been the need for significant investment in technology, particularly across the Tri-Force area. 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 table below summarises the savings plans currently in place for the next financial year:

Efficiencies	**2017-18 £m**	**2018-19 £m**
MRP	0.3	0.4
On-going pay savings	4.2	2.3
Procurement	0.3	0.3
Medical Retirements	0.5	
Tri Force Costs (reduction)	0.2	
Transport		0.3
MFSS		0.8
Comms and Computing		0.6
Supplies & services		0.9
Income		0.3
Total Efficiencies	**5.5**	**5.9**

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 Transformation

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 an 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 total cost of collaboration.

Tri Force Collaboration

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

Transformation funding has been obtained for 2016-17 and 2017-18. The risks associated with this are being closely monitored.

Funding Formula Review

As mentioned previously the current funding formula review has been delayed and will not be in place before April 2018.

Ministry of Justice Funding

The allocation of funding for Victims for 2018-19 is £1,320,326 and this is slightly more than the previous year.

Emergency Services Network

The Emergency Services Network has been progressing slowly and is significantly behind the original implementation plan. Further delays are anticipated with suitable devices not currently being available. All delays will inevitably result in increased costs. We continue to monitor this closely at Force, Regional and National levels.

Capital Grant

Capital Grant allocations have not changed and remain at £0.7m for 2018-19. This grant is gradually being phased out.

Expenditure

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.

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 resulted in a revised workforce plan being created by the Chief Constable and supported by the Commissioner. This will see an increase in Police Officer numbers compared with a year ago when we were anticipating reducing the numbers.

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

Following two years where the force required additional reserves to balance their expenditure to budget a plan was put in place for the Force to replenish the reserves used. For 2016-17 this has plan was exceeded with £2.2m being repaid and which was not planned for. This looks set to continue for 2017-18 with £2.8m estimated to be repaid against the plan of £1.0m. The target for repayment is £11.5m. Nottinghamshire remains in the lower quartile with its level of reserves.

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 2023, but the work started on transformation should enable balanced budgets to be set.

The budgeted summary financial position is as detailed below:

	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m
Policing element						
Net Expenditure	190.9	194.1	192.8	196.5	199.9	202.4
Savings efficiencies & reserves	(5.5)	(5.9)	(1.1)	(1.6)	(2.0)	(2.1)
sub-total	**185.4**	**188.2**	**191.7**	**194.9**	**197.9**	**200.3**
Grants and Commissioning						
Net Expenditure	4.7	4.9	5.0	5.0	5.0	5.0
Savings efficiencies & reserves	**	**	**	**	**	**
sub-total	**4.7**	**4.9**	**5.0**	**5.0**	**5.0**	**5.0**
Total net expenditure	**190.1**	**193.1**	**196.7**	**199.9**	**202.9**	**205.3**
Total Funding Available	**190.1**	**193.1**	**196.7**	**199.9**	**202.9**	**205.3**
Contribution to reserves*	2.8	2.4	3.0	2.0	1.0	
Further savings required						

'* The Contribution to reserves reflects the planned repayment of reserves and has been netted from the funding available.

'** The OPCC has made efficiencies in the absorption of pay award and inflationary increases. These have been incorporated into the net budget figure. The increase in budget for 2017-18 and 2018-19 reflects the additional costs in relation to the MARAC and IDVA provision.

Opinion

Within the provisional settlement the Minister has stated that he intends to publish early in 2018 targets for each force in relation to productivity and efficiency. The Force will be required to report regularly on these targets.

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 accelerated replenishment of reserves over the medium term.

Nottinghamshire

POLICE & CRIME COMMISSIONER

Reserves Strategy 2018-19

January 2018

Reserves Strategy 2018-19

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.

The Commissioners Plans

9. The Commissioner holds reserves for specific reasons that are included within the Police & Crime Plan and Medium Term Financial Strategy these include:
   - To meet forthcoming events where the precise event, date and amount required for such events cannot accurately be predicted. For example major events that would require the use of the General Reserve. These are detailed within the General Reserve risk assessment provided at **Appendix A**.
   - To meet forthcoming events where the precise date and amount required cannot be accurately predicted. For example: Night Time Levy where partners are making proposals together on how best to utilise this funding or the Grants and Commissioning Reserve, where proposals on how to utilise this fund from previous years underspends are being considered for Crime Prevention or Victims.
   - To meet forthcoming capital expenditure needs where major capital schemes are being planned and the reserve will be utilised to reduce the cost of borrowing and capital charges to the revenue account.
   - To meet smaller projects such as the Animal Welfare Reserve where expenditure is only met from this reserve and which meets specific policy requirements.
   - A reasonable amount to meet peaks and troughs in revenue expenditure requirements (e.g. redundancy or restructuring costs). This is met through the MTFP Reserve.

Current Financial Climate

10. 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.

11. We are still facing an uncertain future with the impact of Brexit and how this will impact on public expenditure plans are currently unknown.

12. 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 has been withheld, in the funding formula floors mechanism since 2005.

13. The Medium Term Financial Strategy identifies risks in achieving the required efficiencies to ensure balanced budgets over future years.

Types of Reserve

14. When reviewing the medium term financial strategy 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.

15. 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.

16. 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.

17. 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.

18. 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

19. 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

20. 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

21. 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**.

22. 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.

23. 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 set at **5.0% of the total net budget.**

24. 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.

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

26. **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

27. 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).

28. 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)).

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

30. **Appendix B** details for each of the earmarked reserves that existed at the start of the 2017-18 financial year and their estimated balance by 1st April 2018.

Details of the earmarked reserves available for use in 2018-19 are given below:

Medium Term Financial Plan (MTFP) Reserve

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

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

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

34. 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.

35. 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.

36. 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.

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

38. Payback of this reserve of £11.5m has commenced earlier than originally anticipated and will continue through the medium term period.

Asset Replacement Reserve

39. This is a new reserve reflecting the need to consider the major programme of asset replacement in the capital programme.

40. Specifically, a new Custody building at an estimated cost of £20m and the need to consider replacing the existing Force HQ building within the next 5-10 years. These are major items of expenditure and it is prudent to create a reserve to part fund such items.

41. The Commissioner has also requested a full Asset Strategy to include a detailed stock condition. This will enable the updating of all remaining buildings to a reasonable and comparable standard.

IT Investment Reserve

42. This reserve is set aside to support investment and replacement of IT hardware and software. IT revenue underspends will be transferred to this reserve to meet future changes in IT investment and in support of a medium term IT strategy, which will be provided during 2018-19.

PCC Reserve

43. This reserve has now been earmarked for any cost associated with the PCC elections. This is funded from underspends in the OPCC budget.

Grants & Commissioning Reserve

44. It is intended that underspends on the Grants and Commissioning budget are transferred to here to provide for future needs in this growing area of work. Current plans are to utilise some of this reserve for the refurbishment of a new SARC building in partnership0 with the NHS. And to support further work relating to Sexual and Domestic Violence.

Private Finance Initiative (PFI) Reserve

45. This is a reserve for the equalisation of expenditure over the life of the contract. This is a statutory reserve to maintain. Consideration of transferring this to provisions is being considered.

Property Act Fund Reserve

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

Drugs Fund

47. This minor reserve is received from court awards in drugs cases and is only used for initiatives that reduce drug related crime. The Chief Constable is currently in the process of approving a pan to utilise this fund proactively.

48. There is currently a request with Neighbourhood Policing Teams for activity requests that would make best use of this fund. The requests have to meet specific criteria such as having community impact, being visible and where possible involving partners. The cost will be met from the fund but at the time of writing this report are unknown.

Revenue Grants

49. 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.

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

Animal Welfare Reserve

51. 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

52. 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.

53. 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.

54. 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.

Night Time Levy

55. 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 (e.g. the work of the Street Pastors/additional policing when required).

Estimation Reserve

56. 2017 saw this fund created as part of the earlier closedown process for the accounts. This initially required a greater degree of estimation as part of the closure of the management accounts. It will be reviewed during 2018-19.

Jointly Controlled Operations (Regional Collaboration) Revenue Reserve

57. 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.

58. 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.

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

Joint Operations

60. The region currently has revenue earmarked reserves of £0.845m.

Procedure for Use of Reserves

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

62. All requests should be supported by a business case unless there is an approved process for use, such as the Animal Welfare Reserve, or relate to a specific project relating to retained grant.

63. 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

64. 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

65. 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.

66. 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.

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

- Significant unforeseen legal costs
- 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 may 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.
- 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 reserves have limited scope for replenishment. This is usually achieved through a budget underspend.
- There may be exceptional levels of insurance claims that cannot be met from the usual provisions
- Home Office interest in the levels of reserves held by Police Forces. Nottinghamshire is in the lower quartile in regard to this so any requirement by Central Government affecting reserves would impact on us greater.

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. Nottinghamshires level of reserves are quite low when compared nationally.

This strategy now requires the continued repayment of reserves that have been utilised in recent years.

The repayment of Earmarked reserves will ensure the financial viability of the Force. This will then allow for investment in assets and IT to provide service improvement in the future.

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
2018-19

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. Amounts over 1% of net budget are subject to Home Office application approval.	Single Incident amounting to less than 1% of net budget. **MEDIUM** Multiple incidents amounting to over 1% of net budget. **MEDIUM** 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**	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 31.03.18 £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	2.000
Asset Replacement	To provide funding towards major items of capital expenditure.	In conjunction with the Treasury Management Strategy and where borrowing is not the whole answer.	Chief Finance Officer	On-going	4.075
IT Investment	To provide for investment in new IT software and hardware	In line with the IT strategy	Chief Finance Officer	On-going	1.100
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	0.652
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	2.849
PFI reserve	To fund irregular PFI related expenditure on a smoothed basis. And to provide for end of life PFI expenditure.	Life cycle equalisation.	Chief Finance Officer	Annually	0.012

Property Act Fund	Income from the sale of property act confiscations.	To be determined by the Police & Crime Commissioner.	PCC and CFO	Annually	0.183
Drug Fund	For use in reducing drug related crime.	To be determined by the Police & Crime Commissioner and CC.	PCC and CFO	Annually	0.076
Revenue Grants	Balances on grants not required to be repaid. Use needs to be risk assessed.	To be determined by the Police & Crime Commissioner.	Drawn upon when repayment has been requested	Annually	2.747
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. Every 3-4 years to finance Single Person Discount Review.	Chief Finance Officer	Annually	1.054
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	0.233
Estimation	To be utilised when using estimates in the final accounts statements	Annually as part of the closedown of accounts process	Chief Finance Officer	Annually	0.013
JCO – Jointly Controlled Operations	To provide for unexpected expenditure relating to regional collaboration.	Decisions relating to the use of this fund follow the regional governance arrangements.	EM meeting of the PCC's	Annually	0.845
TOTAL					**15.858**

Appendix C (i)

Tables to show the use of General Reserves

	2017-18	2018-19		2019-20		2020-21		2021-22		2022-23	
	01.04.17 Balance £m	01.04.18 balance £m	Use in year £m	01.04.19 balance £m	Use in year £m	01.04.20 balance £m	Use in year £m	01.04.21 balance £m	Use in year £m	01.04.22 balance £m	Use in year £m
General Reserve	**7.000**	**7.000**	**0**	**7.000**	**0**	**7.000**	**0**	**7.000**	**0**	**7.000**	**0**
EMSOU general reserve	**0.075**	0.075		0.075		0.075		0.075		0.075	
% of net budget	***3.7%***	*3.6%*		*3.5%*		*3.5%*		*3.5%*		*3.4%*	

The policy in relation to General Reserves is that they will be no less than 2% of the Net Budget and no more than 5% of the net budget.

Appendix C (ii)

Tables to show the estimated use of Earmarked Reserves

	2017-18	2018-19			2019-20		2020-21		2021-22		2022-23	
Earmarked Reserves	**01.04.17 Actual £m**	01.04.18 balance £m	Use in year £m	31.03.19 balance £m	Use in year £m	31.03.20 balance £m	Use in year £m	31.03.21 balance £m	Use in year £m	31.03.22 balance £m	Use in year £m	31.03.23 balance £m
MTFP	**3.275**	2.000		2.000		2.000	(0.003)	1.997		1.997		1.997
Asset Replacement		4.075	2.000	6.075	3.000 (8.000)	1.075	2.000 (3.000)	0.075	1.000	1.075		1.075
IT Investment		1.100	0.400	1.500		1.500		1.500		1.500		1.500
PCC Reserve	**0.622**	0.652	0.010	0.662		0.662		0.662		0.662		0.662
Grants & Commissioning	**2.499**	2.849	0.100 (0.100)	2.849	(0.150)	2.699	(0.100)	2.599		2.599		2.599
PFI	**(0.027)**	0.012	0.039	0.051	0.040	0.091	0.041	0.132	(0.330)	(0.198)	0.042	(0.156)
Property Act Fund	**0.183**	0.183		0.183		0.183		0.183		0.183		0.183
Drug Fund	**0.076**	0.076	0.002 (TBC)	0.078		0.078		0.078		0.078		0.078
Revenue Grants	**2.747**	2.747		2.747		2.747		2.747		2.747		2.747
Animal welfare	**0.019**	0.019	(0.001)	0.018	(0.001)	0.017	0.003	0.020	(0.001)	0.019	(0.001)	0.018
Tax Base	**1.247**	1.054	0.468 (0.500)	1.022		1.022		1.022		1.022		1.022
Night Time Levy	**0.284**	0.233	0.100 (0.125)	0.208	0.100 (0.277)	0.031	0.100	0.131	0.100	0.231	0.100	0.331
Estimation	**0.013**	0.013		0.013		0.013		0.013		0.013		0.013
Joint Ops	**0.845**	0.845		0.845		0.845		0.845		0.845		0.845
TOTAL	**11.783**	**15.858**	**2.393**	**18.251**	**(5.288)**	**11.963**	**(0.959)**	**12.004**	**0.769**	**12.773**	**0.141**	**12.941**

Nottinghamshire

POLICE & CRIME COMMISSIONER

Capital Programme 2018-2023

January 2018

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.

The ability for the Commissioner to finance capital expenditure through borrowing is limited by the Capital Financing Requirement – prudential indicator. With some major building works planned we are reviewing the capital programmes for the lower value and shorter life capital expenditure items to consider financing these through revenue.

2. Capital Programme 2018-19

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 £2.8 million slippage (Priority 1 and 2 Schemes) from 2017-18 capital programme into 2018-19. There is a further £3.1m priority 3 Schemes that could also slip, but which will be re-evaluated and only budgeted for if they become a higher priority.

The detailed programme, proposed by the Force, for 2018-19 is provided in **Appendix A**.

The proposed programme is summarised in the table below:

Capital category	**2018-19 £**	**2019-20 £**	**2020-21 £**	**2021-22 £**	**2022-13 £**
Assets	6,136,650	16,025,000	11,240,000	3,600,000	2,600,000
IT	4,188,600	3,852,000	1,474,000		
Other	327,000	30,000	120,500	250,000	250,000
Total	**10,652,250**	**19,907,000**	**12,834,500**	**3,850,000**	**2,850,000**

3. Medium Term Capital Programme

It is normal practice to provide an indication of the capital programme for 2018-19 to 2022-23. With the understanding that this part of the programme will be subject to change following a detailed business case and affordability assessment.

An indicative proposed programme for the 5 years is provided in **Appendix A**.

It should be noted that in the later years of the programme, much of what is IT related expenditure will transfer to be funded from revenue. This will allow the major building works identified to be funded through the Treasury Management Strategy.

4. Financing

Capital expenditure is financed from capital grant, capital receipts, internal and external borrowing and where appropriate from revenue (e.g. reserves).

Capital grant continues to be reduced and it is estimated that this will be phased out completely over the next few years. It has remained the same as 2017-18 for the next financial year. But this is very limited at £700,000.

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 short life assets in the year after receipt.

Borrowing makes up the majority of capital financing. Some of this borrowing is "internal" from balances (e.g. reserves and provisions), but this is reducing as a greater demand is made to use reserves to meet 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. Following the increase in the base rate in December it is expected that the next rate increase will occur in December 2018. This is included in the Treasury Management Strategy, which is provided as a separate report on today's agenda.

The table below details the planned financing and revenue consequences of the proposed programme for 2018-19.

Financing	**2018-19 £**
Total capital programme	**10,652,250**
Financed by	
Capital Grant	700,000
Capital Receipts	3,293,000
Use of Reserves	0
Borrowing	6,659,250
Total	**10,652,250**
Revenue impact full year	**2019-20**
MRP	524,456
Borrowing	206,437

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/project completed. 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 portfolio of loans is currently being reviewed.

The Revenue budget for 2018-19 includes the estimated Minimum Revenue Provisions (MRP) based on expenditure prior to 1st April 2018, including an estimated cost of borrowing for existing borrowing and new borrowing planned in 2018-19.

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

The impact of the proposed capital programme for 2018-19 is included in the table in section 4 above.

Capital Programme 2018-19 to 2022-23

Appendix A

PRIORITY SCHEMES RECOMMENDED FOR INCLUDED IN THE MEDIUM TERM PLAN BY CC

Suggested Priority	Project Name	Department	Budget 2018-19 £	Budget 2019-20 £	Budget 2020-21 £	Budget 2021-22 £	Budget 2022-23 £
1	CB - Bridewell Replacement New Build	Assets	2,166,650	13,210,000	400,000		
1	CB - Oxclose Lane Lift Replacement	Assets	60,000				
1	CB - Custody Improvements - Mansfield	Assets	550,000	100,000	100,000	100,000	100,000
1	CB - Mansfield Goods Lift Replacement	Assets	60,000				
1	CIT - ANPR Camera Project	Information Services	300,000	20,000	20,000	-	-
1	CIT - ESN (Essential Services Network - Airwave Replacement)	Information Services	742,000	742,000	4,000		
	TOTAL PRIORITY 1 PROJECTS		**3,878,650**	**14,072,000**	**524,000**	**100,000**	**100,000**
2	Boiler Replacement (BMS)	Assets	2,300,000				
2	CB - Various Building Condition Investment	Assets	200,000	1,500,000	2,200,000	2,200,000	2,500,000
2	CB - Radford Rd Improvements	Assets			300,000	300,000	
2	CB - Fixed Electrical Works	Assets	-	30,000			
2	Replacement Control Room	Assets	-	1,185,000	8,240,000	1,000,000	
2	CB - RAF Newton Improvements	Assets	50,000				
2	CB - Hucknall EMAS - Extension	Assets	500,000				
2	CB - Worksop New Collaboration	Assets	250,000	-	-		
2	CIT - Mobile Data Platform	Information Services		140,000	500,000	-	-
2	CIT - Technology Services Refresh and Upgrades	Information Services	450,000	450,000	450,000	-	-
2	Command & Control System	Information Services	2,500,000	2,000,000	-		
2	Upgrading Direct Access to 2016	Information Services	40,000				
2	Upgrade SQL 2008 R2 Platform	Information Services	60,000				
2	Chorus Networked - Server	Information Services	26,600				
2	IS Replacement Programme	Information Services	-	500,000	500,000	-	-
2	Firearms/all Case Management	Information Services	70,000				
2	CO - Non-Slot Vehicle Replacement	Other	327,000	30,000	85,500	250,000	250,000
2	Collision Investigation Equipment	Other	-		35,000		
	TOTAL PRIORITY 2 PROJECTS	.	**6,773,600**	**5,835,000**	**12,310,500**	**3,750,000**	**2,750,000**
			10,652,250	**19,907,000**	**12,834,500**	**3,850,000**	**2,850,000**

The Nottinghamshire Office of the Police & Crime Commissioner

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2018-19

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 2018-19

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. The Prudential has been recently updated and will be fully adopted for future strategies, in accordance with the timetables for the new Code. Some of the amendments have been widely reported and these are incorporated in this report on a voluntary basis.

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 officers involved in treasury management also receive training from Link Asset Services.

1.5 Treasury management consultants

The Commissioner's Office uses Link Asset Services (Formerly known as Capita), 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 2018-19 to 2022-23

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	2016-17 Actual £m	2017-18 Forecast £m	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
Capital Programme	**7.132**	**5.650**	**10.652**	**19.907**	**12.835**	**3.850**	**2.850**
Financed by:							
Capital Receipts	0.000	0.000	(3.293)	(0.555)	0.000	0.000	0.000
Capital Grants & Contributions	(2.700)	(2.793)	(0.700)	(0.525)	(0.394)	(0.295)	(0.166)
Capital Reserve	0.000	0.000	0.000	(8.000)	(3.000)	0.000	0.000
Net Financing need	**4.432**	**2.857**	**6.659**	**10.827**	**9.441**	**3.555**	**2.684**

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:

Capital Financing Requirement (CFR)	2016-17 Actual £m	2017-18 Forecast £m	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
Total CFR	54.493	54.925	58.851	66.461	72.227	71.801	70.331
Movement in CFR	-	0.432	3.926	7.610	5.766	(0.426)	(1.470)

Movement in CFR represented by	2016-17 Actual £m	2017-18 Forecast £m	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
Net financing need for the year (above)	-	2.857	6.659	10.827	9.441	3.555	2.684
Less MRP/VRP and other financing movements	-	(2.425)	(2.733)	(3.217)	(3.675)	(3.981)	(4.154)
Movement in CFR	-	0.432	3.926	7.610	5.766	(0.426)	(1.470)

N.B. The code does not require the reporting of downward estimated movements to CFR, but this 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). Repayments included in annual PFI or finance leases are applied as MRP.

Communities and Local Government (DCLG) 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.

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 cash flow balances.

	2016-17 Actual £m	2017-18 Forecast £m	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
Fund balances/Reserves	18.858	22.933	25.326	20.038	19.079	19.848	19.989
Capital Receipts	3.293	3.293	0.555	0.000	0.000	0.000	0.000
Provisions	3.281	3.281	3.281	3.281	3.281	3.281	3.281
Other	(2.318)	(2.363)	(2.363)	(2.363)	(2.363)	(2.363)	(2.364)
Total Core funds	**23.114**	**27.144**	**26.799**	**20.956**	**19.997**	**20.766**	**20.906**
Working Capital*	**(9.271)**	**(9.226)**	**(9.226)**	**(9.226)**	**(9.226)**	**(9.226)**	**(9.226)**
(Under)/Over borrowing	**(11.533)**	**(11.108)**	**(7.875)**	**(4.658)**	**(3.483)**	**(2.002)**	**(0.348)**
Expected Investments	**2.310**	**6.810**	**9.698**	**7.072**	**7.288**	**9.538**	**11.332**

*Working capital balances shown are estimated year end; these may vary through the 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. This indicator will no longer be a mandatory indicator under the revised code, but it has been reviewed and considered a good reflection of the commitment from capital spending.

Ratio	2016-17 Actual	2017-18 Forecast	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
%	1.8	1.9	2.1	2.4	2.8	3.2	3.2

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

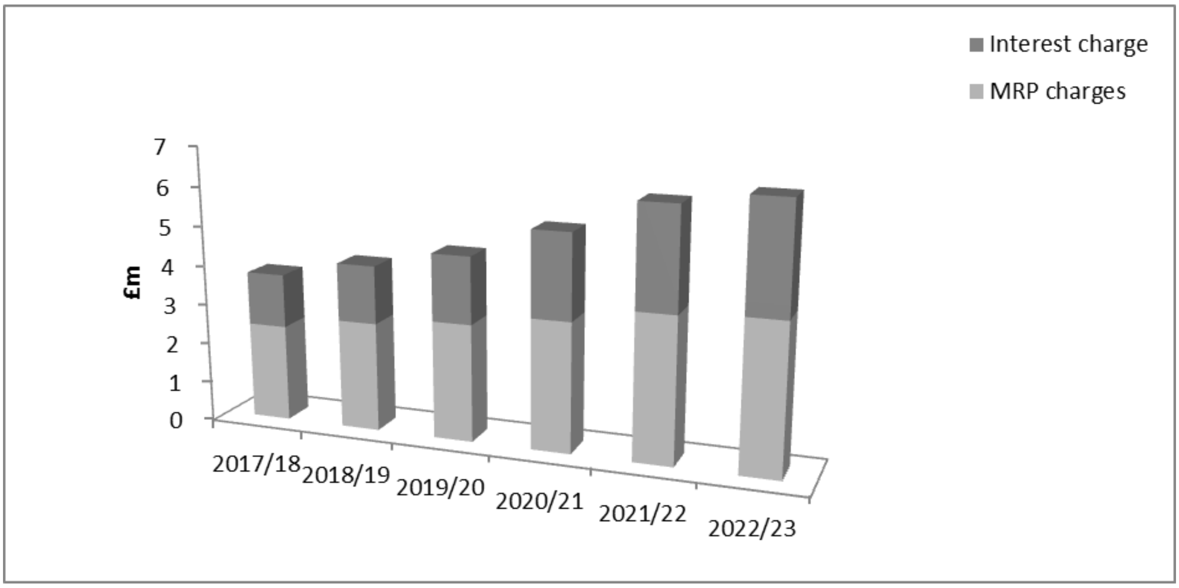
2.7 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with a reasonable assessment of forthcoming capital proposals, compared to the Commissioners existing approved commitments and current plans. The assumptions are based on current plans, but will invariably include some estimates, such as the level of Government support, which is not published over a three year period. This indicator will no longer be a mandatory indicator under the revised code but it has been reviewed and considered a good indicator of the commitment from capital spending. Alternatives will be considered

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

Ratio	2017-18 Forecast	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
£	0.1	1.2	3.2	4.7	5.5	5.1

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 borrowing portfolio position at March 2017, with forward projections is summarised below. The table shows external debt against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

	2016-17 Actual £m	2017-18 Forecast £m	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
External Debt							
Debt at 1 April	44.303	40.704	41.561	48.720	59.547	66.488	67.543
New Borrowing	6.000	4.456	7.844	11.299	9.744	3.742	2.871
Borrowing Repaid	(9.599)	(3.599)	(0.685)	(0.472)	(2.803)	(2.687)	(2.687)
Movement in Borrowing	(3.599)	0.857	7.159	10.827	6.941	1.055	0.184
Debt as at 31 March	**40.704**	**41.561**	**48.720**	**59.547**	**66.488**	**67.543**	**67.727**
Capital Financing Requirement	54.493	54.925	58.851	66.461	72.227	71.801	70.331
Other long-term liabilities	(2.256)	(2.256)	(2.256)	(2.256)	(2.256)	(2.256)	(2.256)
Underlying Borrowing Need	52.237	52.669	56.595	64.205	69.971	69.545	68.075
Under/(over) borrowing	**11.533**	**11.108**	**7.875**	**4.658**	**3.483**	**2.002**	**0.348**
Investments							
Investments	2.310	6.810	9.698	7.072	7.288	9.538	11.332
Change in Investments	(7.180)	0.000	0.000	0.000	0.000	0.000	0.000
Net Debt	**38.394**	**34.751**	**39.022**	**52.475**	**59.200**	**58.005**	**56.395**

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 2018/19 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 will be complied with 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.

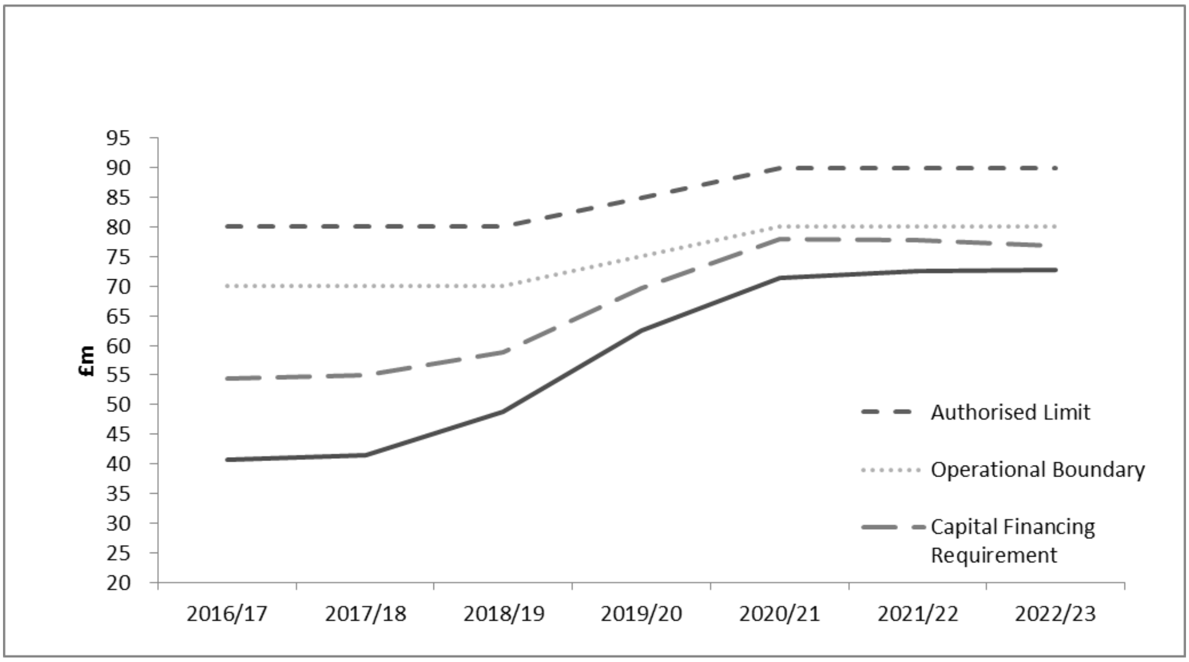
Operational Boundary	2017-18 Forecast	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
£m	70.000	70.000	75.000	75.000	80.000	80.000

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. This has increased by £5m in 2021-22 to meet the increase in the Capital Programme

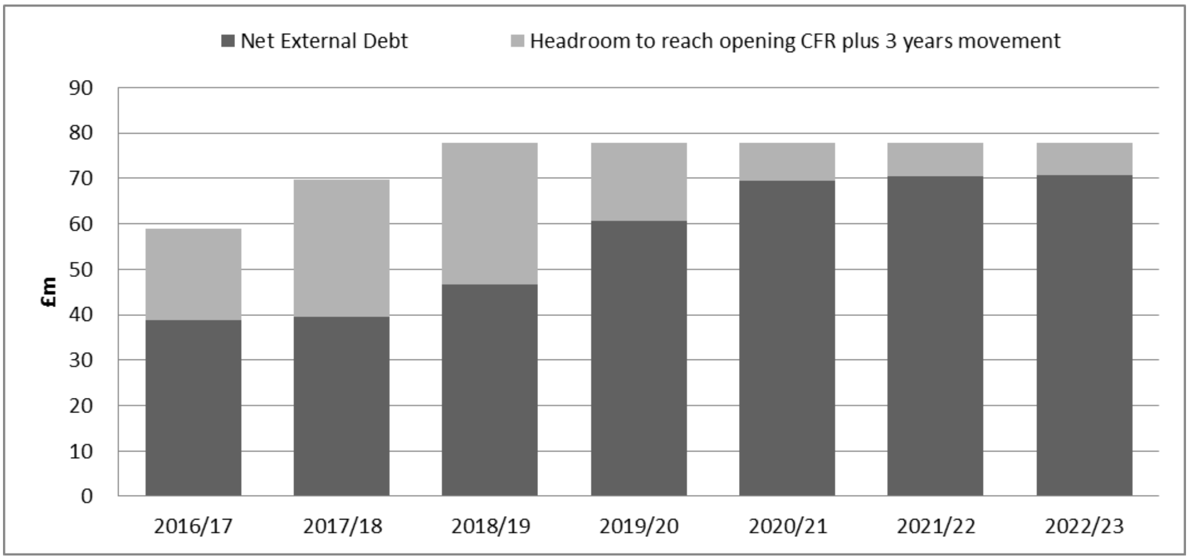
The Commissioner is requested to approve the following authorised limit:

Authorised Limit	2017-18 Forecast	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
£m	80.000	80.000	85.000	85.000	90.000	90.000

This authorised limit has also increased by £5m in 2020-21. 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 Link 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 Link Asset's view (December 2017).

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

There was a 0.25% increase in the base rate on 2 November, this reversed the T emergency cut in August 2016 after the EU referendum. It has been indicated that there is an expectation of further increases to 1.00% by 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a 25 year long-term trend of falling bond yields. Quantitative easing, added further to this downward trend in bond yields and rising bond prices, and also directly led to a rise in equity values as investors searched for higher returns from higher risk products. This may be reversed with the US no longer using this monetary policy. The focus is now on countering inflationary pressures as stronger economic growth becomes more firmly established. The US has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK. This influence will be tempered by how strong the economy performs and the degree of quantitative easing.

PWLB rates can also be impacted by temporary volatility in the market causing spikes in the rates.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts depend on economic performance.The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of exitting the European Union.

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

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

- The Bank of England allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases faster than currently expected.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The impact of US fiscal policy.reversing too quickly.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018-19 but to be on a gently rising trend over the next few years.
- The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years.However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when borrowing is essential.
- There is a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances, being the difference between borrowing costs and investment returns. There is also an increased risk inevitable with all investments.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018-19 treasury operations. The CFO will monitor interest rates and financial markets and adopt a pragmatic approach to changing circumstances.

Treasury Management limits on activity

There are three debt related treasury activity limits. The purpose of these are to constrain 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 too restrictively 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 set to reduce the exposure to large fixed rate sums falling due for refinancing.

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

Upper Interest rate exposures 2018-19 to 2021-22		
Limits on fixed interest rates based on net debt		100%
Limits on variable interest rates based on net debt		100%
Limits on fixed interest rates: • **Debt only** • **Investments only**		 100% 100%
Limits on variable interest rates • **Debt only** • **Investments only**		 50% 100%
Maturity structure of fixed interest rate borrowing 2018-19 to 2021-22		
	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 CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 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. This enables diversification and avoids the concentration of risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets, by actively engaging with Flex Asset to maintain monitoring on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information regarding the banking sector. This allows a robust scrutiny process on investment counterparties.

4.2 Creditworthiness policy

The primary principle governing the Commissioner's investment criteria is the security of its investments. The yield (return) on the investment is also a secondary consideration. 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 CFO 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 Link 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. Link Asset update counterparties who qualify under the list on a daily basis.

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 requires 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, other than the Money Market Funds which have been given their new titles for 2018-19. The operation of these accounts remains very similar. The range of values for these has the lower limit being the ‘normal limit’ and above this being at the CFO’s discretion.

	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**
Low Volatility Net Asset Value Funds (LVNAV) (Used to be called Enhanced money market funds with instant access)	**AAA**	**£10-15m**	**liquid**
Ultra Short Dated Bond Funds (Used to be called 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. For information the UK has maintained an AA rating.

Approved Non UK countries for investments as at December 2017

Based on lowest available rating

AAA	AA+	AA	AA-
Australia Canada Denmark Germany Luxembourg Netherlands Norway Singapore Sweden Switzerland	Finland Hong Kong U.S.A.	Abu Dhabi France	Belgium Qatar

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 (up to 12 months).

Investment returns expectations - Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2018-19 0.50%
- 2019-20 0.75%
- 2020-21 1.25%
- 2021-22 1.50%
- 2022-23 1.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the EU departure negotiations move forward positively.

The forecast earnings rates for returns on investments placed for periods up to 100 days 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%

Investment treasury indicator and limit - total principal funds invested for greater than 365 days are limited with regard to liquidity requirements and to reduce the need for early redemption. The 365 day limit is a small change from the new code, which previously had been set as 364 days

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

Maximum principal sums invested > 365 days				
£m	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Principal sums invested > 365 days	5.000	5.000	5.000	5.000

For its cash flow generated balances, the The Commissioner's Office will seek to utilise instant access and notice accounts, LVNAVs and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest. Ultra Short Dated Bond Funds will be used if considered appropriate by the CFO.

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 - avoided if possible.
- 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 – 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 and they have responsibility 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.